

Washington State Auditor's Office
Financial Statements Audit Report

Whitworth Water District No. 2
Spokane County

Audit Period
January 1, 2013 through December 31, 2013

Report No. 1012546

Issue Date
September 15, 2014



Washington State Auditor
Troy Kelley

Independence • Respect • Integrity



Washington State Auditor Troy Kelley

September 15, 2014

Board of Commissioners
Whitworth Water District No. 2
Spokane, Washington

Report on Financial Statements

Please find attached our report on Whitworth Water District No. 2'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, 2013 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*

Whitworth Water District No. 2 Spokane County January 1, 2013 through December 31, 2013

Board of Commissioners
Whitworth Water District No. 2
Spokane, 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 Whitworth Water District No. 2, Spokane County, Washington, as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated August 27, 2014.

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.

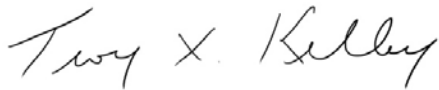
COMPLIANCE AND OTHER MATTERS

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

August 27, 2014

Independent Auditor's Report on Financial Statements

Whitworth Water District No. 2 Spokane County January 1, 2013 through December 31, 2013

Board of Commissioners
Whitworth Water District No. 2
Spokane, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of Whitworth Water District No. 2, Spokane County, Washington, as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed on page 5.

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 Whitworth Water District No. 2, as of December 31, 2013, 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.

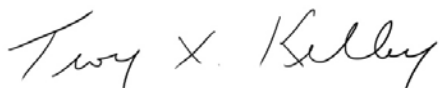
Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 6 through 8 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 August 27, 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.



TROY KELLEY
STATE AUDITOR

August 27, 2014

Financial Section

**Whitworth Water District No. 2
Spokane County
January 1, 2013 through December 31, 2013**

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2013

BASIC FINANCIAL STATEMENTS

Statement of Net Position – 2013

Statement of Revenues, Expenses, and Changes in Fund Net Position – 2013

Statement of Cash Flows – 2013

Notes to Financial Statements – 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following is a discussion and analysis of Whitworth Water District's financial activities for the year ended December 31, 2013. The Discussion and Analysis is intended to serve as an introduction to Whitworth Water District's basic financial statements, which consist of the government wide financial statements, notes to the financial statements and other supplementary information, and should be used in conjunction with additional information that is included in the financial statements.

FINANCIAL STATEMENTS

The financial statements are designed to provide readers with a broad overview of the District's finances. The statements provide both short-term and long-term information about the financial position which helps readers determine whether Whitworth Water District's position has improved or deteriorated during the fiscal year. This report consists of the Statement of Net Position, Statement of Revenue, Expense and Change in Fund Net Position, Notes to the Financial Statements, and Cash Flow Statement.

Statement of Net Position: Presents information on all of the District's assets and liabilities, with the difference between the two reported as Net Position. Over time, increases or decreases in net position may indicate whether the financial position of the District is improving or deteriorating. The Statement presents information on how the net position (difference between assets and liabilities) changed during the fiscal year and consists of three components: (1) invested in capital assets, net of related debt; (2) restricted assets; and (3) unrestricted assets.

Statement of Revenues, Expenses and Changes in Fund Net Position: Relates to the revenues, expenses and balances of Whitworth Water District's financial resources. It distinguishes between operating and non-operating revenue and expenses. Capital contributions are also reported separately.

Statement of Cash Flow: Designed to show cash flows from four sources: (1) operating activities; (2) non-capital financing activities like contributions; (3) capital and related financing activities; and (4) investing activities.

Notes to the Financial Statements: The Notes to the Financial Statements serve to describe Whitworth Water District as a reporting entity and to further clarify its financial activity as reported in the Financial Statements.

Examining the financial statements as a whole rather than separately from each other will provide a more comprehensive picture of the business activities.

PROPRIETARY FUNDS

- A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District maintains an Enterprise fund, a type of Proprietary fund, to account for its water activities. Enterprise funds report activities that charge fees for supplies or services to the general public. Enterprise funds are reported as business-type activities on the government-wide financial statements. The Enterprise fund uses the full accrual basis of accounting where revenues are recognized in the period earned whether actually received or not and expenses are recognized and matched with the related revenues of the period, whether actually paid or not.

FINANCIAL HIGHLIGHTS

The District reported Net Position as of December 31, 2013 in the amount of \$35.8 million, as compared with \$35.1 million in 2012, an increase over 2012 of approximately \$.7 million. The increase in net position was mainly a result of the difference between the increase in both capital assets (CIP) and long-term liabilities.

The Current Assets (cash and investments) showed an increase from \$5.9 million in 2012 to \$6.0 million in 2013. Although interest on investments continued to be low, temporary investments increased. Developer related construction charges were once again minimal. In spite of having a fairly normal spring and summer season, homeowners again reduced their consumption use. Pumping and water use went up together which reflected a slight increase of our customer base. Variations in water use from year to year are mostly weather related and are diminished because of on-going conservation efforts by our customers.

Restricted Assets, which are used for long term debt repayment and for construction projects, decreased from \$3.6 million in 2012 to \$3.3 million in 2013. The Restricted Assets do not affect the availability of operational resources and will increase again in 2014 because of draws to be taken on new loans.

OVERVIEW OF THE FINANCIAL STATEMENTS

Statement of Net Position:

The Statement of Net Position presents the District's assets and liabilities at year end. Detailed information about the District's capital assets is included in Note 2 of the Financials.

Net Position (In millions)			
	2013	2012	Dollar Change
Current Assets	\$ 6.00	\$ 5.90	\$ 0.10
Restricted Assets	3.30	3.60	(0.30)
Non-Current, Including Capital Assets	34.80	34.30	0.50
Total Assets	\$ 44.10	\$ 43.80	\$ 0.30
Current Liabilities	\$ 0.80	\$ 0.70	\$ 0.10
Non-Current Liabilities	7.50	8.00	(0.50)
Total Liabilities	\$ 8.30	\$ 8.70	\$ (0.40)
Total Net Position/Equity	\$ 27.00	\$ 26.00	\$ 1.00
Restricted for Debt and Construction	\$ 3.30	\$ 3.60	(0.30)
Unrestricted	\$ 5.50	\$ 5.50	0.00
Total Net Position	\$ 35.80	\$ 35.10	\$ 0.70
Total Net Position and Liabilities	\$ 44.10	\$ 43.80	\$ 0.30

Description of Capital Assets

The Capital Asset increase for 2013 was related to the close out of three District projects, pertaining to the installation of new meters, mains, hydrants and services (\$4,079,602) which in turn reduced Construction in Progress. There were also two capital equipment purchases, a mini excavator (\$69,159) and a Chevrolet Silverado ¾ ton pickup (\$27,274).

Statement of Revenue and Expense

The Statement of Revenue and Expense shows the revenues and expenses that were earned and/or generated during the year with the difference reported as "operating income".

Statement of Revenue and Expenses (In millions)			
	2013	2012	DollarChange
Operating Revenue	\$ 4.56	\$ 4.36	\$ 0.20
Non-Operating Revenue	0.02	0.02	0.00
Total Revenue	\$ 4.58	\$ 4.38	\$ 0.20
Operating Expense	\$ 3.90	\$ 4.10	\$ (0.20)
Non-Operating Expense	0.03	0.04	(0.01)
Total Expense	\$ 3.93	\$ 4.14	\$ (0.21)
Excess or Deficiencies	\$ 0.65	\$ 0.24	\$ 0.41
Capital Contributions	\$ 0.06	\$0.16	\$ (0.10)
Change in Net Position	\$0.71	\$ 0.40	\$ 0.31
Beginning Net Position	\$35.07	\$ 34.67	\$ 0.40
Total Net Position and Liabilities	\$ 35.78	\$ 35.07	\$ 0.71

Revenue is derived from the sale of water and inherent miscellaneous fees and charges for other related services like fire protection, labor and materials and meter installation. Expenses are a direct result of all maintenance and operation costs both internally (office) and externally (field). These revenue and expense categories are more specifically defined in the "Statement of Revenue and Expense". The above table reflects a slight increase in revenue and decrease in expenses of the District from 2012 to 2013.

Contributions

Capital Contributions relate to facilities donated to the District by Developers who have paid for their design and installation. There were only two small developer capital contributions made to the District in 2013 in the amount of \$59,060.

Contributions (In thousands)			
	2013	2012	Dollar Change
Contributions	\$59.1	\$145.8	\$(86.7)

Long Term Debt

During the fiscal year the District continued to pay down its existing Public Works Trust Fund debt and closed out one loan. However, the District also took a small draw on a new major project. Two additional DWSRF loans have been secured in 2013 and will be started in 2014. More detailed information about the District's long-term debt is presented in Note 3 of the Financials. The District's total Public Works Trust Fund and Drinking Water State Revolving Fund debt at December 31, 2013 and 2012 is as follows:

Long Term Debt (In millions)			
	2013	2012	Dollar Change
Public Works Trust Fund	<u>\$ 7.8</u>	<u>\$ 8.3</u>	<u>\$ (.5)</u>
Total Long Term Debt	<u>\$ 7.8</u>	<u>\$ 8.3</u>	<u>\$ (.5)</u>

District's Position

In reviewing the 2013 Financials and noting the slight changes (both increases and decreases) in the Statements of Net Position, Revenue and Expense and Long Term Debt, the District's financial position remains unchanged. Also, I am not aware of any facts, decisions or conditions that would have a significant effect on the District's financial position or results of operations.

STATEMENT OF NET POSITION

December 31, 2013

ASSETS

2013

Current Assets:

Cash and Cash Equivalents	\$ 1,897,987
Deposits with Fiscal Agents/Trustees	\$ -
Temporary Investments	\$ 3,091,702
Receivables	\$ 296,558
Receivables - Assessments	\$ 373,808
Inventories	\$ 327,207
Prepayments	\$ 35,851
Other Current Assets	\$ -
<u>Sub Total</u>	<u>\$ 6,023,111</u>

Restricted Assets:

Debt Service, Deposits, Replacements	\$ 699,700
Construction Accounts	\$ 2,542,744
<u>Sub Total</u>	<u>\$ 3,242,444</u>

TOTAL CURRENT ASSETS

\$ 9,265,554

Noncurrent Assets:

Restricted Assets;

Debt Service, Deposits, Replacements	\$ -
Unamortized Debt Discount and Expense	\$ -
Other Deferred Debits	\$ -

Capital Assets Not Being Depreciated

Land	\$ 900,242
Construction In Progress	\$ 368,241

Capital Assets Being Depreciated

Plant	\$ 51,189,186
Capital Leases	
Machinery and Equipment	\$ 967,190
Less Accumulated Depreciation	\$ (18,620,955)
Total Capital Assets (Net)	\$ 34,803,904

TOTAL NONCURRENT ASSETS

\$ 34,803,904

TOTAL ASSETS

\$ 44,069,458

The notes to Financial Statements are an integral part of this statement.

STATEMENT OF NET POSITION

December 31, 2013

<u>LIABILITIES</u>	2013
Current Liabilities:	
Accounts Payable	\$ (28,215)
TOTAL CURRENT LIABILITIES	<u>\$ (28,215)</u>
Payables from Restricted Assets:	
Debt Principal - PWTF 2013	\$ (678,755)
2013 Bond Principal	
Debt Interest - PWTF & Bond (237)	<u>\$ (46,306)</u>
TOTAL PAYABLES FROM RESTRICTED ASSETS	<u>\$ (725,061)</u>
Noncurrent Liabilities:	
Compensated Absences	\$ (402,784)
Bonds (less 2014 principal)	
Reacquired Debt	
Other Long Term Debt (less 2014 principal)	<u>\$ (7,136,817)</u>
TOTAL NONCURRENT LIABILITIES	<u>\$ (7,539,601)</u>
TOTAL LIABILITIES	<u>\$ (8,292,876)</u>
 <u>NET POSITION</u>	
Invested in Capital Assets, Net of Related Debt	\$ 26,988,332
Restricted for Debt and Construction	<u>\$ 3,242,444</u>
Unrestricted	<u>\$ 5,545,806</u>
TOTAL NET POSITION	<u>\$ 35,776,582</u>
TOTAL NET POSITION AND LIABILITIES	<u><u>\$ 44,069,458</u></u>

The notes to Financial Statements are an integral part of this statement.

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION

For Years Ending December 31, 2013

2013

OPERATING REVENUES

Utility Sales and Service Fees	\$ 3,727,985
Other Charges for Services	\$ 829,670
Total Operating Revenue	\$ 4,557,654

OPERATING EXPENSES:

Operations:	
General Operations	\$ 824,640
Cost of Power	\$ 553,011
Maintenance	\$ 556,073
Customer Services	\$ 380,602
Conservation, Research	
Depreciation/Amortization/ Depletion	\$ 1,229,357
Property, Excise and B&O Taxes	\$ 265,923
Insurance, Claims & Expenses	\$ 84,290
Other Supplies & Expenses	\$ -
Total Operating Expenses	\$ 3,893,895

OPERATING INCOME (LOSS)	\$ 663,759
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NONOPERATING REVENUES (EXPENSES)

Interest and Investment Revenue	\$ 11,284
Gains (Losses) on Capital Asset Disposition	\$ 2,600
Misc. Nonoperating Expenses	
Amortization of Debt Discount & Expense	
Other Nonoperating Expenses - Interest Expense	\$ (39,935)
Total Nonoperating Revenues (Expenses)	\$ (26,051)

Income Before Contributions, Transfers Extraordinary and Special Items	\$ 637,708
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Capital Contributions	\$ 59,060
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CHANGE IN NET POSITION	\$ 696,768
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TOTAL NET POSITION, January 1, 2013	\$ 35,079,814
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Prior Period Adjustments	\$ -
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TOTAL NET POSITION, December 31, 2013	\$ 35,776,582
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The notes to Financial Statements are an integral part of this statement.

WHITWORTH WATER DISTRICT NO. 2
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2013

CASH FLOWS FROM OPERATING ACTIVITIES:

Cash received from customers	\$ 4,583,549
Cash payments to suppliers for goods and services	(1,736,963)
Cash payments to employees for service	(892,985)
Net Cash Provided by Operating Activities	1,953,601

CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:

Proceeds from fiduciary collections - street lights	147,676
Payments on fiduciary responsibilities - street lights	(147,676)
Net Cash Provided by (used for) Non-Capital Financing Activities	0

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:

Proceeds from Drinking Water State Revolving Fund	240,706
Proceeds from Public Works Trust Fund loans	15,630
Acquisition and construction of capital assets	(1,695,673)
Principal payments made on revenue bond maturities and other long-term debt	(710,090)
Interest paid on revenue bonds and other long-term debt	(42,766)
Proceeds from sale of equipment	2,600
Cash proceeds from contributions in aid of construction	0
Net Cash Used by Capital and Related Financing Activities	(2,189,593)

CASH FLOWS FROM INVESTING ACTIVITIES:

Interest received on investments	11,284
Net Cash Provided by Investing Activities	11,284

Net Decrease in Cash and Cash Equivalents (224,708)

Cash and Cash Equivalents at Beginning of Year 8,456,841

Cash and Cash Equivalents at End of Year \$ 8,232,133

Reconciliation of cash and cash equivalents

Cash and investments	\$ 4,989,689
Other restricted cash and investments	3,242,444

Cash and Cash Equivalents at End of Year \$ 8,232,133

The notes to Financial Statements are an integral part of this statement

WHITWORTH WATER DISTRICT NO. 2
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2013

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

Operating Income	\$ 663,759
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:	
Depreciation expense	1,229,357
Change in Assets and Liabilities:	
(Increase) decrease in accounts receivable	25,895
(Increase) decrease in materials and supplies	16,152
(Increase) decrease in prepaid expenses	1,095
Increase (decrease) in accounts payable	<u>17,343</u>
Total Adjustments	<u>1,289,842</u>
Net Cash Provided by Operating Activities	<u>\$ 1,953,601</u>

NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:

Non-cash contributions in aid of construction	<u>\$ 59,060</u>
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DISCLOSURE OF ACCOUNTING POLICY:

For purposes of this statement of cash flows, the District considers all of its investments in highly liquid debt instruments to have a maturity of three months or less and are thus considered as cash equivalents.

The notes to Financial Statements are an integral part of this statement

WHITWORTH WATER DISTRICT NO. 2
NOTES TO FINANCIAL STATEMENTS
January 1, 2013 through December 31, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Whitworth Water District No. 2 (the District) have been prepared in conformity with generally accepted accounting principles (GAAP) as applicable to Proprietary funds of governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The significant accounting policies are described below.

A. Reporting Entity

Whitworth Water District is a municipal corporation special purpose district that was incorporated in 1939 and operates under the laws of the State of Washington applicable to water districts. It is governed by an elected five member Board. As defined by the generally accepted accounting principles, Whitworth Water District has no component units.

B. Basis of Accounting and Presentation

The accounting records of the District are maintained in accordance with methods prescribed by the State Auditor under the authority of Chapter 43.09 RCW. The District uses the *Uniform System of Accounts for Class A Water Utilities*.

The District uses the full-accrual basis of accounting where revenues are recognized when earned and expenses are recognized when incurred. Capital asset purchases are capitalized and long-term liabilities are accounted for in the fund. Operating income includes gains and losses from the disposal of utility plant.

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 and miscellaneous fees and interest income. The district also recognizes as operating revenue the portion of the tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for the district include the cost of sales and services, administrative expenses, depreciation on capital assets, and interest expense. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The District's financial statements include financial position, results of operations, Statement of Cash Flows and the Management Discussion & Analysis. The financial statements also include the assets and liabilities for which the District has a custodial or trust responsibility.

C. Cash and Cash Equivalents

For purposes of the Statement of Cash Flows, the District considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

D. Utility Plant and Depreciation

See Note 2.

E. Restricted Funds

In accordance with certain related loan agreements (Public Works Trust Fund and Drinking Water State Revolving Fund), separate restricted funds are required to be established. The assets held in these funds are restricted for specific uses, including construction, debt service, and other special reserve requirements. Restricted funds needed for Public Works Trust Fund and Drinking Water State Revolving Fund loans for projects not yet closed out are estimated in the following table and both principal and interest fluctuate according to the amount borrowed as of a specific date. Restricted funds required by loan covenants to cover principal and interest and reserved capital improvements funds include the following:

	2013	2012
Public Works Trust Fund (See Note 3)	\$ 699,700	\$ 735,718
Construction Capital Improvements (Future)		
LGIP	844,646	843,362
Washington Trust	<u>1,698,098</u>	<u>2,034,072</u>
Total	\$ 3,242,444	\$ 3,613,152

Assets and liabilities shown as current in the accompanying statement of net position (balance sheet) exclude current maturities on revenue bonds and accrued interest thereon because both service funds are provided for their payment.

F. Receivables

Customer accounts receivable consists of amounts owed from private individuals or organizations for goods and services. The District's receivable balance represents all unpaid and unbilled amounts at year end. The balance is not reduced by an estimated uncollectible amount since the District experiences virtually no bad debt loss because of its statutory authority to refuse service to delinquent properties and the District also has lien rights.

G. Inventories

Inventories consist of expendable supplies held for consumption and are valued at cost, using FIFO, which approximates the market value.

H. Deposits & Investments

Whitworth Water District certificates of deposit and deposits are entirely covered by federal depository insurance or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission.
(See Note 4)

I. Compensated Absences

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

The District accrues accumulated unpaid vacation leave benefit amounts up to thirty working days and this is payable upon resignation, retirement or death. In accordance with the Union contract with Whitworth Water District, at separation any unused sick leave shall be forfeited and will not be paid as separation pay except when separation is due to death, retirement, or termination without cause after 10 years. When separation is due to the latter, an employee will be paid 50% of his accrued sick leave up to sixty-five days at his permanent rate of pay. Separation due to any other cause will result in forfeiture of sick leave. Sick leave accrual is unlimited.

The recorded liability for sick pay and vacation pay for the years ended December 31, 2013 and December 31, 2012 is noted below.

ID#	Year	Compensated Absences	Beginning Balance 01/01/2013	Additions	Reductions	Ending Balance Debt 12/31/13
259.12	2013	Sick	\$309,686	\$30,233	\$27,523	\$312,396
		Vacation	\$79,336	\$66,397	\$55,345	\$90,388
		Total	\$389,022	\$96,630	\$82,868	\$402,784
ID#	Year	Compensated Absences	Beginning Balance 01/01/2012	Additions	Reductions	Ending Balance Debt 12/31/12
259.12	2012	Sick	\$303,892	\$31,861	\$26,068	\$309,686
		Vacation	\$76,413	\$59,024	\$56,104	\$79,336
		Total	\$380,305	\$90,885	\$82,168	\$389,022

J. Unamortized Debt Expense

The District has no outstanding bonds at this time.

NOTE 2 – UTILITY PLANT & DEPRECIATION

Major expenses for capital assets including major repairs that increase useful lives are capitalized. The threshold for determining when to capitalize and when to expense varies based on the project and the useful life of the expenditure and the nature of the expenditure. Generally, capital assets have an initial cost of \$1000 and/or an estimated useful life in excess of five (5) years. Maintenance, repairs and minor renewals are recorded as expenses when incurred.

Most capital assets will fall within the following guidelines relating to the number of years they will be depreciated.

<u>Asset</u>	<u>Years</u>
Building	<u>20</u>
Vehicles	<u>10</u>
Equipment	<u>10</u>
Transmission/Distribution Plant	<u>40</u>
Office Furniture & Equipment	<u>10</u>
Meters	<u>20</u>

Utility plant in service and other capital assets are recorded at cost where the historical cost is known. Where historical cost is not known, assets are recorded at estimated cost. Donations by developers and customers are recorded at the contract price or donor cost. Depreciation on assets acquired with contributed capital is recorded with other depreciation charges.

When capital assets are disposed of, the original cost is removed from the utility plant accounts, accumulated depreciation is charged with the accumulated depreciation related to the property sold, and the net gain or loss on disposition is credited or charged to non-operating income.

Depreciation is computed on the straight line method with useful lives of 5 to 40 years. Initial depreciation on utility plant is recorded in the year of purchase.

Preliminary costs incurred for proposed projects are deferred pending construction of the facility. Costs relating to projects ultimately constructed are transferred to utility plant; charges that relate to abandoned projects are expensed.

A summary of changes in capital assets as of December 31, 2013 and December 31, 2012 follows:

	<u>1-1-13 through 12-31-13</u>			
	<u>Balance</u> <u>1/1/2013</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance</u> <u>12/31/2013</u>
Utility Plant Not Being Depreciated				
Land	\$ 885,550	\$ 14,693		\$ 900,243
Construction in Progress	\$ 2,774,849	\$ 1,451,802	\$ 3,858,410	\$ 368,241
Total Plant Not Being Depreciated	\$ 3,660,399	\$ 1,466,495	\$ 3,858,410	\$ 1,268,484
Utility Plant Being Depreciated				
Buildings, Plant	\$ 47,138,970	\$ 4,064,910	\$ 14,693	\$ 51,189,187
Equipment	\$ 899,496	\$ 96,433	\$ 28,740	\$ 967,189
Total Plant Being Depreciated	\$ 48,038,466	\$ 4,161,343	\$ 43,433	\$ 52,156,376
Less: Accumulated Depreciation	\$ (17,420,339)	\$ (1,229,357)	\$ (28,740)	\$ (18,620,956)
Total Plant Being Depreciated, Net	\$ 30,618,127	\$ 2,931,986	\$ 14,693	\$ 33,535,420
Net Capital Assets	\$ 34,278,526	\$ 4,398,481	\$ 3,873,103	\$ 34,803,904

	<u>1-1-12 through 12-31-12</u>			
	<u>Balance</u> <u>1/1/2012</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance</u> <u>12/31/2012</u>
Utility Plant Not Being Depreciated				
Land	816,152	69,398	0	885,550
Construction in Progress	3,066,921	934,706	1,226,778	2,774,849
Total Plant Not Being Depreciated	3,883,073	1,004,104	1,226,778	3,660,399
Utility Plant Being Depreciated				
Buildings, Plant	46,001,405	1,367,840	230,275	47,138,970
Equipment	883,669	55,293	39,466	899,496
Total Plant Being Depreciated	46,885,074	1,423,133	269,741	48,038,466
Less: Accumulated Depreciation	(16,242,667)	(1,214,400)	36,728	(17,420,339)
Total Plant Being Depreciated, Net	30,642,407	208,733	233,013	30,618,127
Net Capital Assets	34,525,480	1,212,837	1,459,791	34,278,526

NOTE 3 – LONG TERM DEBT

At this time the District has no bonded indebtedness. The District has been able to secure both Washington State Public Works Trust Fund and Drinking Water State Revolving Fund (DWSRF) low interest loans for the funding of major construction projects and these loans are repaid from water sales revenue of the District. Annual principal and interest payments on the loans require 15% of the District's revenues. The total principal and interest remaining to be paid on the loans is \$7,815,571. Principal and interest paid for the current year was \$710,092 and \$35,364 respectively.

PUBLIC WORKS TRUST FUND LOANS:

The District has Public Works Trust Fund (PWTF) and Drinking Water State Revolving Fund (DWSRF) low interest bearing loans from the State of Washington for the construction of numerous projects as follows:

- System 8-9: 1999, \$1,192,994, 20 year, 1% loan with annual payments including interest of approximately \$72,663.
- Midway to Panorama: 2001, \$3,041,045, 20 year, 2% loan with annual payments including interest, of approximately \$115,600.
- North Colbert: 2005, \$2,502,300, 20 year, 0.50% loan. Annual payment including interest is approximately \$136,688.
- Perry North: 2006, \$3,496,600, 20 year, 0.50% loan. Annual payment including interest is approximately \$195,220.
- Big Meadows Pre-Con: The District secured a 5 year, \$195,275, 0.50% interest Public Works Trust Fund Pre-Construction loan in February of 2009. The Final loan amount when the project was closed out was \$144,368. Annual payment including interest is expected to run approximately \$34,300.
- Big Meadows-Woolard Regular: The District secured a 20 year, 0.25% interest, \$3,196,000, PWTF Construction loan in July 2011. The final loan amount when the project was closed out was \$2,571,320. Annual payment including interest is approximately \$142,330.
- **DWSRF LOAN:**
 - SCWD #3, Chattaroy Hills: The District secured a \$2,987,000 DWSRF, 24 year loan for a construction project, that was bid out in the spring of 2014, to take over a large failing public water system. Fifty percent of the principal will be forgiven when the project is complete and the principal and interest rate will be determined at that time.
 - 12" & 16" Main, Chattaroy Rd: The District secured a \$1,329,400 DWSRF, 24 year loan for a construction project to be bid out late spring 2014, to take over a failing community water system with an e-coli contaminated well. Fifty percent of the principal will be forgiven when the project is complete and the interest rate will also be determined at that time. As of December 31, 2013, the District had taken no draws on this loan.

- 18" Main, Bernhill: The District secured a \$1,609,738 DWSRF, 24 year loan for a construction project to be bid out in late spring 2014, to take over a small failing water system. The loan principal will be determined when the project is closed out and the loan interest rate will be 1½ % . As of December 31, 2013 the District had taken no draws on this loan.

The annual requirements to amortize outstanding debt of the District includes both principal and interest as follows:		
Year ending December 31:	2014	\$ 699,572
	2015	\$ 662,014
	2016	\$ 658,564
	2017	\$ 592,184
	2018	\$ 589,363
	2019 – 2034	\$ 4,205,973
Total Outstanding Debt		\$ 7,407,670

The following schedules (Schedule 9) detail the specifics of each of these loans for 2013 and 2012.

1-1-13 through 12-31-13							
ID No	Purpose	Date of Original Issue	Date of Maturity	Beginning Outstanding Debt 01/01/13	Additions	Reductions	Ending Outstanding Debt 12/31/13
263.82 PWTF- Hatch	Mains, Reservoir	1993	2013	\$32,206		\$32,206	\$0
263.82 PWTF - 8/9	Main, Booster, Well	1999	2019	\$251,726		\$62,932	\$188,794
263.82 PWTF- Midway to Panorama	Main, Booster, Reservoir	2001	2021	\$1,003,807		\$111,534	\$892,273
263.82 PWTF N Colbert	Mains, Booster, Reservoir	2005	2025	\$1,716,856		\$132,066	\$1,584,790
263.82 PWTF Perry Rd N	Mains, Booster, Reservoir	2006	2026	\$2,591,598		\$185,114	\$2,406,484
263.82 Big Mead Pre-Con	Mains	2009	2014	\$101,815		\$50,907	\$50,907
263.82 Big Mead- Regular	Mains	2011	2031	\$2,571,320	\$15,630	\$135,333	\$2,451,617
DWSRF- Chatteroy Hills	Mains, Pump St	2013	2033	\$0	\$240,706		\$240,706
Total				\$8,269,327	\$256,336	\$710,092	\$7,815,571

1-1-12 through 12-31-12							
ID No	Purpose	Date of Original Issue	Date of Maturity	Beginning Outstanding Debt 01/01/12	Additions	Reductions	Ending Outstanding Debt 12/31/12
263.82 PWTF-Hatch	Mains, Reservoir	1993	2013	\$64,412		\$32,206	\$32,206
263.82 PWTF - 9-Aug	Main, Booster, Well	1999	2019	\$314,657		\$62,932	\$251,725
263.82 PWTF-Midway to Panorama	Main, Booster, Reservoir	2001	2021	\$1,115,341		\$111,534	\$1,003,807
263.82 PWTF N Colbert	Mains, Booster, Reservoir	2005	2025	\$1,848,921		\$132,066	\$1,716,856
263.82 PWTF Perry Rd N	Mains, Booster, Reservoir	2006	2026	\$2,776,712		\$185,114	\$2,591,598
263.82 Big Mead Pre-Con	Mains	2009	2015	\$152,722		\$50,907	\$101,815
263.82 Big Mead-Regular	Mains	2011		\$2,571,320			\$2,571,320
Total				\$8,844,086		\$574,759	\$8,269,327

NOTE 4 – INVESTMENTS

As required by State law, all investments of the District's funds are obligations of the U.S. Government, the State Treasurer's Local Government Investment Pool (LGIP) or deposits with a Washington State bank savings and loan institution. District funds are invested at the direction of the District's Investment Officer. The District considers all of its investments in highly liquid debt instruments to have a maturity of three months or less and are therefore considered as cash equivalents. While the LGIP is managed diligently by professional and dedicated personnel to protect against losses from market and credit changes, the pool is not insured or guaranteed by any government. Therefore, the maintenance of principal is not fully assured.

The pool was created by the Washington State Legislature in 1986 to provide a mechanism whereby eligible government entities, at their option, invest temporary cash surpluses and take advantage of the volume and expertise of the state's investment program to earn a competitive rate of return while maintaining the security and liquidity of the funds they manage.

The pool is managed and operated solely by the office of the State Treasurer. In 1995, the Local Government Investment Pool Advisory Committee was created by the State Treasurer to advise the Treasurer on the operation of the pool.

The investment activity of the pool is guided by an investment policy, which sets forth the parameters within which the portfolio manager may operate. The policy, which was approved by the State Treasurer and certified by the Association of Public Treasurers, is reviewed annually and updated as necessary. Compliance with the policy is monitored by the investment accounting division of the Office of the State Treasurer, which is separate and distinct from the investment division.

Participants are offered 100% liquidity on a daily basis, provided notification is made within specified times. The expenses of operating the pool are covered through an administrative fee of 3.5 basis points charged to participants based on their average daily balance in the pool. Fees in excess of the expenses incurred for pool operation are rebated to participants. As of June 30, 2013 there were 545 LGIP participants, with total deposits of \$10.633 billion.

The Local Government Investment Pool is considered extremely low risk. The pool is operated in a manner consistent with the Securities and Exchange Commission's Rule 2a-7 of the 1940 Investment Company Act; therefore, its holdings are limited to high quality obligations with maximum and average maturities which minimizes both market and credit risk. The Pool's portfolio consists of high quality, highly liquid securities and its relative average maturity reduces its price sensitivity to market interest rate. Its strong degree of asset diversification also helps to minimize risk and maintain adequate rates of return to the Pool participants.

The State Treasurer requires reimbursement for the administration and recovery of costs associated with the operation of the LGIP. Reimbursement is calculated based on the pool participants monthly average daily balance and is reflected on the monthly statement. The reimbursement amount is deducted from Whitworth Water District's earnings prior to the earnings posting to the account. At the end of the year, the LGIP determines the actual amount of funds necessary for Pool expenses and rebates those collected administrative fees in excess of operational requirements.

The District's deposits and certificates of deposit are entirely covered by Federal Depository Insurance (FDIC) or by collateral held or a multiple financial collateral pool administered by the Washington Public Deposit Protection Commission (PDPC). The Federal Reserve and Public Deposit Protection Commission have requirements for banks holding public funds. The District's bank buys Treasury Bonds at 102% to cover all District public funds being held.

The District's investments are categorized to give an indication of the risk assumed at year end. Category 1 includes investments that are either insured, registered or held by the District or its agents in the District's name. Category 2 includes uninsured and unregistered investments which are held by the brokers, dealers trust department or agent in the District's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the broker, its trust department, or agent, but not in the District's name.

The District's investments at year end are stated as follows:

State Local Government Investment Pool			
	Category 1	Carrying Amount	Market Value 12/31/13 and 12/31/2012
2013	\$ 4,636,048	\$ 4,636,048	\$ 4,636,048
2012	\$ 4,628,776	\$ 4,628,776	\$ 4,628,776

All temporary investments are stated at cost, which approximates market value. Management intends to hold the time deposits and securities until maturity.

NOTE 5 – CONSTRUCTION IN PROGRESS

As of December 31, 2013 there were two major projects in progress. This construction in progress represents expenses to date on projects whose authorizations total \$ 4,596,738 which does not include engineering and inspections. Construction in Progress is composed of the following for 2013 and 2012:

2013			
Projects	Estimated Project Authorization	Expended	Estimated Required Future Financing
SCWD #3 – Chattaroy Hills	\$ 2,987,000	\$ 290,541	\$ 2,696,459
Bernhill Road	\$ 1,609,738	\$ 23,100	\$ 1,586,638
Total of Projects in Progress	\$ 4,596,738	\$ 313,641	\$ 4,283,097

2012			
Projects	Estimated Project Authorization	Expended	Estimated Required Future Financing
Big Meadows–Woolard-Regular	\$ 3,760,000	\$ 3,044,862	\$ -0-
SCWD 3 – Chattaroy Hills	\$ 2,987,000	\$ 28,080	\$ 2,958,920
Total of Projects in Progress	\$ 6,747,000	\$ 3,072,942	\$ 2,958,920

NOTE 6 – PENSION PLANS

Substantially all District 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 defined benefit public employee 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, Administrative Services Division, P.O. Box 48380 Olympia, WA 98504-8380. The following disclosures are made pursuant to GASB Statement No. 27, *Accounting for Pensions by State and Local Government Employers* and *Statement No. 50, Pension Disclosures, an Amendment of GASB Statements No. 25 and No. 27.*

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

Plan Description:

The legislature established PERS in 1947, PERS is a cost-sharing multiple-employer defined benefit pension plan 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.

Membership in the system includes: elected officials; state employees; employees of the Supreme, Appeals, and Superior courts (other than judges); employees of legislative committees; college and university employees not in national higher education retirement programs; judges of district and municipal courts; noncertificated employees of school districts; and employees of local government. PERS retirement benefit provisions are established in Chapters 41.34 and 41.40 RCW and may be amended only by the State Legislature.

PERS members who joined the system by September 30, 1977 are Plan I 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 exercise an option to transfer their membership to Plan 3. PERS participants 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 2 defined benefit retirement benefits are financed from a combination of investment earnings and employer and employee contributions. Employee contributions to PERS Plan 2 defined benefit plan accrues interest at a rate specified by the DRS Director. During DRS' Fiscal Year 2012, the rate was five and one-half percent compounded quarterly. PERS retirement benefit provisions are established in state statute and may be amended only by the State Legislature. The District has no employees eligible for Plan I retirement benefits at December 31, 2005. Also, the District has no employees currently enrolled in PERS Plan 3.

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. The AFC is the monthly average of the 60 consecutive highest-paid service months. 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 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 retirement benefits are also actuarially reduced to reflect the choice, if made, of a survivor option. There is no cap on years of service credits and a cost-of-living allowance is granted (based on the Consumer Price Index), capped at 3 percent annually.

PERS Plan 2 members hired on or after May 1, 2013 have the option to retire early by accepting a reduction of five percent for each year of retirement before age 65. This option is only available to those who are age 55 or older and have at least 30 years of service. PERS Plan 2 retirement benefits are also actuarially reduced to reflect this choice, if made, of a survivor benefit.

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.

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, of 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. The average final compensation is based on the greatest compensation during any eligible consecutive 60-month period.

Effective June 7, 2006, Plan 3 members are vested in the defined benefit portion of their plan after ten years of service; or after five years 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. No Whitworth Water District employees are members of Plan 3 at this time.

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 2,304 participating employers in PERS. Membership in PERS consisted of the following as of the latest actuarial valuation date for the plans of June 30, 2012:

Retirees and Beneficiaries Receiving Benefits	82,242
Terminated Plan Members Entitled To But Not Yet Receiving Benefits	30,515
Active Plan Members Vested	106,317
Active Plan Members Nonvested	<u>44,273</u>
Total	263,347

Funding Policy:

Each biennium, the state Pension Funding Council adopts Plan 2 employer and employee contribution rates and Plan 3 employer contribution rates. 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.

Contributions:

The required contribution rates expressed as a percentage of covered payroll as of December 31, 2013 and 2012 were as follows:

	PERS PLAN 2				PERS PLAN 2		
	2013				2012		
	1-1-13	7-1-13	9-1-13		1-1-12	4-1-12	7-1-12
Employer	7.21 %	9.19 %	9.21 %		7.25 %	7.08 %	7.21 %
Employee	4.64 %	4.92 %	4.92 %		4.64 %	4.64 %	4.64 %

Both Whitworth Water District and the employees made the required contributions. The District's required contributions for the years ended December 31, 2013, December 31, 2012, and December 31, 2011, were:

	PERS Plan 2	PERS Plan 3
2013	\$73,159	-0-
2012	\$60,617	-0-
2011	\$51,459	-0-

NOTE 7 – DEFERRED COMPENSATION PROGRAM

The State of Washington has approved offering its employees and employees of those political subdivisions that elect to participate, a deferred compensation program (DCP) pursuant to RCW 41.50.770, in accordance with Internal Revenue Code Section 457. Whitworth Water District commissioners have likewise approved offering its employees the State deferred compensation program. The deferred compensation is not available to employees until termination, retirement, disability, death or unforeseeable financial emergency. This deferred compensation program is administered by DRS.

The intent of the program is to provide additional income to participants upon retirement. By deferring part of their income, participants can reduce their taxable income each year. The investments remain tax-free until they are withdrawn. The program provides participants with a way to easily save money and help supplement their other retirement income.

Whitworth Water District employees participating in DCP self-direct their investments through options provided by the Washington State Investment Board (WSIB). The WSIB has the full power to invest moneys in DCP in accordance with RCW 43.84.150, 43.33A.140, and 41.50.770.

The program offers two investment options as follows:

The **One-Step Investing** option is designed for those who do not have the desire, comfort level and/or time to select, monitor and rebalance, as needed, their own allocation mix of funds. Each Retirement Strategy Fund is diversified and automatically rebalances, adjusting the participant's allocation mix as the participant moves toward a retirement date. The program funds for this option include 12 specific Retirement Strategy year options from 2000 to 2055.

The **Build and Monitor** option requires the participant to select fund(s) from any or all of the following seven professionally managed funds, monitor account activity and rebalance the allocation mix as necessary to maintain the desired investment objectives.

DCP participants may adjust or suspend their participation in the program at any time. Upon separation from employment, DCP participants have the option of withdrawing some or all of the balance in their account or leaving their balance in place to continue to benefit from market fluctuations.

The IRS requires a DCP participant to start receiving mandatory account distributions at retirement, or by April of the year after the participant turns 70 ½ years old, whichever comes later.

All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, are held in trust by the WSIB, as set forth under RCW 43.33A.030, for the exclusive benefit of the DCP participants and their beneficiaries. Neither the participant, nor the participant's beneficiary or beneficiaries, nor any other designee, has any right to commute, sell, assign, transfer, or otherwise convey the right to receive any payments under the plan. These payments and rights thereto are non-assignable and non-transferable.

NOTE 8 – RISK MANAGEMENT

The District purchases insurance through local agents as shown below:

AGENT	COVERAGE	LIMIT	DEDUCTIBLE
Fidelity Associates	Notary Bonds	\$ 10,000	
	Public Officials Bond	50,000	
	Commercial Package:		
	Property – Per Occurrence	1,000,000	10,000
	General Liability	1,000,000 - 3,000,000	Varies
	Crime & Fidelity	5,000 – 250,000	500
	Inland Marine	508,000-max; varies	Varies
	Automobile – BI and PD	1,000,000	500
	Professional Liab. (D&O) Per Claim	1,000,000	2,500
	Boiler and Machinery	3,000,000 max.	5,000
	Employment Practices – Per Claim	1,000,000	5,000
	Commercial Umbrella	1,000,000 - 3,000,000	
	Street Obstruction Bond-Spokane Co	10,000	
	Franchise & Permit, WA State DOT	10,000	
	Flood Insurance	Bldg-\$500,000 Content-\$319,100	5,000 5,000
	Accounts Receivable	250,000	
	Public Officials & Mgmt Liability	1,000,000 - 3,000,000	1,000
	Cyber Liability	1,000,000	0
Moranco & Associates	Group Medical, Vision, Life & AD&D, Insurance		
	Delta Dental of Washington		

NOTE 9 – JOINT VENTURE

Whitworth Water District became a member of the Spokane Aquifer Joint Board in June 1995. The Board was formed in accordance with and authorized by RCW 39.34, Washington Interlocal Cooperation Act.

The activities of the Board all relate to the protection of the Spokane Valley/Rathdrum Prairie Aquifer public water supply; however, its main focus is to eliminate the duplication of effort in developing required wellhead protection plans for each Spokane County public water system, to insure that a coordinated effort is made to enforce the plans, and to collectively ensure ongoing aquifer protection education programs and contaminant source inventories.

Each member district bears its share of administrative costs and project costs, which are minimal, that are based on the benefit each derives from the project.

NOTE 10 – POST EMPLOYMENT BENEFITS

The District provides no post employment benefits to retired employees other than those provided through the Washington State Retirement System for retirement income.

NOTE 11 – CONTINGENT LIABILITIES & LITIGATION

The District's financial statements include all material liabilities. There are no material contingent liabilities or litigation to record.

As discussed in Note 3, Whitworth Water District has a number of Federal and State Public Works Trust Fund and Drinking Water State Revolving Fund loans and is contingently liable for the repayment of the debt

NOTE 12 – SUBSEQUENT EVENTS

Effective May 1, 2014 the Board of Commissioners approved raising the step rates for quantities of water used in excess of 1000 cubic feet per month.



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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