



**Washington State Auditor's Office**

**Troy Kelley**

**Integrity • Respect • Independence**

**Financial Statements and Federal Single Audit  
Report**

**Roza Irrigation District**

**Yakima County**

**For the period January 1, 2013 through December 31, 2013**

**Published September 29, 2014**

**Report No. 1012705**





## Washington State Auditor Troy Kelley

September 29, 2014

Board of Directors  
Roza Irrigation District  
Sunnyside, Washington

### **Report on Financial Statements and Federal Single Audit**

Please find attached our report on the Roza Irrigation District's financial statements and compliance with federal laws and regulations.

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

Sincerely,

A handwritten signature in dark ink that reads "Troy X. Kelley". The signature is written in a cursive style.

TROY KELLEY  
STATE AUDITOR

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# Federal Summary

## Roza Irrigation District Yakima County January 1, 2013 through December 31, 2013

The results of our audit of the Roza Irrigation District are summarized below in accordance with U.S. Office of Management and Budget Circular A-133.

### ***FINANCIAL STATEMENTS***

An unmodified opinion was issued on the basic financial statements.

#### ***Internal Control Over Financial Reporting:***

- ***Significant Deficiencies:*** We identified deficiencies in the design or operation of internal control over financial reporting that we consider to be significant deficiencies.
- ***Material Weaknesses:*** We identified no deficiencies that we consider to be material weaknesses.

We noted no instances of noncompliance that were material to the financial statements of the District.

### ***FEDERAL AWARDS***

#### ***Internal Control Over Major Programs:***

- ***Significant Deficiencies:*** We reported no deficiencies in the design or operation of internal control over major federal programs that we consider to be significant deficiencies.
- ***Material Weaknesses:*** We identified deficiencies that we consider to be material weaknesses.

We issued an unmodified opinion on the District's compliance with requirements applicable to its major federal program.

We reported findings that are required to be disclosed under section 510(a) of OMB Circular A-133.

***Identification of Major Programs:***

The following was a major program during the period under audit:

<u>CFDA No.</u>	<u>Program Title</u>
15.531	Yakima River Basin Water Enhancement Project

The dollar threshold used to distinguish between Type A and Type B programs, as prescribed by OMB Circular A-133, was \$300,000.

The District did not qualify as a low-risk auditee under OMB Circular A-133.

# Schedule of Federal Audit Findings and Questioned Costs

## Roza Irrigation District Yakima County January 1, 2013 through December 31, 2013

### 1. The District did not have adequate internal controls to ensure compliance with federal suspension and debarment requirements.

<b>CFDA Number and Title:</b>	15.531 Yakima River Basin Water Enhancement Project
<b>Federal Grantor Name:</b>	U.S. Department of the Interior, Bureau of Reclamation
<b>Federal Award/Contract Number:</b>	R13AP13002001
<b>Pass-through Entity Name:</b>	NA
<b>Pass-through Award/Contract Number:</b>	NA
<b>Questioned Cost Amount:</b>	\$0

#### Description of Condition

The District spent \$2,025,299 in the Yakima River Basin Water Enhancement Project program, CFDA No. 15.531.

Federal requirements prohibit grant recipients from contracting with or making subawards to vendors who have been suspended or debarred from doing business with the federal government. The District is required to verify that all vendors receiving \$25,000 or more in federal funds have not been suspended or debarred. The District can obtain a written certification from the vendor or insert a clause into the contract where the vendor states it is not suspended or debarred. Alternatively, the District may review the federal Excluded Parties List (EPLS) issued by the U.S. General Services Administration. This requirement must be met prior to entering into a contract with the vendor.

We reviewed the District's internal control and compliance with the requirements of this program. The District did not have a process in place to ensure compliance with suspension and debarment requirements with its vendor contracts.

#### Cause of Condition

The District relied on its engineer to ensure compliance with federal requirements, including suspension and debarment. It was unaware that the required certifications or verifications were required for, and had not been obtained for its contracted engineer. In addition, it was unaware that the contracted engineer had not obtained suspension and

debarment certifications or verifications for its contracted public works contractor. It became aware of this requirement during our onsite audit for fiscal years 2010 through 2012, in 2013.

## **Effect of Condition and Questioned Costs**

The District did not obtain verifications or certifications for vendors who were paid \$25,000 or more to ensure they were not suspended or debarred from doing business with the federal government prior to entering into a contract with, and paying the vendors. The District later checked the EPLS on October 21, 2013, for its contracted engineer and November 26, 2013, for its public works contractor.

In 2013, the District paid contracted vendors \$2,859,346, or 141 percent of total grant program costs in 2013. We consider this control deficiency a material weakness.

We were able to verify that both vendors were not suspended or debarred and, therefore, we are not questioning costs for the payments.

## **Recommendation**

We recommend the District establish and follow internal controls to verify suspension and debarment status of all vendors paid with federal funds prior to entering into a contract.

## **District's Response**

*Once this requirement was understood, RID staff took steps to verify the status of the vendors working on the construction project involving Federal funds, as detailed below:*

- *Roza entered into a contract with HDR Engineering on March 12, 2013. The contract did not include a suspension and debarment clause. The FAR Report check occurred on October 21, 2013.*
- *Roza entered into a contract with M.A. DeAtley Construction on August 12, 2013. The FAR Report occurred on November 26, 2013. A Certification page titled "Non-Collusion and Debarment" was included in the contract, but the body of the text did not address debarment.*
- *Roza entered into a contract with Scarsella Brothers on May 29, 2014. The contract includes the required suspension and debarment certification clause. A FAR Report check occurred on May 29, 2014 to further verify eligibility.*
- *An additional FAR Report check for HDR occurred on May 29, 2014.*

*Roza does not dispute the requirement for ensuring that a contractor has not been disbarred and does not dispute that the FAR report checks had not occurred prior to entering in the contracts with HDR and DeAtley. Roza does dispute that this issue rises to*

*the level of a material weakness, particularly in light of the fact that Roza acknowledged the oversight and when the FARS checks were performed the contractors had not been disbarred.*

*As noted in the finding, Roza “was unaware that the contracted engineer had not obtained suspension and debarment certifications or verifications for its contracted public works contractor.” Roza further notes that the contracted engineering firm, a very large firm performing work using federal grants all across the county for many years, was also unaware of the requirement.*

*Note that the Excluded Parties List System (EPLS) was discontinued on November 21, 2012. Suspension and debarment checks are now done through System for Award Management (SAM) as an FAR Report.*

*These requirements were discussed during the 2013 audit and dealt with soon thereafter.*

*While the 2014 actions are outside the 2013 audit window, they further demonstrate that Roza has revised its contract language to meet the requirement.*

*In 2013, the District paid contracted vendors \$2,859,346, which is more than 20% of total program costs and triggers the disbarment certification requirement. We consider the missing debarment certification to be a control deficiency which is a material weakness.*

## **Auditor’s Remarks**

We thank the District for its commitment to resolve this finding and thank the District for its cooperation and assistance during the audit. We will review the corrective action taken during our next regular audit.

## **Applicable Laws and Regulations**

*U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, Section 300, states in part:*

The auditee shall:

(b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs.

(c) Comply with laws, regulations, and the provisions of contracts or grant agreements related to each of its Federal programs.



*Title 2, Code of Federal Regulations*, Section 180.300 – What must I do before I enter into a covered transaction with another person at the next lower tier?

When you enter into a covered transaction with another person at the next lower tier, you must verify that the person with whom you intend to do business is not excluded or disqualified. You do this by:

- (a) Checking the EPLS; or
- (b) Collecting a certification from that person if allowed by this rule; or
- (c) Adding a clause or condition to the covered transaction with that person.

U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, Section 500, states in part:

- (a) The audit shall be conducted in accordance with GAGAS.

*Government Auditing Standards*, December 2011 Revision, paragraph 4.23 states:

4.23 When performing GAGAS financial audits, auditors should communicate in the report on internal control over financial reporting and compliance, based upon the work performed, (1) significant deficiencies and material weaknesses in internal control; (2) instances of fraud and noncompliance with provisions of laws or regulations that have a material effect on the audit and any other instances that warrant the attention of those charged with governance; (3) noncompliance with provisions of contracts or grant agreements that has a material effect on the audit; and (4) abuse that has a material effect on the audit.

The American Institute of Certified Public Accountants defines significant deficiencies and material weaknesses in its Codification of Statements on Auditing Standards, section 265, as follows:

.07 For purposes of generally accepted auditing standards, the following terms have the meanings attributed as follows:

**Material weakness.** A deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.

**Significant deficiency.** 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.

## SCHEDULE OF AUDIT FINDINGS AND RESPONSES

### **2. The District's internal controls over financial statement preparation are inadequate to ensure accurate reporting.**

#### **Background**

It is the responsibility of District management to design, implement, and maintain internal controls to ensure financial statements are fairly presented and provide reasonable assurance regarding the reliability of financial reporting. Our audit identified a significant deficiency in internal controls over financial reporting that affected the District's ability to produce reliable financial statements.

#### **Description of Condition**

We identified the following deficiencies in internal controls over financial reporting that, when taken together, represent a significant deficiency:

- Staff responsible for preparing the financial statements lacked the technical knowledge to properly apply applicable accounting standards and ensure financial reporting was accurate under generally accepted accounting principles (GAAP)
- The District did not use the Budget, Accounting and Reporting System (BARS) manual when preparing the financial statements. Local governments in Washington are required to follow the prescribed uniform budgeting, accounting and reporting requirements in BARS.
- Although the District has a review process for the prepared financial statements, this review was not effective in ensuring the financial statements were accurate and complete.

#### **Cause of Condition**

The District has been short staffed for a number of years and has not provided the necessary resources to ensure staff has sufficient training and time to ensure accurate and complete financial reporting.

#### **Effect of Condition**

During our audit of the financial statements, we found the District report grant revenues on a cash basis of reporting instead on an accrual basis. The following errors were identified in the financial statements:

- Grant revenues were understated by \$1,174,416.

- Corresponding grants receivable were omitted from the financial statements in the amount of \$1,174,416.

## **Recommendation**

We recommend the District dedicate the necessary time and resources to:

- Use the accounting and reporting guidance provided in the Budget, Accounting and Reporting System (BARS) manual when preparing the financial statements.
- Pursue additional technical guidance when preparing the financial statements.
- Provide adequate training for staff for financial accounting and reporting to ensure compliance with reporting requirements.
- Ensure a detailed, technical review is performed of the financial statements by a person knowledgeable of BARS and reporting requirements.

## **District's Response**

*The District will contract with a third party with appropriate accounting expertise to the District's internal controls concerning preparation of financial statements and to make recommendations to ensure accurate reporting, and to identify specific training needs for Roza staff.*

*The District will revise its internal controls to ensure accurate preparation and presentation of financial statements, and will make training available to the staff who prepares the financial statements to ensure that the level of technical expertise is appropriate.*

## **Auditor's Remarks**

We thank the District for its commitment to resolve this finding and thank the District for its cooperation and assistance during the audit. We will review the corrective action taken during our next regular audit.

## **Applicable Laws and Regulations**

RCW 43.09.200 states in part:

The state auditor shall formulate, prescribe, and install a system of accounting and reporting for all local governments, which shall be uniform for every public institution, and every public office, and every public account of the same class.

*Budget Accounting and Reporting System Manual - Part 3, Accounting, Chapter 3. Accounting Principles and Internal Controls, Section 3. Controls over Financial Reporting, states:*

This objective refers to fair presentation of financial statement and required schedules in all material respects in accordance in with the stated basis of accounting.

In meeting this objective, the government should have controls that accomplish the following key functions:

- Identification of financial events – Controls should ensure financial events and transactions are properly identified and recorded.
- Properly applying accounting standards – Controls should ensure correct criteria and methodology is applied when accounting for financial events. When the correct method of accounting for or reporting a transaction is unclear, the government should seek clarification by performing research, contracting for accounting assistance, or communicating with the State Auditor’s Office or standard setting bodies.
- Correctly accounting for all financial events – Controls should ensure that:
  - Only valid transactions are recorded and reported.
  - All transactions occurred during the period are recorded and reported.
  - Transactions are recorded and reported at properly valued and calculated amounts.
  - Recorded and reported transactions accurately reflect legal rights and obligations.
  - Transactions are recorded and reported in the account and fund to which they apply.
- Preparation of the annual report – Controls should ensure that financial statements and required schedules are properly compiled and prepared from source accounting records. Controls should also ensure correct presentation of statements and schedules.

Controls and processes should generate adequate documentation to demonstrate achievement of objectives. This is not only important for audit, oversight and public records purposes, but also to enable effective monitoring of controls over financial reporting by management.

*Government Auditing Standards*, July 2007 Revision – Section 5.11 provides that auditors should report material weaknesses and significant deficiencies in internal control.

The American Institute of Certified Public Accountants, Statement on Auditing Standards No. 115 defines significant deficiencies and material weaknesses as follows:

- a. Significant deficiency: 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.
- b. Material weakness: A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

## Status of Prior Audit Findings

### Roza Irrigation District Yakima County January 1, 2013 through December 31, 2013

The status of findings contained in the prior years' audit reports of the Roza Irrigation District is provided below:

- 1. The District's internal controls over federal grant reporting were inadequate, delaying the audit beyond the federal report submission deadline and causing unnecessary audit costs.**

Report No. 1010934, dated December 23, 2013

#### Background

The District used revenues related to the grant to report federal expenditures on its Schedule of Expenditures of Federal Awards. District staff did not understand that expenditures, not revenues, should be reported on the schedule. In addition, staff preparing the schedule did not use source documents, such as the SF-270 reimbursement reports, to verify amounts reported and did not use the *Budgeting, Accounting and Reporting System* (BARS) manual for guidance.

#### Status

This issue has been resolved.

# **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***

**Roza Irrigation District  
Yakima County  
January 1, 2013 through December 31, 2013**

Board of Directors  
Roza Irrigation District  
Sunnyside, Washington

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the Roza Irrigation District, Yakima 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 basic financial statements, and have issued our report thereon dated September 22, 2014.

## ***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 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 and therefore, material weaknesses or significant

deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Audit Findings and Responses as Finding 2 that we consider to be significant deficiencies.

## ***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.

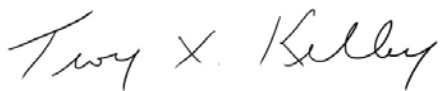
The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## ***DISTRICT'S RESPONSE TO FINDINGS***

The District's response to the findings identified in our audit is described in the accompanying Schedule of Audit Findings and Responses. The District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

## ***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

September 22, 2014



# **Independent Auditor's Report on Compliance for Each Major Federal Program and on Internal Control over Compliance in Accordance with OMB Circular A-133**

**Roza Irrigation District  
Yakima County  
January 1, 2013 through December 31, 2013**

Board of Directors  
Roza Irrigation District  
Sunnyside, Washington

## ***REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM***

We have audited the compliance of the Roza Irrigation District, Yakima County, Washington, with the types of compliance requirements described in the U.S. *Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2013. The District's major federal programs are identified in the accompanying Federal Summary.

### ***Management's Responsibility***

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its federal programs.

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of the District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination on the District's compliance.

### ***Opinion on Each Major Federal Program***

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2013.

### ***Other Matters***

The results of our auditing procedures disclosed an instance of noncompliance with those requirements, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying Schedule of Federal Audit Findings and Questioned Costs as Finding 1. Our opinion on each major federal program is not modified with respect to these matters.

### ***District's Response to Findings***

The District's response to the noncompliance findings identified in our audit is described in the accompanying Schedule of Federal Audit Findings and Questioned Costs. The District's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

## ***REPORT ON INTERNAL CONTROL OVER COMPLIANCE***

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program in order to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a

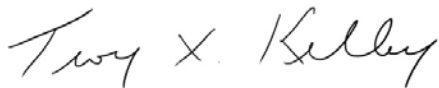
combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Federal Audit Findings and Questioned Costs as Finding 1 to be a material weakness.

### ***District's Response to Findings***

The District's response to the internal control over compliance findings identified in our audit is described in the accompanying Schedule of Federal Audit Findings and Questioned Costs. The District's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

### ***PURPOSE OF THIS REPORT***

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report 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

September 22, 2014

# **Independent Auditor's Report on Financial Statements**

## **Roza Irrigation District Yakima County January 1, 2013 through December 31, 2013**

Board of Directors  
Roza Irrigation District  
Sunnyside, Washington

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

We have audited the accompanying financial statements of the Roza Irrigation District, Yakima 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 basic financial statements as listed on page 23.

#### ***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 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 opinion.

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Roza Irrigation District, as of December 31, 2013 and 2012, and the changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Other Matters***

#### ***Required Supplementary Information***

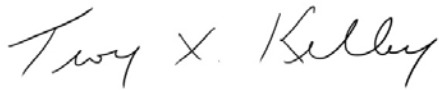
Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 24 through 29 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the 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.

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

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the District's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. This schedule is not a required part of the basic 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 basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic 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 basic 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 September 22, 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

September 22, 2014

## **Financial Section**

**Roza Irrigation District  
Yakima County  
January 1, 2013 through December 31, 2013**

### ***REQUIRED SUPPLEMENTARY INFORMATION***

Management's Discussion and Analysis – 2013 and 2012

### ***BASIC FINANCIAL STATEMENTS***

Comparative Statement of Net Position – 2013 and 2012

Comparative Statement of Revenues, Expenses and Changes in Fund Net Position – 2013  
and 2012

Comparative Statement of Cash Flows – 2013 and 2012

Notes to Financial Statements – 2013 and 2012

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

Schedule of Expenditures of Federal Awards – 2013

Notes to the Schedule of Expenditures of Federal Awards – 2013

## ROZA IRRIGATION DISTRICT

### Management's Discussion and Analysis

Roza Irrigation District's management's discussion and analysis is to assist readers on significant financial issues, their financial activity and any changes in their financial position. Readers should also review the notes to the financial statements to enhance their understanding of Roza's financial performance.

#### Financial Highlights

2013 Net Position increased by \$3,757,716.14

2012 Net Position increased by \$1,323,513.92

2011 Net Position increased by \$1,138,158.62

2013 Operating Revenues increased by \$448,561.85

2012 Operating Revenues increased by \$162,966.92

2011 Operating Revenues decreased by \$436,046.54

2013 Total Operating Expenses increased by \$311,187.14

2012 Total Operating Expenses decreased by \$132,683.16

2011 Total Operating Expenses increased by \$798,344.75

Roza's cash accounts show healthy balances at year end for 2013, 2012 and 2011. The overall financial condition remains strong.

In 2013 Roza Irrigation District purchased construction and maintenance equipment for \$209,573.01, capitalized the enclosed conduit system and Waste Way 5 regulation reservoir for \$4,036,076.53 and upgraded fuel tanks for \$23,878.34.

In 2012 Roza Irrigation District purchased construction and maintenance equipment for \$198,550.84, capitalized the enclosed conduit system for \$853,465.06 and purchased miscellaneous equipment for \$22,202.75.

In 2011 Roza Irrigation District purchased construction and maintenance equipment for \$102,293.26, capitalized the enclosed conduit system for \$801,396.56 and purchased miscellaneous equipment for \$35,333.40.



## Basic Financial Statements

Roza Irrigation District's basic financial statements include a Comparative Statement of Net Position. The statement reports all financial and capital resources for Roza Irrigation District and is presented where assets, minus liabilities, equals Net Position. Assets and Liabilities are classified as Current (convertible into cash within 1 year) and Noncurrent.

The Net Position is reported in three categories:

### Net Investment in Capital Assets

This category consists of net capital assets, reduced by accumulated depreciation.

### Restricted

This category consists of restricted assets to the USBR in accordance to the contract and special construction related to the construction of Interstate 82 and the offset to the water users impacted annually against the water users construction assessment.

### Unrestricted

This category consists of Net Assets that do not meet the definition of Net Position, Net Invested in Capital Assets or Restricted Net Assets.

Roza Irrigation District's financial statements also include a Comparative Statement of Revenues, Expenses and Changes in Fund Net Position. This statement shows operations for the year and includes Operating Revenues, such as irrigation assessment income. Operating Expenses such as operation & maintenance, depreciation, utilities and administrative. Non Operating Revenues such as grants, interest and gains (losses) on Capital Asset disposition.

Condensed versions of the Statement of Net Position and the Statement of Revenues, Expenses and Changes in Fund Net Position are included as part of the M D & A.

(Condensed) Comparative Statement of Net Position

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Unrestricted Current and Other Assets	\$ 15,709,857.51	\$ 15,426,498.19	\$ 14,642,497.19
Restricted Assets	1,963,674.33	2,521,989.26	3,047,955.14
Capital Assets, Net	<u>20,754,986.42</u>	<u>17,231,728.68</u>	<u>16,802,739.61</u>
<b>TOTAL ASSETS</b>	<b>\$ 38,428,518.26</b>	<b>\$ 35,180,216.13</b>	<b>\$ 34,493,191.94</b>
Total Deferred Outflows of Resources	0.00	0.00	0.00
Current Liabilities	\$ 2,229,547.33	\$ 2,180,706.88	\$ 2,249,157.01
Noncurrent Liabilities	<u>1,675,523.18</u>	<u>2,233,777.64</u>	<u>2,801,817.24</u>
<b>TOTAL LIABILITIES</b>	<b>\$ 3,905,070.51</b>	<b>\$ 4,414,484.52</b>	<b>\$ 5,050,974.25</b>
Total Deferred Inflows of Resources	0.00	0.00	0.00
<b><u>NET POSITION</u></b>			
Invested in Capital Assets, Net of Related Debt	20,754,986.42	17,190,691.32	16,718,829.89
Restricted	288,151.15	288,211.62	246,137.90
Unrestricted	<u>13,480,310.18</u>	<u>13,286,828.67</u>	<u>12,477,249.90</u>
<b>TOTAL NET POSITION</b>	<b><u>34,523,447.75</u></b>	<b><u>30,765,731.61</u></b>	<b><u>29,442,217.69</u></b>
<b>TOTAL NET POSITION AND LIABILITIES</b>	<b><u>\$38,428,518.26</u></b>	<b><u>\$35,180,216.13</u></b>	<b><u>\$34,493,191.94</u></b>

For more detailed information see the Comparative Statement of Net Position.

Major factors affecting the Statement of Net Position:

The largest portion of Roza's total assets is in capital assets. Roza uses these capital assets to provide operation and maintenance for the District. The unrestricted net assets are available for future use to provide operation and maintenance.

The largest portion of Roza's total liabilities (57%) in 2013 is current liabilities which consist of payables, accrued expenses, annual leave, sick leave and pre-paid assessments, (51%) in 2012 and (55%) in 2011 is long term debt which consists of payments to the USBR for canal construction loan repayment and RSBOJC on farm loan repayments.

Any significant increase or decrease in total assets or total liabilities will have a correlating effect on the statement of net position.

(Condensed) Comparative Statement of Revenues and Changes in Fund Net Position

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Operating Revenues	\$ 9,004,696.13	\$ 8,556,134.28	\$ 8,393,167.36
Irrigation Assessments and Other			
Non-Operating Revenues:			
Interest Income	46,741.41	69,543.48	85,416.84
Grants, Capital & Other	<u>2,832,326.43</u>	<u>512,696.85</u>	<u>607,118.27</u>
TOTAL NON-OPERATING REVENUES	2,879,067.84	582,240.33	692,535.11
TOTAL REVENUES	\$11,883,763.97	\$ 9,138,374.61	\$ 9,085,702.47
Operating Expenses			
O & M	5,453,742.76	5,395,268.04	5,572,479.06
Administration, Utilities, General	1,927,556.44	1,733,981.83	1,694,760.22
Depreciation & Other	<u>744,748.63</u>	<u>685,610.82</u>	<u>680,304.57</u>
TOTAL OPERATING EXPENSE	<u>8,126,047.83</u>	<u>7,814,860.69</u>	<u>7,947,543.85</u>
Change in Net Assets	\$ 3,757,716.14	\$ 1,323,513.92	\$ 1,138,158.62
NET ASSETS, BEGINNING OF YEAR	<u>30,765,731.61</u>	<u>29,442,217.69</u>	<u>28,304,059.07</u>
NET ASSETS, END OF YEAR	<u>\$ 34,523,447.75</u>	<u>\$ 30,765,731.61</u>	<u>\$ 29,442,217.69</u>

For more detailed information see the Comparative Statement of Revenues, Expenses and changes in Fund Net Position.

The majority of revenue received by Roza (76%) in 2013, (94%) in 2012 and (92%) in 2011 was collected from irrigation assessments levied annually by Roza's board of directors. Other revenue consists of interest income and grants received.

Expenses are affected by numerous factors, Such as increases in fuel costs, medical insurance, utility rates and building materials impact the total expenses of Roza Irrigation.

#### Capital Assets

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Land	\$ 449,538.94	\$ 449,638.94	\$ 449,638.94
Buildings	90,689.05	90,689.05	90,689.05
Rereg Facilities	3,676,140.58	597,185.35	597,185.35
Construction & Maintenance Equipment	4,157,969.31	4,109,806.53	3,969,671.94
Miscellaneous Equipment	137,429.21	137,429.21	115,226.46
Office Equipment & Software	143,607.25	289,110.77	289,110.77
Storage Tanks	73,578.34	49,700.00	49,700.00
Enclosed Conduit System	<u>21,350,939.59</u>	<u>20,393,818.29</u>	<u>19,540,353.23</u>
Accumulated Depreciation	<u>(9,324,905.85)</u>	<u>(8,885,649.46)</u>	<u>(8,298,836.13)</u>
 TOTAL	 <u>\$ 20,754,986.42</u>	 <u>\$17,231,728.68</u>	 <u>\$16,802,739.61</u>

The following reconciliation summarizes the changed in capital assets. For more detailed information see Note 4 – Capital Assets and Depreciation

#### Change in Capital Assets

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Beginning Balance, January 1	\$ 26,117,378.14	\$ 25,101,575.74	\$ 24,236,630.05
Net change	3,962,514.13	1,015,802.40	864,945.69
Depreciation and Amortization	<u>(9,324,905.85)</u>	<u>(8,885,649.46)</u>	<u>(8,298,836.13)</u>
 TOTAL	 <u>\$ 20,754,986.42</u>	 <u>\$ 17,231,728.68</u>	 <u>\$ 16,802,739.61</u>

The following is a summary of long term debt activity. For more detailed information see Note 5 – Lease Commitments and Note 6 – Debt Service Requirements.

#### Changes in Long Term Debt

	<u>Beginning Balance 1/1/13</u>	<u>Payments Made</u>	<u>Ending Balance 12/31/13</u>
USBR – Contract	\$ 1,492,351.01	\$ 285,310.18	\$ 1,207,040.83
Equipment, #122	\$ 41,037.36	\$ 41,037.36	\$ 0.00

	<u>Beginning Balance 1/1/12</u>	<u>Payments Made</u>	<u>Ending Balance 12/31/12</u>
USBR – Contract	\$ 1,747,324.89	\$ 254,973.88	\$ 1,492,351.01
Equipment, #122	\$ 83,909.72	\$ 42,872.36	\$ 41,037.36

	<u>Beginning Balance 1/1/11</u>	<u>Payments Made</u>	<u>Ending Balance 12/31/11</u>
USBR – Contract	\$ 1,975,691.04	\$ 228,366.15	\$ 1,747,324.89
Equipment, #121	\$ 37,303.41	\$ 37,303.41	\$ 0.00
Equipment, #122	\$ 124,625.10	\$ 40,715.38	\$ 83,909.72

**ROZA IRRIGATION DISTRICT**  
 Comparative Statement of Net Position  
 December 31, 2013 and 2012

<u>ASSETS</u>	<u>2013</u>	<u>2012</u>
Current Assets:		
Cash and Cash Equivalents	\$ 6,139,566.20	\$ 938,839.94
Receivables (Net):		
Bureau of Reclamation Receivable	5,751.00	0.00
Assessments Receivable	137,795.39	156,721.26
Grants Receivable	1,174,417.68	0.00
Accounts Receivable	43,976.56	16,354.69
Inventory	220,276.78	220,577.49
Prepaid Expenses	115,754.75	285,710.65
USBR Prepaids	862,691.75	785,822.38
Accrued Interest	9,627.40	22,471.78
Investments	<u>7,000,000.00</u>	<u>13,000,000.00</u>
 TOTAL CURRENT ASSETS	 <u>15,709,857.51</u>	 <u>15,426,498.19</u>
Current Assets - Restricted		
Cash USBR Contract	288,000.00	288,000.00
Cash Special Construction	209.78	437.34
Cash RSBOJC 1% Loan	466,769.19	686,841.86
USBR Contract Receivable	200,139.25	221,602.95
RSBOJC Farm Loan Receivable	1,654.53	52,871.61
 TOTAL CURRENT RESTRICTED ASSETS	 <u>956,772.75</u>	 <u>1,249,753.76</u>
 TOTAL CURRENT ASSETS	 <u>16,666,630.26</u>	 <u>16,676,251.95</u>
Noncurrent Assets - Restricted:		
USBR Contract Receivable	1,006,901.58	1,270,748.06
RSBOJC Farm Loan Receivable	0.00	1,487.44
 TOTAL NONCURRENT RESTRICTED ASSETS	 <u>1,006,901.58</u>	 <u>1,272,235.50</u>
Capital Assets		
Land	449,538.94	449,638.94
WW5 Rereg (Construction in Progress)	3,078,955.23	0.00
Buildings	90,689.05	90,689.05
Rereg Facilities	597,185.35	597,185.35
Construction and Maintenance Equipment	4,157,969.31	4,109,806.53
Miscellaneous Equipment	137,429.21	137,429.21
Office Equipment	123,694.43	123,694.43
Computer Software	19,912.82	165,416.34
Storage Tanks	73,578.34	49,700.00
Enclosed Conduit System	<u>21,350,939.59</u>	<u>20,393,818.29</u>
	30,079,892.27	26,117,378.14
Less Accumulated Depreciation	<u>(9,324,905.85)</u>	<u>(8,885,649.46)</u>
 TOTAL CAPITAL ASSETS (NET)	 <u>20,754,986.42</u>	 <u>17,231,728.68</u>
 TOTAL NONCURRENT ASSETS	 <u>21,761,888.00</u>	 <u>18,503,964.18</u>
 TOTAL ASSETS	 <u><u>\$ 38,428,518.26</u></u>	 <u><u>\$ 35,180,216.13</u></u>

**ROZA IRRIGATION DISTRICT**  
 Comparative Statement of Net Position  
 December 31, 2013 and 2012

<u>LIABILITIES</u>	<u>2013</u>	<u>2012</u>
Current Liabilities		
Vouchers Payable	\$ 476,108.68	\$ 120,158.75
Accrued Expenses	205,425.59	189,386.23
CAT Loan Payable	-	41,037.36
Accrued Annual Leave	336,327.73	338,925.27
Accrued Sick Leave	504,650.14	504,889.32
Pre-paid Assessments	<u>707,035.19</u>	<u>986,309.95</u>
 TOTAL CURRENT LIABILITIES	 <u>2,229,547.33</u>	 <u>2,180,706.88</u>
Payables from Restricted Assets:		
Contract Payable-USBR	1,207,040.83	1,492,351.01
Farm Loan Payable-RSBOJC	468,482.35	741,426.63
 Total Payables from Restricted Assets	 <u>1,675,523.18</u>	 <u>2,233,777.64</u>
 TOTAL NONCURRENT LIABILITIES	 <u>1,675,523.18</u>	 <u>2,233,777.64</u>
 TOTAL LIABILITIES	 <u>3,905,070.51</u>	 <u>4,414,484.52</u>
 NET POSITION		
Net Investment in Capital Assets	20,754,986.42	17,190,691.32
Restricted for USBR and RSBOJC	288,151.15	288,211.62
Unrestricted	<u>13,480,310.18</u>	<u>13,286,828.67</u>
 TOTAL NET POSITION	 <u>\$ 34,523,447.75</u>	 <u>\$ 30,765,731.61</u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THIS STATEMENT

**ROZA IRRIGATION DISTRICT**  
 Comparative Statement of Revenues, Expenses and Changes in Fund Net Position  
 December 31, 2013 and 2012

OPERATING REVENUES:	<u>2013</u>	<u>2012</u>
Charges for Services, etc.	\$ 9,004,696.13	\$ 8,556,134.28
	-	-
<b>TOTAL OPERATING REVENUE:</b>	<u>9,004,696.13</u>	<u>8,556,134.28</u>
Operating Expenses:		
O & M	5,453,742.76	5,395,268.04
General	1,927,556.44	1,733,981.83
Amortization and Depreciation	679,268.08	639,526.12
Contract Work	<u>65,480.55</u>	<u>46,084.70</u>
<b>TOTAL OPERATING EXPENSES:</b>	<u>8,126,047.83</u>	<u>7,814,860.69</u>
<b>OPERATING INCOME/(LOSS)</b>	<u>878,648.30</u>	<u>741,273.59</u>
Non-Operating Revenues (Expenses):		
Interest	46,741.41	69,543.48
Gain on Sale of Assets	46,700.69	1,856.54
Property Rental	9,960.14	11,414.00
Non-Operating Grants	<u>2,775,665.60</u>	<u>499,426.31</u>
<b>TOTAL NON-OPERATING REVENUES (EXPENSES):</b>	<u>2,879,067.84</u>	<u>582,240.33</u>
<b>CHANGE IN NET POSITION</b>	<b>3,757,716.14</b>	<b>1,323,513.92</b>
Total Net Position, January 1	<u>30,765,731.61</u>	<u>29,442,217.69</u>
<b>TOTAL NET POSITION, DECEMBER 31</b>	<u><u>\$ 34,523,447.75</u></u>	<u><u>\$ 30,765,731.61</u></u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THIS STATEMENT



**ROZA IRRIGATION DISTRICT**  
Comparative Statement of Cash Flows  
December 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Cash flows from operating activities		
Cash received from customers	\$ 8,710,716.40	\$ 8,853,291.15
On Farm Loan Program Interest Received	257.97	1,166.75
Cash paid to suppliers/employees	<u>(6,984,239.94)</u>	<u>(7,366,140.36)</u>
Net cash provided (used) by operating activities	<u>1,726,734.43</u>	<u>1,488,317.54</u>
Cash flows from noncapital financing activities		
RSBOJC Proceeds	52,704.52	88,841.74
RSBOJC Loan Payment	(272,944.28)	(136,608.60)
Disposal of Fixed Assets	46,700.69	1,856.54
Property Rental	<u>9,960.14</u>	<u>11,414.00</u>
Net cash provided (used) by noncapital financing activities	<u>(163,578.93)</u>	<u>(34,496.32)</u>
Cash flows from capital financing activities		
Acquisition of capital assets	(4,268,306.80)	(1,031,565.45)
Grants proceeds	1,601,247.92	499,426.31
Contract Payments	285,310.18	254,973.88
Principal paid on Long Term Debt	(285,310.18)	(254,973.88)
Installment loan - CAT	-	83,909.72
Principal paid on installment loan	(41,037.36)	(42,872.36)
Proceeds from sale of vehicles & office equipment	<u>65,780.98</u>	<u>5,703.46</u>
Net cash provided (used) by capital financing activities	<u>(2,642,315.26)</u>	<u>(485,398.32)</u>
Cash flows from investing activities		
Matured investment	13,000,000.00	10,500,000.00
Purchase of Investments	(7,000,000.00)	(13,000,000.00)
Interest on investments	<u>59,585.79</u>	<u>69,543.48</u>
Net cash provided (used) by investing activities	<u>6,059,585.79</u>	<u>(2,430,456.52)</u>
Net increase (decrease) in cash and cash equivalents	4,980,426.03	(1,462,033.62)
Cash and cash equivalents January 1	<u>1,914,119.14</u>	<u>3,376,152.76</u>
Cash and cash equivalents December 31	<u>\$ 6,894,545.17</u>	<u>\$ 1,914,119.14</u>
Cash and Cash Equivalents Consists of:		
Unrestricted Cash and Cash Equivalents	6,139,566.20	938,839.94
Restricted Cash and Cash Equivalents	<u>754,978.97</u>	<u>975,279.20</u>
Total Cash and Cash Equivalents	<u>\$ 6,894,545.17</u>	<u>\$ 1,914,119.14</u>
Non-Cash financing activity (Materials in exchange for rent)	\$ 4,057.21	0

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THIS STATEMENT

**ROZA IRRIGATION DISTRICT**  
Comparative Statement of Cash Flows  
December 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating Income/(Loss)	\$ 878,648.30	\$ 741,273.59
Adjustment to reconcile operating income to net cash provided by operating activities:		
Depreciation	\$ 679,268.08	\$ 639,526.12
Change in assets and liabilities:		
(Increase) Decrease in Accounts Receivable	(14,447.00)	432,940.30
(Increase) Decrease in Inventory	300.71	(44,059.03)
Increase (Decrease) in Accounts Payable	355,949.93	(171,654.72)
(Increase) Decrease in Prepaid Expense	93,086.53	(54,625.49)
Increase (Decrease) in Accrued Liabilities	13,202.64	79,533.45
Increase (Decrease) in Deposits	<u>(279,274.76)</u>	<u>(134,616.68)</u>
Total Adjustments	<u>848,086.13</u>	<u>747,043.95</u>
Net cash provided by operating activities	<u>\$ 1,726,734.43</u>	<u>\$ 1,488,317.54</u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THIS STATEMENT

## ROZA IRRIGATION DISTRICT

### NOTES TO FINANCIAL STATEMENTS January 1, 2012 through December 31, 2013

The following notes are an integral part of the accompanying financial statements.

#### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Roza Irrigation District conform to generally accepted accounting principles (GAAP) as applicable to proprietary funds of governments. The following is a summary of the most significant policies (including identification of those policies which result in material departures from generally accepted accounting principles).

a. Reporting Entity

Roza Irrigation District is a municipal corporation governed by an elected 5-member board. As required by generally accepted accounting principles, management has considered all potential component units in defining the reporting entity. The Roza Irrigation 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 Irrigation Districts.

The district uses the full-accrual basis of accounting where revenues are recognized when earned and expenses are recognized when incurred. Assessment interest is not accrued it is only recognized when paid. This approach is not in accordance with general accepted accounting principles (GAAP). Operating revenues are charges for irrigation assessments and other services. Other operating revenue consists of a non cash transaction which credits revenue for the sale of gravel and debits the expense account for an agreement for removal of material. Non-operating revenues consist of property rental, sale of assets, interest and non-operating grants. Operating expenses consist of operation and maintenance, depreciation, utilities and administrative. Fixed asset purchases of \$10,000.00 or more are capitalized and long-term liabilities are accounted for in the appropriate funds. GASB 63 and 65 were implemented for Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position.

c. Cash and Cash Equivalents

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

d. Capital Assets and Depreciation

See Note 4.

e. Restricted Assets

In accordance with the United States Bureau of Reclamation (USBR) loan agreement, separate restricted fund accounts, including restricted net position, are required to be maintained. The current portion of related liabilities are shown as payable from restricted accounts.

The restricted funds of the district are composed of the following:

Current Restricted Assets

	<u>2013</u>	<u>2012</u>
USBR Contract	\$ 288,000.00	\$ 288,000.00
Special Construction	209.78	437.34
Cash RSBOJC 1% Loan	466,769.19	686,841.86
USBR Contract Receivable	200,139.25	221,602.95
RSBOJC Farm Loan Receivable	<u>1,654.53</u>	<u>52,871.61</u>
	\$ 956,772.75	\$ 1,249,753.76

Noncurrent Restricted Assets

USBR Contract Receivable	\$ 1,006,901.58	\$ 1,270,748.06
RSBOJC Farm Loan Receivable	<u>0.00</u>	<u>1,487.44</u>
	1,006,901.58	1,272,235.50

Total Current/Noncurrent Assets	\$ 1,006,901.58	\$ 1,272,235.50
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Payables from Restricted Assets

Contract Payable – USBR	1,207,040.83	1,492,351.01
Farm Loan Payable - RSBOJC	<u>468,482.35</u>	<u>741,426.63</u>
	1,675,523.18	2,233,777.64

Total Restricted Net Assets	\$ 288,151.15	\$ 288,211.62
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The USBR restricted retained earnings is a requirement of the initial loan agreement. The Special Construction restricted retained earnings relate to the construction of I-82 and are offset to the users impacted annually against the user's construction assessment.

The Contract Receivable/Payable to the USBR is a no interest loan to be repaid by the users through a \$4.10 per acre construction assessment per year. The District is a conduit to pass these funds through to the USBR annually.

f. Receivables

Accounts receivable consists of delinquent assessments and of receivables for miscellaneous billings.

There is no provision for uncollectable accounts receivable because assessments represent liens against the property and the direct method is used for other accounts receivable.

g. Inventories

Inventories consisting mainly of canal repair parts that are valued at the average cost, which approximates market value. Fuel inventories are valued at the current year average cost, which approximates market value. Total inventories are valued at \$220,276.78 in 2013 and \$220,577.49 in 2012.

h. Investments

See Note 3.

i. Compensated Absences

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

Vacation pay, which may be accumulated up to 9 hours per pay period and a maximum of 320 hours per year carry over, is payable upon resignation, retirement or death. Sick leave accrues at 4 hours per pay period with no maximum. Unused sick leave is payable upon resignation, retirement or death at the rate of 1.5% times years of service times unused balance.

j. Construction Financing

See Note 6.

NOTE 2 – VIOLATIONS OF FINANCE – RELATED LEGAL OR CONTRACTUAL PROVISIONS

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

NOTE 3 - DEPOSITS AND INVESTMENTS

As required by state law, all deposits and investments of the district's funds are deposits with Washington State banks and saving and loan institutions, or other investments allowed by Chapter 39.59 RCW.

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

As of December 31, 2013, the District had the following investments:

		<u>2013</u>	<u>2012</u>
<u>Investment</u>	<u>Maturities</u>	<u>Fair Value</u>	<u>Fair Value</u>
Banner Bank	- "CD"	\$ 7,009,627.40	\$ 6,011,881.64
Banner Bank	- "CD"	\$ <u>0.00</u>	\$ <u>7,010,590.14</u>
TOTAL		<u>\$7,009,627.40</u>	<u>\$13,022,471.78</u>

#### NOTE 4 - CAPITAL ASSETS AND DEPRECIATION

Major expenses for capital assets, including capital leases and major repairs that increase useful lives, are capitalized. Maintenance, repairs and minor renewals are accounted for as expenses when incurred.

Capital assets in service are recorded at cost. The original cost of operating property retired or otherwise disposed of and the cost of installation, less salvage, is charged to accumulated depreciation related to the property sold, and the net gain or loss on disposition is credited or charged to income.

Depreciation is computed on the straight line method with useful lives of 5 to 50 years. Vehicles are depreciated based upon a useful life of 7 years, less salvage value. Operating equipment items are depreciated based upon a useful life of 15 years, less salvage value. The enclosed conduit system is depreciated based upon a useful life of 50 years.

The following is a summary of the capital assets as of December 31, 2013 and 2012.

	Balance <u>1-1-13</u>	<u>Increase</u>	<u>Decrease</u>	Balance <u>12-31-13</u>
Capital assets, not being depreciated:				
Land	449,638.94	0.00	100.00	449,538.94
WW5 Rereg (CIP)	0.00	3,078,955.23	0.00	3,078,955.23
Total capital assets, not being depreciated:	449,638.94	3,078,955.23	100.00	3,528,494.17
Capital assets, being depreciated:				
Plant	737,574.40	23,878.34	0.00	761,452.74
Machinery Equipment	4,247,235.74	209,573.01	161,410.23	4,295,398.52
Office Equipment	289,110.77	0.00	145,503.52	143,607.25
Enclosed Conduit System	20,393,818.29	957,121.30	0.00	21,350,939.59
Total capital assets, being depreciated:	25,667,739.20	1,190,572.65	306,913.75	26,551,398.10
Less accumulated depreciation for:				
Plant	737,574.40	2,984.79	0.00	740,559.19
Machinery Equipment	2,212,626.93	247,449.42	94,508.17	2,365,568.18
Office Equipment	286,581.15	1,815.09	145,503.52	142,892.72
Enclosed Conduit System	5,648,866.98	427,018.78	0.00	6,075,885.76
Total accumulated depreciation:	8,885,649.46	679,268.08	240,011.69	9,324,905.85
Total capital assets, being depreciated, net:	16,782,089.74	511,304.57	66,902.06	17,226,492.25
TOTAL CAPITAL ASSETS, NET:	17,231,728.68	3,590,259.80	67,002.06	20,754,986.42

	Balance <u>1-1-12</u>	<u>Increase</u>	<u>Decrease</u>	Balance <u>12-31-12</u>
Capital assets, not being depreciated:				
Land	449,638.94	0.00	0.00	449,638.94
Total capital assets, not being depreciated:	449,638.94	0.00	0.00	449,638.94
Capital assets, being depreciated:				
Plant	737,574.40	0.00	0.00	737,574.40
Machinery Equipment	4,084,898.40	220,753.59	58,416.25	4,247,235.74
Office Equipment	289,110.77	0.00	0.00	289,110.77
Enclosed Conduit System	19,540,353.23	853,465.06	0.00	20,393,818.29
Total capital assets, being depreciated:	24,651,936.80	1,074,218.65	58,416.25	25,667,739.20
Less accumulated depreciation for:				
Plant	737,574.40	0.00	0.00	737,574.40
Machinery Equipment	2,037,485.92	227,853.80	52,712.79	2,212,626.93
Office Equipment	282,785.18	3,795.97	0.00	286,581.15
Enclosed Conduit System	5,240,990.63	407,876.35	0.00	5,648,866.98
Total accumulated depreciation:	8,298,836.13	639,526.12	52,712.79	8,885,649.46
Total capital assets, being depreciated, net:	16,353,100.67	434,692.53	5,703.46	16,782,089.74
TOTAL CAPITAL ASSETS, NET:	16,802,739.61	434,692.53	5,703.46	17,231,728.68



## NOTE 5 - LEASE COMMITMENTS

### Capital Leases

The Roza Irrigation District has entered into a lease agreement for financing the acquisition of machinery equipment. This lease agreement qualifies as capital leases for accounting purposes and is recorded as assets and as long-term liabilities at the present value of the future minimum lease payments as of the date of their inception. The district records lease payments as reductions of the long-term liability and as interest expense over the life of the lease. The future minimum lease payments under this lease agreement are as follows:

<u>Fiscal Year</u>	<u>2013</u>	<u>2012</u>
2012	0.00	0.00
2013	0.00	41,905.27
2014	0.00	0.00
Less amount representing Interest	<u>0.00</u>	<u>867.91</u>
Present Value of Future Minimum Lease Payments	0.00	41,037.36

Depreciation policy for capitalized assets is described in Note 4.

## NOTE 6 – DEBT SERVICE REQUIREMENTS

Schedule 09, which accompanies this report, contains amounts due to the USBR by the district on the original construction of the irrigation system. The annual requirements to amortize all debts outstanding as of December 31, 2013 and December 31, 2012 are as follows:

<u>2013</u>		<u>2012</u>	
2014	200,139.25	2013	221,602.95
2015	177,094.27	2014	212,658.64
2016	157,076.08	2015	188,337.15
2017	145,119.09	2016	164,877.41
2018	135,052.24	2017	151,577.82
2019-2023	392,559.90	2018-2022	487,768.83
		2023	<u>65,528.21</u>
TOTAL	\$ <u>1,207,040.83</u>	TOTAL	\$ <u>1,492,351.01</u>

As indicated in Note 1 (e), the various long-term contracts contain commitments and restrictions regarding cash reserve balances and debt service requirements. The district is in compliance with all significant limitations and restrictions.

## NOTE 7 – PENSION PLANS

Substantially all Roza Irrigation District's full-time and qualifying part-time employees participate in one of the following statewide retirement systems administered by the Washington State Department of Retirement Systems, under cost-sharing multiple-employer public employee defined benefit retirement plans. The Department of Retirement Systems (DRS), a department within the primary government of the State of Washington, issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for each plan. The DRS CAFR may be obtained by writing to: Department of Retirement Systems, Communications Unit, P.O. Box 48380, Olympia, WA 98504-8380; or it may be downloaded from the DRS website at [www.drs.wa.gov](http://www.drs.wa.gov). The following disclosures are made pursuant to the GASB Statement 27, *Accounting for Pensions by State and Local Government Employers* and the GASB Statement 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. Membership in the system includes: elected officials; state employees; employees of the Supreme, Appeals, and Superior courts; employees of legislative committees; employees of district and municipal courts; and employees of local governments. Membership also includes higher education employees not participating in higher education retirement programs. Approximately 49 percent of PERS salaries are accounted for by state employment. PERS retirement benefit provisions are established in Chapters 41.34 and 41.40 RCW and may be amended only by the State Legislature.

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

PERS members who joined the system by September 30, 1977 are Plan 1 members. Those who joined on or after October 1, 1977 and by either, February 28, 2002 for state and higher education employees, or August 31, 2002 for local government employees, are Plan 2 members unless they exercised an option to transfer their membership to Plan 3. PERS members joining the system on or after March 1, 2002 for state and higher education employees, or September 1, 2002 for local government employees have the irrevocable option of choosing membership in either PERS Plan 2 or Plan 3. The option must be exercised within 90 days of employment. Employees who fail to choose within 90 days default to Plan 3.

PERS is comprised of and reported as three separate plans for accounting purposes: Plan 1, Plan 2/3, and Plan 3. Plan 1 accounts for the defined benefits of Plan 1 members. Plan 2/3 accounts for the defined benefits of Plan 2 members and the defined benefit portion of benefits for Plan 3 members. Plan 3 accounts for the defined contribution portion of benefits for Plan 3 members. Although members can only be a member of either Plan 2 or Plan 3, the defined benefit portions of Plan 2 and Plan 3 are accounted for in the same pension trust fund. All assets of this Plan 2/3 defined benefit plan may legally be used to pay the defined benefits of any of the Plan 2 or Plan 3 members or beneficiaries, as defined by the terms of the plan. Therefore, Plan 2/3 is considered to be a single plan for accounting purposes.

PERS Plan 1 and Plan 2 retirement benefits are financed from a combination of investment earnings and employer and employee contributions. Employee contributions to the PERS Plan 1 and Plan 2 defined benefit plans accrue interest at a rate specified by the Director of DRS. During DRS' Fiscal Year 2013, the rate was five and one-half percent compounded quarterly. Members in PERS Plan 1 and Plan 2 can elect to withdraw total employee contributions and interest thereon, in lieu of any retirement benefit, upon separation from PERS-covered employment.

PERS Plan 1 members are vested after the completion of five years of eligible service.

PERS Plan 1 members are eligible for retirement from active status at any age with at least 30 years of service, at age 55 with 25 years of service, or at age 60 with at least 5 years of service. Plan 1 members retiring from inactive status prior to the age of 65 may receive actuarially reduced benefits.

The monthly benefit is 2% of the average final compensation (AFC) per year of service, but the benefit may not exceed 60% of the AFC. The AFC is the monthly average of the 24 consecutive highest-paid service credit months.

PERS Plan 1 retirement benefits are actuarially reduced to reflect the choice, if made, of a survivor option.

Plan 1 members may elect to receive an optional COLA that provides an automatic annual adjustment based on the Consumer Price Index. The adjustment is capped at 3% annually. To offset the cost of this annual adjustment, the benefit is reduced.

PERS Plan 1 provides duty and non-duty disability benefits. Duty disability retirement benefits for disablement prior to the age of 60 consist of a temporary life annuity. The benefit amount is \$350 a month, or two-thirds of the monthly AFC, whichever is less. The benefit is reduced by any workers' compensation benefit and is payable as long as the member remains disabled or until the member attains the age of 60, at which time the benefit is converted to the member's service retirement amount.

A member with five years of covered employment is eligible for non-duty disability retirement. Prior to the age of 55, the benefit amount is 2% of the AFC for each year of service reduced by 2% for each year that the member's age is less than 55. The total benefit is limited to 60% of the AFC and is actuarially reduced to reflect the choice of a survivor option. Plan 1 members may elect to receive an optional COLA amount (based on the Consumer Price Index), capped at 3% annually. To offset the cost of this annual adjustment, the benefit is reduced.

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

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

PERS Plan 2 members hired on or after May 1, 2013 have the option to retire early by accepting a reduction of 5% for each year of retirement before age 65. This option is available only to those who are age 55 or older and have at least 30 years of service.

PERS Plan 2 retirement benefits are actuarially reduced to reflect the choice, if made, of a survivor option.

PERS Plan 3 has a dual benefit structure. Employer contributions finance a defined benefit component and member contributions finance a defined contribution component. As established by Chapter 41.34 RCW, employee contribution rates to the defined contribution component range from 5 percent to 15 percent of salaries, based on member choice. Members who do not choose a contribution rate default to a 5% rate. There are currently no requirements for employer contributions to the defined contribution component of PERS Plan 3.

PERS Plan 3 defined contribution retirement benefits are dependent upon the results of investment activities. Members may elect to self-direct the investment of their contributions. Any expenses incurred in conjunction with self-directed investments are paid by members. Absent a member's self-direction, PERS Plan 3 contributions are invested in the Retirement Strategy Fund that assumes the member will retire at age 65.

For DRS' fiscal year 2013, PERS Plan 3 employee contributions were \$99.0 million, and plan refunds paid out were \$69.4 million.

The defined benefit portion of PERS Plan 3 provides members a monthly benefit that is 1 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 Plan 3 provides the same cost-of-living allowance as Plan 2.

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

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

- If they have at least ten service credit years and are 55 years old, the benefit is reduced by an ERF that varies with age, for each year before age 65.
- If they have 30 service credit years and are at least 55 years old, and were hired before May 1, 2013, they have the choice of a benefit that is reduced by 3% 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.

- If they have 30 service credit years, are at least 55 years old, and were hired after May 1, 2013, they have the option to retire early by accepting a reduction of 5% for each year before age 65.

PERS Plan 3 benefits are actuarially reduced to reflect the choice, if made, of a survivor option..

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 members meeting specific eligibility requirements have options available to enhance their retirement benefits. Some of these options are available to their survivors.

A one time-time duty-related death benefit is provided to the beneficiary or the estate of a PERS member who dies 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 the member's covered employment, if found eligible by the Department of Labor and Industries.

**There are 1,176 participating employers in PERS. Membership in PERS consisted of the following as of the latest actuarial valuation date for the plans of June 30, 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 Non-vested	44,273
<b>Total</b>	<b>263,347</b>

#### Funding Policy

Each biennium, the state Pension Funding Council adopts PERS Plan 1 employer contribution rates, PERS Plan 2 employer and employee contribution rates, and PERS Plan 3 employer contribution rates. Employee contribution rates for Plan 1 are established by statute at 6 percent for state agencies and local government unit employees, and at 7.5 percent for state government elected officials. The employer and employee contribution rates for Plan 2 and the employer contribution rate for Plan 3 are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. 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.

The methods used to determine the contribution requirements are established under state statute in accordance with Chapters 41.40 and 41.45 RCW.

The required contribution rates expressed as a percentage of current-year covered payroll, as of December 31, 2013, are as follows:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
Employer* 2013	9.21%	9.21%	9.21%***
Employer* 2012	7.21%	7.21%	7.21%***
Employee 2013	6.00%	4.92%	*****
Employee 2012	6.00%	4.64%	*****

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

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

\*\*\* Plan 3 defined benefit portion only.

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

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

Both (Roza Irrigation District) and the employees made the required contributions. The Roza Irrigation's required contributions for the years ended December 31 were as follows:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
2013	\$ 16,769.46	\$ 325,167.73	\$ 60,243.18
2012	\$ 14,259.81	\$ 260,920.30	\$ 54,115.42
2011	\$ 13,830.64	\$ 259,234.84	\$ 48,144.76

#### NOTE 8 - JOINT VENTURES

In 1996, Roza Irrigation District and Sunnyside Division Board of Control formed the Roza-Sunnyside Board of Joint Control under Title 87, Revised Code of Washington. Roza and Sunnyside Valley Irrigation Districts share the costs of the Roza-Sunnyside Board of Joint Control proportionally based upon the acreage in each district. The purpose of the joint venture is to provide for economies of scale with regards to joint drainage facilities, water conservation, water quality improvement, and future water use planning and resource management. A copy of the joint agreement is available at the offices of both districts for review.

Roza Irrigation District  
125 S. 13<sup>th</sup> St.  
Sunnyside, WA 98944

Sunnyside Valley Irrigation District  
120 S. 11<sup>th</sup> St.  
Sunnyside, WA 98944

#### NOTE 9 - RISK MANAGEMENT

The Roza Irrigation District is a member of Cities Insurance Association of Washington. Chapter 48.62 RCW authorizes the governing body of any one or more governmental entities to form together into or join a program or organization for the joint purchasing of insurance, and/or joint self-insuring, and/or

joint hiring or contracting for risk management services to the same extent that they may individually purchase insurance, self-insure, or hire or contract for risk management services. An agreement to form a pooling arrangement was made pursuant to the provisions of Chapter 39.34 RCW, the Interlocal Cooperation Act. The program was formed on September 1, 1988, when 34 cities in the state of Washington joined together by signing an Interlocal Government Agreement to pool their self-insured losses and jointly purchase insurance and administrative services. As of September 1, 2013 there are 236 members in the program.

The program acquires liability insurance through their Administrator, Canfield, that is subject to a per-occurrence self-insured retention of \$100,000. The standard member deductible is \$1,000 for each claim (deductibles may vary per member), while the program is responsible for the \$100,000 self-insured retention. Insurance carriers cover insured losses over \$101,000 to the limits of each policy. Since the program is a cooperative program, there is a joint liability among the participating members towards the sharing of the \$100,000 of the self-insured retention. The program also purchases a Stop Loss Policy with an attachment point of \$3,247,000 to cap the total claims paid by the program in any one year.

Property insurance is subject to a per-occurrence self-insured retention of \$25,000. Roza Irrigation District is responsible for a \$10,000 deductible for each claim. The program bears the \$25,000 self-insured retention, in addition to the deductible.

Equipment Breakdown insurance is subject to a per-occurrence deductible of \$2,500 (\$10,000 for Pumps & Motors). Roza Irrigation District is responsible for the deductible amount of each claim. There is no program self-insured retention on this coverage.

Roza Irrigation District contracts with their local broker, Argus Insurance to remain in the program for a minimum of one year, and must give notice before August 31 terminating participation the following September 1. The Interlocal Agreement is renewed automatically each year. In the event of termination, Roza Irrigation District is still responsible for contributions to the program for any unresolved, unreported, and in-process claims for the period they were a signatory to the Interlocal Agreement.

A board of ten members is selected by the membership from three geographic areas of the state on a staggered term basis and is responsible for conducting the business affairs of the program. The program has no employees. Claims are filed by members with Canfield, which has been contracted to perform program administration, claims adjustment and administration, and loss prevention for the program. Fees paid to the third party administrator under this arrangement for the year ending August 31, 2013 were \$1,423,059.12.



The program provides Roza Irrigation District the following forms of joint self-insurance and excess coverage

<u>TYPE OF COVERAGE</u>	<u>DEDUCTIBLE</u>	<u>CHANGE FROM PRIOR YEAR?</u>
PROPERTY COVERAGE	\$10,000/\$50,000	NO
AUTOMOBILE LIABILITY	10,000	NO
PUBLIC OFFICIALS LIABILITY	10,000	NO
BOILER & MACHINERY COVERAGE	2,500/10,000	NO
CRIME COVERAGE	10,000	NO
EMPLOYMENT PRACTICES LIABILITY	10,000	NO

Roza Irrigation District has not had any settlements that exceeded insurance coverage from 2011-2013.

In addition, Roza Irrigation District maintains Environmental Impairment Liability insurance through Argus Insurance, coverage in place for 4/20/12 to 4/20/14 is as follows:

<u>TYPE OF COVERAGE</u>	<u>DEDUCTIBLE</u>	<u>CHANGE FROM PRIOR YEAR?</u>
LIABILITY ENVIRONMENTAL	1,000	NO

Roza Irrigation District has not had any settlements that exceeded insurance coverage from 2011-2013.

#### NOTE 10 – AGENCY AGREEMENT RSBOJC 1% FARM LOANS

In 2001, 2002, 2003, 2004, 2006, 2007, 2008, 2009 and 2010 RSBOJC disbursed loans of federal funds to Roza Irrigation District landowners in the amount of \$1,226,373.08, \$643,576.50, \$477,207.69, \$2,426,432.30, \$174,308.48, \$251,275.12, \$558,010.00, \$204,633.87 and \$6,852.61. These loans will be re-paid over a 4 year period starting in 2002. This is under RSBOJC Farm Loan 1% program to convert to more efficient irrigation methods. Roza Irrigation is the agent to collect these funds from their landowners and will forward the funds to RSBOJC.



#### NOTE 11 – CONTINGENCIES AND LITIGATIONS

The Roza Irrigation District has recorded in its financial statements all material liabilities, including an estimate for situations which are not yet resolved but where, based on available information, management believes it is probable that Roza Irrigation District will have to make payment. In the opinion of management, Roza Irrigation District 's (insurance policies and/or self insurance reserves) are adequate to pay all known or pending claims.

The Roza Irrigation District participates in a number of federal and state-assisted programs. These grants are subject to audit by the grantors or their representatives. Such audits could result in requests for reimbursement to grantor agencies for expenditures disallowed under the terms of the grants. (Other than the instances described above,) Roza Irrigation District management believes that such disallowances, if any, will be immaterial.

#### NOTE 12 – CONSTRUCTION COMMITMENTS

The Roza Irrigation District has an active construction project as of December 31, 2013 and has spent \$3,078,955.23. The project is construction of the Waste Way 5 regulation reservoir with an estimated completion date of 2017. The project will cost approximately \$26 million. Roza Irrigation District has committed \$4.5 million to the project and USBR will fund the remainder through grants. A line of credit also has been opened for \$6 million to cover costs while waiting for grant reimbursement.

#### NOTE 13 – SUBSEQUENT EVENTS

Roza is a party in the case of *Wa. State Dept. of Ecology v Acquavella*. This is a general adjudication of the water rights in the Yakima River Basin. All entities which divert water from the Yakima River and its tributaries are parties in this action. This case started in 1977 and is on-going thru Yakima County Superior Court Cause No. 77-2-01484-5. The district has presented the proof to support its water right and has received a Conditional Final Order granting its full entitlement. Roza will continue to be involved in this case until the final decree adjudication of all the rights have been entered and any appeals have been heard.

**ROZA IRRIGATION DISTRICT**  
Sunnyside, Washington  
Schedule of Expenditures of Federal Awards  
Year Ended December 31, 2013

Grantor/ Pass-Through Grantor Program Title	Federal CFDA Number	Other Identification Number	Current Year Expenses	Foot- note Ref.
Department of the Interior Bureau of Reclamation				
WaterSMART	15.507	R12AP13013001	81,295.00	2
WaterSMART	15.507	R12AP13013002	742.00	2
Yakima River Basin Water Enh. Project	15.531	R13AP13002001	1,100,000.00	2
Yakima River Basin Water Enh. Project	15.531	R13AP13002001	80,494.21	2
Yakima River Basin Water Enh. Project	15.531	R13AP13002001	844,804.29	2
Total U.S.B.R.:			2,107,335.50	
Total Federal Assistance:			<u>\$ 2,107,335.50</u>	

ROZA IRRIGATION DISTRICT

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

NOTE 1 – BASIS OF ACCOUNTING

This schedule is prepared on the same basis of accounting as the District's financial statements. The District uses the full accrual basis of accounting.

NOTE 2 – PROGRAM COSTS

The amounts shown as current year expenditures represent only the Federal or State portion of the program costs. Entire program costs, including the District's portion, may be more than shown.

# Corrective Action Plan for Findings Reported Under OMB Circular A-133

## Roza Irrigation District Yakima County January 1, 2013 through December 31, 2013

This schedule presents the corrective action planned by the auditee for findings reported in this report in accordance with OMB Circular A-133. The information in this schedule is the representation of the District.

<b>Finding ref number:</b> 1	<b>Finding caption:</b> The District did not have adequate internal controls to ensure compliance with federal suspension and debarment requirements.
<b>Name, address, and telephone of auditee contact person:</b> Jody Williams, Assistant Treasurer P.O. Box 810 Sunnyside, WA 98944 (509) 837-5141	
<b>Corrective action the auditee plans to take in response to the finding:</b> <p><i>Roza staff did not understand that prior to entering into a contract with vendor for work involving Federal funds that the District was required to verify that the vendor is not debarred or suspended until it was brought to their attention during the 2010-2012 audit, which occurred in October of 2013.</i></p> <p><i>Once this requirement was understood, RID staff took steps to verify the status of the vendors working on the construction project involving Federal funds, as detailed below:</i></p> <ul style="list-style-type: none"> <li><i>• Roza entered into a contract with HDR Engineering on March 12, 2013. The contract did not include a suspension and debarment clause. The FAR Report check occurred on 10/21/13.</i></li> <li><i>• Roza entered into a contract with M.A. DeAtley Construction on August 12, 2013. The FAR Report occurred on 11/26/13. A Certification page titled "Non-Collusion and Debarment" was included in the contract, but the body of the text did not address debarment.</i></li> <li><i>• Roza entered into a contract with Scarsella Brothers on May 29, 2014. The contract includes the required suspension and debarment certification clause. A FAR Report check occurred on May 29, 2014 to further verify eligibility.</i></li> <li><i>• An additional FAR Report check for HDR occurred on May 29, 2014.</i></li> </ul> <p><i>Roza does not dispute the requirement for ensuring that a contractor has not been disbarred and does not dispute that the FAR report checks had not occurred prior to entering in the contracts with HDR and DeAtley. Roza does dispute that this issue rises to the level of a</i></p>	

*material weakness, particularly in light of the fact that Roza acknowledged the oversight and when the FARS checks were performed the contractors had not been disbarred.*

*As noted in the finding, Roza “was unaware that the contracted engineer had not obtained suspension and debarment certifications or verifications for its contracted public works contractor.” Roza further notes that the contracted engineering firm, a very large firm performing work using federal grants all across the county for many years, was also unaware of the requirement.*

*Note that the Excluded Parties List System (EPLS) was discontinued on November 21, 2014. Suspension and debarment checks are now done through System for Award Management (SAM) as an FAR Report.*

*These requirements were discussed during the 2013 audit and dealt with soon thereafter.*

*While the 2014 actions are outside the 2013 audit window, they further demonstrate that Roza has revised its contract language to meet the requirement.*

**Anticipated date to complete the corrective action:**

This issue was corrected in 2103. Roza will ensure that the disbarment clause is included in the future contracts and that the FAR check occurs prior to entering into future contracts. No further corrective action is proposed.

<b>Finding ref number:</b> 2	<b>Finding caption:</b> The District’s internal controls over financial statement preparation are inadequate to ensure accurate reporting.
<b>Name, address, and telephone of auditee contact person:</b> Jody Williams, Asst. Treasurer PO Box 810 Sunnyside, WA 98944 (509) 837-5141	
<b>Corrective action the auditee plans to take in response to the finding:</b> <i>The District will contract with a third party with appropriate accounting expertise to the District’s internal controls concerning preparation of financial statements and to make recommendations to ensure accurate reporting, and to identify specific training needs for Roza staff.</i>  <i>The District will revise its internal controls to ensure accurate preparation and presentation of financial statements, and will make training available to the staff who prepares the financial statements to ensure that the level of technical expertise is appropriate.</i>	
<b>Anticipated date to complete the corrective action:</b> 180 days, training may take additional time and may be ongoing.	

## ABOUT THE STATE AUDITOR'S OFFICE

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

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

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

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