

Washington State Auditor's Office

Financial Statements Audit Report

Liberty Lake Sewer and Water District No. 1
Spokane County

Audit Period

January 1, 2012 through December 31, 2013

Report No. 1012278

Issue Date
July 28, 2014



Washington State Auditor
Troy Kelley

Independence • Respect • Integrity



Washington State Auditor Troy Kelley

July 28, 2014

Board of Commissioners
Liberty Lake Sewer and Water District No. 1
Liberty Lake, Washington

Report on Financial Statements

Please find attached our report on Liberty Lake Sewer and Water District No. 1's financial statements.

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

Sincerely,

A handwritten signature in cursive script that reads "Troy X. Kelley".

TROY KELLEY
STATE AUDITOR

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Spokane County
January 1, 2012 through December 31, 2013

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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*

**Liberty Lake Sewer and Water District No. 1
Spokane County
January 1, 2012 through December 31, 2013**

Board of Commissioners
Liberty Lake Sewer and Water District No. 1
Liberty Lake, 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 Liberty Lake Sewer and Water District No. 1, Spokane County, Washington, as of and for the years ended December 31, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the District's financial statements, and have issued our report thereon dated June 17, 2014.

We issued an unmodified opinion on the fair presentation of the District's financial statements in accordance with its regulatory basis of accounting. We issued an adverse opinion on the fair presentation with regard to accounting principles generally accepted in the United States of America (GAAP) because the financial statements are prepared by the District using accounting practices prescribed or permitted by Washington State statutes and the State Auditor's *Budgeting, Accounting and Reporting System* (BARS) manual described in Note 1, which is a basis of accounting other than GAAP. The effects on the financial statements of the variances between the basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audits 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.

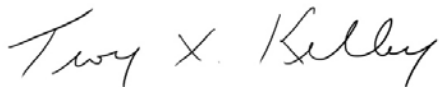
COMPLIANCE AND OTHER MATTERS

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

June 17, 2014

Independent Auditor's Report on Financial Statements

Liberty Lake Sewer and Water District No 1 Spokane County January 1, 2012 through December 31, 2013

Board of Commissioners
Liberty Lake Sewer and Water District No 1
Liberty Lake, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of Liberty Lake Sewer and Water District No. 1, Spokane County, Washington, for the years ended December 31, 2013 and 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 financial reporting provisions of 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 audits. We conducted our audits 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 opinions.

Unmodified Opinion on Regulatory Basis of Accounting (BARS Manual)

As described in Note 1, Liberty Lake Sewer and Water District No. 1 has prepared these financial statements using accounting practices prescribed or permitted by Washington State statutes and the State Auditor's *Budgeting, Accounting and Reporting System* (BARS) manual. Those accounting practices differ from accounting principles generally accepted in the United States of America (GAAP). The differences in these accounting practices are also described in Note 1.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position and results of operations of Liberty Lake Sewer and Water District No 1, for the years ended December 31, 2013 and 2012, on the basis of accounting described in Note 1.

Basis for Adverse Opinion on U.S. GAAP

Auditing standards issued by the American Institute of Certified Public Accountants (AICPA) require auditors to formally acknowledge when governments do not prepare their financial statements, intended for general use, in accordance with GAAP. The effects on the financial statements of the variances between GAAP and the accounting practices the District used, as described in Note 1, although not reasonably determinable, are presumed to be material. As a result, we are required to issue an adverse opinion on whether the financial statements are presented fairly, in all material respects, in accordance with GAAP.

Adverse Opinion on U.S. GAAP

The financial statements referred to above were not intended to, and in our opinion they do not, present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of Liberty Lake Sewer and Water District No. 1, as of December 31, 2013 and 2012, or the changes in financial position or cash flows for the years then ended, due to the significance of the matter discussed in the above "Basis for Adverse Opinion on U.S. GAAP" paragraph.

Other Matters

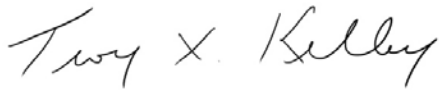
Supplementary and Other Information

Our audits were performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying Schedules of Liabilities are presented for purposes of additional analysis as required by the prescribed BARS manual. These schedules are 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.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated June 17, 2014 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 cursive script that reads "Troy X. Kelley".

TROY KELLEY
STATE AUDITOR

June 17, 2014

Financial Section

**Liberty Lake Sewer and Water District No 1
Spokane County
January 1, 2012 through December 31, 2013**

FINANCIAL STATEMENTS

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Schedule of Liabilities – 2013
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FUND RESOURCES AND USES ARISING FROM CASH TRANSACTIONS

For the Year Ended December 31, 2013

BARS Code		Total for All funds*	400 Water Fund	401 Sewer Fund
Beginning Cash and Investments				
30810	Beg Fund Bal-Reserved	5,545	0	5,545
30880	Beg Fund Bal-Unreserved	6,422,309	4,189,178	2,233,131
38800/58800	Prior Period Adjustments, net	0	0	0
Operating Revenues				
310	Taxes	0	0	0
320	Licenses & Permits	0	0	0
330	Intergovernmental Revenues	0	0	0
340	Charges for Goods and Services	3,135,228	1,094,677	2,040,551
350	Fines & Penalties	127	127	0
360	Miscellaneous Revenues	95,466	38,994	56,472
Total Operating Revenues:		3,230,821	1,133,798	2,097,023
Operating Expenditures				
530	Utilities	2,513,267	949,234	1,564,033
598	Intergovernmental Payments	0	0	0
Total Operating Expenditures:		2,513,267	949,234	1,564,033
Net Operating Increase (Decrease):		717,554	184,564	532,990
Nonoperating Revenues				
370, 380, 395, 398	Other Financing Sources	68,466	0	68,466
391-393	Debt Proceeds	82,073	0	82,073
397	Transfers-In	0	0	0
Total Nonoperating Revenues:		150,539		150,539
Nonoperating Expenditures				
580, 596, 599	Other Financing Uses	98,115	0	98,115
591-593	Debt Service	430,500	15,219	415,280
594-595	Capital Expenditures	124,163	123,188	975
597	Transfers-Out	0	0	0
Total Nonoperating Expenditures:		652,778	138,407	514,370
Increase (Decrease) in Cash and Investments		215,315	46,157	169,159
Ending Cash and Investments				
50810	End Fund Bal-Reserved	5,588	0	5,588
50880	End Fund Balance-Unreserved	6,637,582	4,235,335	2,402,247

The accompanying notes are an integral part of this Statement.

FUND RESOURCES AND USES ARISING FROM CASH TRANSACTIONS

For the Year Ended December 31, 2012

BARS Code		Total for All funds*	400 Water Fund	401 Sewer Fund
Beginning Cash and Investments				
30810	Beg Fund Bal-Reserved	5,545	0	5,545
30880	Beg Fund Bal-Unreserved	6,535,761	4,195,508	2,340,253
38800/58800	Prior Period Adjustments, net	0	0	0
Operating Revenues				
310	Taxes	0	0	0
320	Licenses & Permits	0	0	0
330	Intergovernmental Revenues	0	0	0
340	Charges for Goods and Services	2,884,503	1,098,918	1,785,584
350	Fines & Penalties	6,516	1,230	5,286
360	Miscellaneous Revenues	115,081	58,440	56,640
Total Operating Revenues:		3,006,100	1,158,589	1,847,511
Operating Expenditures				
530	Utilities And Environment	2,222,328	872,678	1,349,649
598	Intergovernmental Payments	0	0	0
Total Operating Expenditures:		2,222,328	872,678	1,349,649
Net Operating Increase (Decrease):		783,772	285,910	497,861
Nonoperating Revenues				
370, 380, 395, 398	Other Financing Sources	45,535	0	45,535
391-393	Debt Proceeds	0	0	0
397	Transfers-In	236,757	109,550	127,207
Total Nonoperating Revenues:		282,292	109,550	172,742
Nonoperating Expenditures				
580, 596, 599	Other Financing Uses	49,392	0	49,392
591-593	Debt Service	432,578	15,360	417,218
594-595	Capital Expenditures	475,566	276,880	198,686
597	Transfers-Out	221,980	109,550	112,430
Total Nonoperating Expenditures:		1,179,516	401,790	777,726
Increase (Decrease) in Cash and Investments		-113,452	-6,330	-107,123
Ending Cash and Investments				
50810	End Fund Bal-Reserved	5,545	0	5,545
50880	End Fund Balance-Unreserved	6,422,309	4,189,178	2,233,131

The accompanying notes are an integral part of this Statement.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Liberty Lake Sewer and Water District No. 1 (the District) was formed on May 8, 1973 by the residents of the Liberty Lake community. The District operates under the laws of the state of Washington applicable to Water and Sewer Districts. The following is a summary of the significant accounting policies, including identification of those policies that result in material departures from generally accepted accounting principles (GAAP).

A - Reporting Entity

The Liberty Lake Water and Sewer District is a proprietary special purpose district and provides water and sewer services to the general public. The District is supported primarily through user charges.

B - Basis of Accounting

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 Budgeting, Accounting and Reporting System (BARS) for Proprietary-Type Districts (Unclassified). The District uses the cash basis of accounting where revenues are recognized only when received and expenses are recognized when paid. For reporting purposes, the activities of all the District's funds are combined.

C - Budgets

The District prepares annual budgets for most of the funds for management use only.

D - Cash

It is the District's policy to invest all temporary cash surpluses. The amount is included on the statement of revenues and expenses arising from cash transactions as net cash.

E - Deposits

The Federal Deposit Insurance Corporation and/or the Washington Public Deposit Protection Commission cover the District deposits. All District funds are transferred to the Spokane County Treasurer.

F - Capital Assets

Capital assets are long-lived assets of the District and are recorded as expenditures when purchased. There is no capitalization of capital assets, nor allocation of depreciation expense.

G - Investments See NOTE 3 - INVESTMENTS

H - Compensated Absences

Vacation leave may be accumulated indefinitely and is payable upon separation or retirement. Sick leave may accumulate up to 960 hours. Upon separation or retirement employees receive payment for 25% of unused sick leave. Beginning and ending amounts are included in Schedule 9.

I - Risk Management See NOTE 8 - RISK MANAGEMENT

The District feels they had adequate insurance to protect against unforeseen liabilities.

J - Other Sources and Uses of Funds

Other sources and uses of funds relates primarily to the agreement the District has with Spokane County. The District collects connection fees and service charges for an area that the sewage is sent to the County for treatment. The District reimburses the County for those collections.

K - Reserved Fund Balance

The District collects and holds deposits for real property leases within a restricted fund in accordance with Chapter 57.08 RCW. As of December 31, 2013, the balance of restricted funds is \$5,588.

LIBERTY LAKE SEWER and WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
January 1, 2013 through December 31, 2013

NOTE 2 - COMPLIANCE AND ACCOUNTABILITY

There has been no material violation of finance-related legal or contractual provisions.

NOTE 3 - INVESTMENTS

As allowed under state law, all investment of the District's funds are maintained in the Spokane County Investment Pool (the Pool). The Pool is invested in various financial institutions in the form of U.S. Government and agency obligations, certificates of deposit, savings accounts, bankers' acceptances, repurchase agreements, bonds of state governments and the Washington State Treasurer's Local Government Investment Pool.

The deposits and certificates of deposit of the Pool are entirely covered by federal depository insurance (FDIC and FSLIC) or collateral held in multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission.

Investments by type at December 31, 2013 are as follows:

Spokane County Treasurers Pool	
Cash balances	\$6,594,509
Petty cash	1,500
Lockbox	47,161
Total Cash and Investments	<u>\$6,643,170</u>

NOTE 4 - LONG TERM DEBT

The debt service requirements, including interest are as follows:

	Lilac DCD	Outlet DCD	Garry DCD	Plant Upgrade	Eng Plan DOE	Total Debt
2014	\$ 9,616	\$ 13,963	\$ 15,079	\$ 389,764	\$ 18,977	\$ 447,399
2015	9,527	-	14,938	387,917	18,977	431,359
2016	9,437	-	14,797	386,069	18,977	429,280
2017	9,347	-	14,656	384,222	18,977	427,202
2018	9,257	-	14,515	382,375	9,488	415,635
2019-2023	18,244	-	28,607	1,884,167	-	1,931,018
2024-2025	-	-	-	371,292	-	371,292
Total	<u>\$ 65,428</u>	<u>\$ 13,963</u>	<u>\$ 102,592</u>	<u>\$ 4,185,806</u>	<u>\$ 85,396</u>	<u>\$ 4,453,185</u>

Long term debt at December 31, 2013 consists of the following:

Construction assistance loan is payable through the Washington State Public Works Fund, with principal due in equal annual installments through 2020, plus interest at 1% beginning July 1, 2001. The proceeds of this loan have been utilized to repair the sewer line along Lilac Lane. The principal balance at December 31, 2013 is \$62,911.

Construction assistance loan is payable through the Washington State Public Works Fund, with principal due in equal annual installments through 2014, plus interest at 3.2%. The proceeds of this loan have been utilized to rehabilitate the outlet channel. The principal balance at December 31, 2013 is \$13,635.

Construction assistance loan payable through the Washington State Public Works Fund, with principal due in equal annual installments through 2020, plus interest at 1% beginning July 1, 2001. The proceeds of this loan have been utilized to construct a reservoir on Garry Street. The principle balance at December 31, 2013 is \$98,645.

Construction assistance loan payable through the Washington State Public Works Fund, with principal due in equal annual installments through 2024, plus interest at .05% beginning July 1, 2006. The proceeds of this loan have been utilized to upgrade the

sewer treatment plant. The principle balance at December 31, 2013 is \$4,063,889.

Planning assistance loan payable through the Department of Ecology, with principal due in equal semi-annual installments through 2018, plus interest at 1.4% beginning January 30, 2014. The proceeds of this loan have been utilized for planning the upgrade to the sewer treatment plant. The principle balance at December 31, 2013 is \$82,288.

NOTE 5 - CONSTRUCTION IN PROGRESS

There is no construction in progress as of December 31, 2013.

NOTE 6 - PENSION PLANS

The District has adopted the 457(b) Deferred Compensation Plan for Governmental Employees (the Plan). The District matches employee participants' optional contributions up to 6%. Plan assets are vested with the participants. The District does not participate in a pension plan.

NOTE 7 - CONTINGENCIES AND LITIGATION

The Washington State Department of Ecology (WDOE) has asserted that the District is a Potentially Liable Party (PLP) with regard to PCB pollution in the Spokane River unstream of Upriver Dam. There is no present estimate of the District's share of financial liability for this matter, but existing data indicates that the District's contribution to the PCB pollution in the Spokane River is extremely small. The other two PLP's, Kaiser Aluminum and Chemical Corporation (KACC) and Avista, have entered into a Consent Decree with the WDOE to provide for cleanup of PCB's. The District has declined to enter into the Consent Decree, and is potentially the subject of contribution and other claims by KACC and Avista, and subject to enforcement orders and claims by WDOE. There is no present estimate of the length of time this matter will take to resolve.

The new discharge permit for the treatment plant requires the District to participate in the Spokane River Toxic Task Force (SRTTF). The District participates in SRTTF meetings and discussions. There is no present estimate of the District's share of financial liability for this matter nor a present estimate of the length of time this matter may take to resolve.

NOTE 8 - RISK MANAGEMENT

The District is a member of Enduris. Chapter 48.62 RCW provides the exclusive source of local government entity authority to individually or jointly self-insure risks, jointly purchase insurance or reinsurance, and to contract for risk management, claims, and administrative services. Enduris was formed July 10, 1987 pursuant to the provisions of Chapter 48.62 RCW, Chapter 200-100 WAC, and Chapter 39.34 RCW. Two (2) counties and two (2) cities in the State of Washington joined together by signing an Interlocal Governmental Agreement to fund their self-insured losses and jointly purchase insurance and administrative services. As of August 31, 2013, there are 486 Enduris members representing a broad array of special purpose districts throughout the state.

Enduris members share in the self-insured retention, jointly purchase excess and/or reinsurance coverage and provide risk management services and other related administrative services. Enduris provides "per occurrence" based policies for all lines of liability coverage including Public Official's Liability. The Property coverage is written on an "all risk", blanket basis using current Statement of Values. The Property coverage includes but is not limited to mobile equipment, electronic data processing equipment, and business interruption, course of construction and additions, property in transit, fine arts, and automobile physical damage to insured vehicles. Boiler and machinery coverage is included on a blanket limit of \$100 million for all members. Enduris offers employee dishonesty coverage up to a liability limit of \$1,000,000.

Members make an annual contribution to fund Enduris. Enduris acquires insurance from unrelated insurance companies on a "per occurrence" basis:

\$1,000,000 deductible on liability loss - the member is responsible for the first \$1,000 of the deductible amount of each claim, while Enduris is responsible for the remaining \$999,000 on liability loss;

LIBERTY LAKE SEWER and WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
January 1, 2013 through December 31, 2013

\$250,000 deductible on property loss - the member is responsible for the first \$1,000 of the deductible amount of each claim, while Enduris is responsible for the remaining \$249,000 on property loss. Enduris is responsible for the \$4,000 deductible on boiler and machinery loss.

Insurance carriers carry all losses over the deductible as shown to the policy maximum limits. Since Enduris is cooperative program, there is a joint liability among the participating members.

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

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

A Board of Directors consisting of seven (7) board members governs Enduris. Its members elect the Board and the positions are filled on a rotating basis. The Board meets quarterly and is responsible for conducting the business affairs of Enduris.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Liberty Lake Sewer and Water District No. 1 (the District) was formed on May 8, 1973 by the residents of the Liberty Lake community. The District operates under the laws of the state of Washington applicable to Water and Sewer Districts. The following is a summary of the significant accounting policies, including identification of those policies that result in material departures from generally accepted accounting principles (GAAP).

A - Reporting Entity

The Liberty Lake Water and Sewer District is a proprietary special purpose district and provides water and sewer services to the general public. The District is supported primarily through user charges.

B - Basis of Accounting

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 Budgeting, Accounting and Reporting System (BARS) for Proprietary-Type Districts (Unclassified). The District uses the cash basis of accounting where revenues are recognized only when received and expenses are recognized when paid. For reporting purposes, the activities of all the District's funds are combined.

C - Budgets

The District prepares annual budgets for most of the funds for management use only.

D - Cash

It is the District's policy to invest all temporary cash surpluses. The amount is included on the statement of revenues and expenses arising from cash transactions as net cash.

E - Deposits

The Federal Deposit Insurance Corporation and/or the Washington Public Deposit Protection Commission cover the District deposits. All District funds are transferred to the Spokane County Treasurer.

F - Capital Assets

Capital assets are long-lived assets of the District and are recorded as expenditures when purchased. There is no capitalization of capital assets, nor allocation of depreciation expense.

G - Investments See NOTE 3 - INVESTMENTS

H - Compensated Absences

Vacation leave may be accumulated indefinitely and is payable upon separation or retirement. Sick leave may accumulate up to 960 hours. Upon separation or retirement employees receive payment for 25% of unused sick leave. Beginning and ending amounts are included in Schedule 9.

I - Risk Management See NOTE 8 - RISK MANAGEMENT

The District feels they had adequate insurance to protect against unforeseen liabilities.

J - Other Sources and Uses of Funds

Other sources and uses of funds relates primarily to the agreement the District has with Spokane County. The District collects connection fees and service charges for an area that the sewage is sent to the County for treatment. The District reimburses the County for those collections.

K - Reserved Fund Balance

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LIBERTY LAKE SEWER and WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
January 1, 2012 through December 31, 2012

December 31, 2013, the balance of restricted funds is \$5,545.

NOTE 2 - COMPLIANCE AND ACCOUNTABILITY

There has been no material violation of finance-related legal or contractual provisions.

NOTE 3 - INVESTMENTS

As allowed under state law, all investment of the District's funds are maintained in the Spokane County Investment Pool (the Pool). The Pool is invested in various financial institutions in the form of U.S. Government and agency obligations, certificates of deposit, savings accounts, bankers' acceptances, repurchase agreements, bonds of state governments and the Washington State Treasurer's Local Government Investment Pool.

The deposits and certificates of deposit of the Pool are entirely covered by federal depository insurance (FDIC and FSLIC) or collateral held in multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission.

Investments by type at December 31, 2012 are as follows:

Spokane County Treasurers Pool	
Cash balances	\$ 6,273,809
Petty cash	1,500
Lockbox	152,545
Total Cash and Investments	<u>\$ 6,427,854</u>

NOTE 4 - LONG TERM DEBT

The debt service requirements, including interest are as follows:

	Lilac DCD	Outlet DCD	Garry DCD	Plant Upgrade	Total Debt
2013	\$ 9,706	\$ 13,963	\$ 15,219	\$ 391,611	\$ 430,499
2014	9,616	13,963	15,079	389,764	428,422
2015	9,527	-	14,938	387,917	412,382
2016	9,437	-	14,797	386,069	410,303
2017	9,347	-	14,656	384,222	408,225
2018-2022	27,501	-	43,122	1,893,403	1,964,026
2023-2025	-	-	-	744,431	744,431
Total	<u>\$ 75,134</u>	<u>\$ 27,926</u>	<u>\$ 117,811</u>	<u>\$ 4,577,417</u>	<u>\$ 4,798,288</u>

Long term debt at December 31, 2012 consists of the following:

Construction assistance loan is payable through the Washington State Public Works Fund, with principal due in equal annual installments through 2020, plus interest at 1% beginning July 1, 2001. The proceeds of this loan have been utilized to repair the sewer line along Lilac Lane. The principal balance at December 31, 2012 is \$71,898.

Construction assistance loan is payable through the Washington State Public Works Fund, with principal due in equal annual installments through 2014, plus interest at 3.2%. The proceeds of this loan have been utilized to rehabilitate the outlet channel. The principal balance at December 31, 2012 is \$26,844

Construction assistance loan payable through the Washington State Public Works Fund, with principal due in equal annual installments through 2020, plus interest at 1% beginning July 1, 2001. The proceeds of this loan have been utilized to construct a

LIBERTY LAKE SEWER and WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
January 1, 2012 through December 31, 2012

reservoir on Garry Street. The principle balance at December 31, 2012 is \$112,737.

Construction assistance loan payable through the Washington State Public Works Fund, with principal due in equal annual installments through 2024, plus interest at .05% beginning July 1, 2006. The proceeds of this loan have been utilized to upgrade the sewer treatment plant. The principle balance at December 31, 2012 is \$4,433,333.

NOTE 5 - CONSTRUCTION IN PROGRESS

There is no construction in progress as of December 31, 2012.

NOTE 6 - PENSION PLANS

The District has adopted the 457(b) Deferred Compensation Plan for Governmental Employees (the Plan). The District matches employee participants' optional contributions up to 6%. Plan assets are vested with the participants. The District does not participate in a pension plan.

NOTE 7 - CONTINGENCIES AND LITIGATION

The new discharge permit for the treatment plant requires the District to participate in the Spokane River Toxic Task Force (SRTTF). The District participates in SRTTF meetings and discussions. There is no present estimate of the District's share of financial liability for this matter nor a present estimate of the length of time this matter may take to resolve.

The District is presently in litigation. Williams et al vs Liberty Lake Sewer District case has not been set for trial. The District's potential liability is unknown at this time.

NOTE 8 - RISK MANAGEMENT

The District is a member of Enduris. Chapter 48.62 RCW provides the exclusive source of local government entity authority to individually or jointly self-insure risks, jointly purchase insurance or reinsurance, and to contract for risk management, claims, and administrative services. Enduris was formed July 10, 1987 pursuant to the provisions of Chapter 48.62 RCW, Chapter 200-100 WAC, and Chapter 39.34 RCW. Two (2) counties and two (2) cities in the State of Washington joined together by signing an Interlocal Governmental Agreement to fund their self-insured losses and jointly purchase insurance and administrative services. As of August 31, 2013, there are 486 Enduris members representing a broad array of special purpose districts throughout the state.

Enduris members share in the self-insured retention, jointly purchase excess and/or reinsurance coverage and provide risk management services and other related administrative services. Enduris provides "per occurrence" based policies for all lines of liability coverage including Public Official's Liability. The Property coverage is written on an "all risk", blanket basis using current Statement of Values. The Property coverage includes but is not limited to mobile equipment, electronic data processing equipment, and business interruption, course of construction and additions, property in transit, fine arts, and automobile physical damage to insured vehicles. Boiler and machinery coverage is included on a blanket limit of \$100 million for all members. Enduris offers employee dishonesty coverage up to a liability limit of \$1,000,000.

Members make an annual contribution to fund Enduris. Enduris acquires insurance from unrelated insurance companies on a "per occurrence" basis:

\$1,000,000 deductible on liability loss - the member is responsible for the first \$1,000 of the deductible amount of each claim, while Enduris is responsible for the remaining \$999,000 on liability loss;

\$250,000 deductible on property loss - the member is responsible for the first \$1,000 of the deductible amount of each claim, while Enduris is responsible for the remaining \$249,000 on property loss. Enduris is responsible for the \$4,000 deductible on boiler and machinery loss.

Insurance carriers carry all losses over the deductible as shown to the policy maximum limits. Since Enduris is cooperative program,

LIBERTY LAKE SEWER and WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
January 1, 2012 through December 31, 2012

there is a joint liability among the participating members.

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

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

A Board of Directors consisting of seven (7) board members governs Enduris. Its members elect the Board and the positions are filled on a rotating basis. The Board meets quarterly and is responsible for conducting the business affairs of Enduris.

Liberty Lake Sewer and Water District No 1

Schedule of Liabilities
For the year ended December 31, 2013

Debt Type	ID. No.	Description	Maturity/Payment Due Date	Beginning Balance January 1, 2013	Additions	Reductions	Ending Balance December 31, 2013
Revenue Obligations							
	263..98	PWB	7/1/2024	4,433,336	0	369,444	4,063,892
	263.98	DCD	7/1/2020	112,737	0	14,092	98,645
	263.98	DCD	7/1/2020	71,899	0	8,987	62,912
	263.95	DOE	6/30/2014	26,844	0	13,209	13,635
	263.95	DOE	1/30/2018	0	82,288	0	82,288
Total Revenue Obligations:				4,644,816	82,288	405,732	4,321,372
259.11		Compensated Absences		85,086	7,146	0	92,232
Total General Obligations:				85,086	7,146	0	92,232
Total Liabilities:				4,729,902	89,434	405,732	4,413,604

Liberty Lake Sewer and Water District No 1

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	Ending Balance December 31, 2012
Revenue Obligations							
	263.82	PWB 4/13/04	7/1/2024	4,802,780	0	369,444	4,433,336
	263.82	DCD 7/1/01	7/1/2021	126,829	0	14,092	112,737
	263.82	DCD 7/1/01	7/1/2021	80,886	0	8,987	71,899
	263.82	DOE	12/31/2014	39,640	0	12,796	26,844
		Total Revenue Obligations:		5,050,135	0	405,319	4,644,816
	259.12	Compensated Absences		177,835	0	92,749	85,086
		Total General Obligations:		177,835	0	92,749	85,086
		Total Liabilities:		5,227,970	0	498,068	4,729,902



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 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.

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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 Performance Audit
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Jan M. Jutte, CPA, CGFM
Sadie Armijo
Mark Rapozo, CPA
Lou Adams, CPA
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Mary Leider
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