Washington State Auditor's Office

Troy Kelley

Integrity • Respect • Independence

Financial Statements Audit Report

South Columbia Basin Irrigation District

Franklin County

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

Published October 27, 2014

Report No. 1012836

Washington State Auditor
Troy Kelley

October 27, 2014

Board of Directors
South Columbia Basin Irrigation District
Pasco, Washington

Report on Financial Statements

Please find attached our report on the South Columbia Basin Irrigation District's financial statements.

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

Sincerely,

TROY KELLEY

STATE AUDITOR

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Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

South Columbia Basin Irrigation District
Franklin County
January 1, 2013 through December 31, 2013

Board of Directors
South Columbia Basin Irrigation District
Pasco, 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 South Columbia Basin Irrigation District, Franklin County, Washington, as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated October 20, 2014.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

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

COMPLIANCE AND OTHER MATTERS

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

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

PURPOSE OF THIS REPORT

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Troy X. Kelley

TROY KELLEY
STATE AUDITOR

October 20, 2014

Independent Auditor's Report on Financial Statements

South Columbia Basin Irrigation District
Franklin County
January 1, 2013 through December 31, 2013

Board of Directors
South Columbia Basin Irrigation District
Pasco, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the South Columbia Basin Irrigation District, Franklin County, Washington, as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed on page 8.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 9 through 11 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated October 20, 2014 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Troy X. Kelley

TROY KELLEY
STATE AUDITOR

October 20, 2014

Financial Section

South Columbia Basin Irrigation District
Franklin County
January 1, 2013 through December 31, 2013

REQUIRED SUPPLEMENTARY INFORMATION

BASIC FINANCIAL STATEMENTS

South Columbia Basin Irrigation District
Management's Discussion & Analysis
For Year Ended December 31, 2013

This section provides an overview and analysis of key data presented in the basic financial statements for the years ended December 31, 2013, 2012 and 2011. Information within this section should be used in conjunction with the basic financial statements and accompanying notes.

Overview of the Financial Statements

South Columbia Basin Irrigation District accounts for its financial activities through the use of a proprietary fund. Fund segments are used to account for the sale, operation and distribution of irrigation water.

In accordance with requirements set forth by the Governmental Accounting Standards Board, the District's financial statements employ the accrual basis of accounting in recognizing increases and decreases in economic resources. Accrual accounting recognizes all revenues and expenses during the year, regardless of when cash is received or paid.

The financial statements, presented for the year ended December 31, 2013 are comprised of:

***Statement of Net Position* –** The District presents its statement of position using the balance sheet format. The statement of net position reflects the assets, liabilities, and net position of the District at year-end. The equity section of the statement of net position is comprised of the balance in "net position".

Statement of revenue, expenses, and changes in net position – These statements reflect the events and transactions that have increased or decreased the District's net position. Revenues and expenses are classified as operating or non-operating and equity is classified as Invested in Capital Assets and Unrestricted Net Position.

Statement of Cash Flows – The statement of cash flows is presented in the direct method and reflects the sources and uses of cash in the following activities: operating, investing, non-capital financing and capital financing.

Condensed Financial Information

The following condensed financial information includes the fiscal years 2013 and 2012

Statement of Net Position	2013	2012
ASSETS		
Current Assets:		
Cash & Cash Equivalents	6,678,847	4,826,382
Investments	7,073,236	7,424,104
Other Current Assets	931,102	746,153
Total Current Assets	14,683,185	12,996,640
Capital Assets:		
Property & Equipment	11,828,331	11,430,998
Accumulated Depreciation	(8,117,832)	(7,908,650)
Total Capital Assets	3,710,499	3,522,348
Other Non-Current Assets:		
Construction Obligation Receivable	6,336,896	6,552,795
Construction in Progress	1,500	0
Total Non-Current Assets	6,338,396	10,075,143
TOTAL ASSETS	**$24,732,080**	**$23,071,783**

LIABILITIES		
Current Liabilities:	2,997,278	2, 484,284
Total Current Liabilities	2,997,278	2, 484,284
Non-Current Liabilities:		
Contracts Payable - USBR	5,574,282	6,336,896
Other Non-Current Liabilities	60,236	22,712
Total Non-Current Liabilities	5,634,518	6,359,608
TOTAL LIABILITIES	**$8,631,796**	**$8,843,892**
NET Position		
Invested In Capital Assets	3,710,499	3,522,348
Restricted	2,671,210	2,511,232
Unrestricted	9,718,575	8,194,310
Total Net Assets	$16,100,284	$14,227,890
TOTAL NET POSITION	**$24,732,080**	**$23,071,783**

Statement of Revenue, Expenses & Net Position	**2013**	**2012**
REVENUE		
Operating Revenue	$17,018,484	$15,973,985
Total Operating Revenue	17,018,484	15,973,985
Operating Expenditures:		
Operating Expenses	5,726,730	5,618,498
Maintenance Expense	13,029,431	12,697,536
Depreciation Expense	611,246	612,347
Total Operating Expenditures	19,367,407	18,928,381
Operating Income (Loss)	(2,348,923)	(2,954,396)
Non-Operating Revenue (Expenses)		
Power Revenue	2,215,722	2,070,149
Other Revenues	1,576,387	1,366,892
Other Expenses	(84,136)	(33,031)
Misc. items	(44,797)	(138,980)
Total Non-Operating Revenue (Expenses)	3,663,176	3,265,029
Income Before Extraordinary/Special Items	1,314,253	310,633
Extraordinary / Special Items	0	0
Change In Net Position	1,314,253	310,633
Total Net Position – January 1	14,227,891	13,917,258
Prior Period Adjustments	558,141	
Total Net Position – December 31	16,100,285	$14,227,891

Financial Position

The District's financial position is very stable. Additional funds needed for operations and or reserve levels are generated through levied assessments approved by the Board of Directors through the budgeting process. The District's overall financial position continues to improve each year as rates and reserves are set to meet anticipated needs for operations and system improvements.

Long-Term Debt

The District's long-term debt as of December 31, 2013 consists of assessment debt pertaining to the United States Bureau of Reclamation Repayment contract. The District owed the United States Bureau of Reclamation $6,336,896 as of December 31, 2013. The Bureau of Reclamation determines each annual installment due on construction charges. Those construction charges are then assessed against the irrigation district lands. Due to the terms of the agreement there is no estimate available of annual debt service.

For additional information on Long-Term Debt activity, refer to Note 4.

Capital Assets

The district's investment in capital assets for operating activities as of December 31, 2013, is $3,710,499 (net of accumulated depreciation). This investment in capital assets includes land, buildings and equipment. The district's total capital assets being depreciated for the year ended December 31, 2013 reflects a decrease of approximately 5% from 2012.

The following vehicles were purchased to replace aging fleet:
(15) Pickup Trucks $342,351.73, (3) Dump Trucks $115,683, (3) Excavators $195,644.31, (3) Tractors $158,733.49 and (2) Trailers $60,675.48

For additional information on Capital asset activity, refer to Note 3.

Economic Outlook

South Columbia Basin Irrigation District provides irrigation to a diverse agricultural community within the Columbia Basin. The growth in population and other business sectors throughout the Tri-Cities area provides continued growth in agricultural needs as well.   The district maintains a level of reserves to meet current year's debt obligations and future operational expenses necessary to continue serving its landowners.   Each year, the US Bureau of Reclamation sets the O&M rate for assessments by which the district can build its annual budget. The district then sets the assessment rate to the landowners to meet the budgeted operational expenses and maintain reserves. The district, by board approval, has the option to increase assessments to meet any unforeseen events. In addition, the District engages in a comprehensive maintenance program to maintain the integrity and efficiency of its system.

The District will continue to focus its efforts and resources on maintaining its facilities and structures in order to provide irrigation to its diverse and growing agricultural community. The district experienced an increase in cash and cash equivalents. The district takes a proactive approach to water conservation through construction and maintenance of conveyance facilities. This approach along with increased assessments provides a solid financial and operational position for the district.

Facts or Conditions

There are no facts or conditions that are expected to affect the District's financial condition.

SOUTH COLUMBIA BASIN IRRIGATION DISTRICT

STATEMENT OF NET POSITION
December 31, 2013

ASSETS		**2013**
CURRENT ASSETS:		
Cash and Cash Equivalents	$	6,678,847
Accounts Receivable	$	418,511
Assessments Receivable - Platted Blocks	$	82,075
Assessments Receivable - LID#1 O&M - Prior Years	$	662
Assessment Receivable - Water Service Contracts	$	1,696
Accrued interest at year-end	$	9,852
Investment Funds	$	7,073,236
Prepaid Assets	$	418,308
TOTAL CURRENT ASSETS	$	14,683,186
NONCURRENT ASSETS:		
Construction Obligation Receivable - SCBID landowners	$	6,336,896
Construction in Progress	$	1,500
TOTAL RESTRICTED ASSETS	$	6,338,396
Capital Assets not being depreciated		
Land	$	133,500
Capital Assets being depreciated		
Plant	$	845,694
Machinery and Equipment	$	10,849,137
Less Accumulated Depreciation	$	(8,117,832)
TOTAL CAPITAL ASSETS (NET)	$	3,710,499
TOTAL NONCURRENT ASSETS	$	10,048,895
TOTAL ASSETS	$	24,732,081
LIABILITIES		
CURRENT LIABILITIES:		
Accounts Payable - Other	$	636,510
Due to USBR	$	79,421
Accrued Wages and Benefits	$	492,853
Accrued medical Insurance	$	(50,733)
Accrued retirement Insurance	$	57,970
Unearned Revenue Prepaid Assessments	$	1,018,643
Current Portion - USBR - Long Term Obligation	$	762,614
TOTAL CURRENT LIABILITIES	$	2,997,279
NONCURRENT LIABILITIES:		
Contracts Payable - USBR	$	5,574,282
Fish Mitigation Payable - State of Washington	$	11,338
Retainage Payable	$	48,898
TOTAL NONCURRENT LIABILITIES	$	5,634,518
TOTAL LIABILITIES	$	8,631,797
NET POSITION:		
Net investment in capital assets	$	3,710,499
Restricted Net Position	$	2,671,210
Unrestricted Net Position	$	9,718,576
TOTAL NET POSITION	$	16,100,285
TOTAL NET POSITION	$	24,732,081

* The notes to the financial statements are considered an integral part of the District's presentation of financial position, results of operations, and changes in cash flow.

SOUTH COLUMBIA BASIN IRRIGATION DISTRICT

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
FOR THE YEAR ENDED December 31, 2013

		2013
OPERATING REVENUES:		
Operating Assessments	$	14,547,875
Additional Water Sales - Platted Blocks	$	1,047,574
Additional Water Sales - Water Service Contracts	$	147,445
Receipts - USBR S&MC	$	116,570
Receipts USBR-Esquatzel Canal Revenue	$	11,072
Receipts USBR-Misc Income	$	8,465
Rental Income - Employees	$	77,771
Artificially Stored Groundwater Revenue	$	638,031
Receipt-GCPHA Saddle GAP	$	43,571
Energy Credits	$	245,640
Common Services Revenue	$	67,406
Services Income	$	46,864
Services Income	$	14,957
Miscellaneous Colletions	$	5,243
Total Operating Revenue	$	17,018,484
OPERATING EXPENSES:		
Operating Expense	$	5,726,730
Maintenance Expense	$	13,029,431
Depreciation Expense	$	611,246
Total Operating Expenses	$	19,367,407
OPERATING INCOME (LOSS)	$	(2,348,923)
NONOPERATING REVENUES (EXPENSES):		
Power Revenue	$	2,215,722
Receipts - USBR on Special Contracts	$	1,403,518
Interest and Dividend Income	$	60,075
Increase in LID #1	$	10,287
Gains on Capital Asset Disposition	$	101,305
Other Nonoperating Revenues	$	1,202
(Other Nonoperating Expenses)	$	(84,136)
Miscelleneous Items	$	(44,797)
Total Nonoperating Revenues (Expenses)	$	3,663,176
Income Before Contributions,	$	1,314,253
CHANGE IN NET POSITION	$	1,314,253
TOTAL NET POSITION, January 1	$	14,227,891
Prior Period Adjustments	$	558,141
TOTAL NET POSITION, December 31	$	16,100,285

* The notes to the financial statements are considered an integral part of the District's presentation of financial position, results of operations, and changes in cash flow.

SOUTH COLUMBIA BASIN IRRIGATION DISTRICT

Statement of Cash Flows
For Year Ended December 31, 2013

		2013
CASH FLOW FROM OPERATING ACTIVITY		
Receipts from Customers	$	16,820,940
Payments to Suppliers	$	(5,512,938)
Payments to Employees	$	(12,581,380)
Net cash provided (used) by operating Activities	$	(1,273,378)
CASH FLOWS from NONCAPITAL FINANCING ACTIVITIES		
Power revenue	$	2,215,722
Receipts on Special Contracts	$	1,403,518
Other Revenues	$	1,202
Other Net Expenses	$	(84,137)
Miscellaneous	$	(48,853)
Net cash provided (used) by noncapital financing activities	$	3,487,452
CASH FLOW from CAPITAL and RELATED FINANCING ACTIVITIES		
Capital expenditures	$	(873,088)
Proceeds on disposal of PP&E	$	101,305
Net cash provided (used) by capital and related financing activities	$	(771,783)
CASH FLOW FROM INVESTING		
Investments	$	351,000
Interest collected	$	59,174
Net cash provided by investing activities	$	410,174
Net Incr/(decrease) in cash/cash equivalents	$	1,852,465
Balances-Beginning of the year	$	4,826,382
Balances-End of year	$	6,678,847

RECONCILIATION OF OPERATING INCOME (LOSS)TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:		
Operating income (loss)	$	(2,348,923)
Adjustments to reconcile operating income to net cash provided (used) by operating activities		
Depreciation Expense	$	611,246
Change in assets and liabilities:		
Decrease(Increase) in prepaid expenses	$	11,344
Decrease(Increase)Receivables	$	(197,548)
Increase(Decrease)Accounts payable	$	525,801
Increase(Decrease) Salaries payable	$	124,702
Net cash provided by operating activities	$	(1,273,378)

* The notes to the financial statements are considered an integral part of the District's presentation of financial position, results of operations, and changes in cash flow.

South **C**olumbia **B**asin Irrigation District
Notes to Financial Statement
January 1, 2013 through December 31, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of South Columbia Basin 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

South Columbia Basin Irrigation District is a municipal corporation governed by an elected five-member board. As required by generally accepted accounting principles, management has considered all potential component units in defining the reporting entity. The South Columbia Basin 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 used the Uniform System of Accounts for Water Utilities.)

The District uses the full-accrual basis of accounting where revenues are recognized when earned and expenses are recognized when incurred. Capital asset purchases are capitalized and long-term liabilities are accounted for in the appropriate funds.

The district distinguishes between operating revenues and expenses from non-operating revenue and expenses. Operating revenues and expenses are a result of providing services and delivering water in connection with a District's principal operations. The principal operating revenues of the District are charges to customers for irrigation water in the form of assessments. The District also recognizes as operating revenue additional water sales, receipts on contracts from USBR, rental income, water services, energy credits, Fees, charges and Permits, Map Sales and other Miscellaneous revenues. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

C. Cash & 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. Utility Plant and Depreciation

See Note 3.

E. Restricted funds

In accordance with certain related agreements separate restricted funds are required to be established. The assets in these funds are restricted for specific uses, including (construction,) debt service and other special reserve requirements. Restricted funds currently include the following:

O&M Reserve Fund	$ 2,565,954.87
LID#1 Investment Fund	$ 65,898.35
LID#1 O&M Reserve	$ 39,356.89
Total Restricted Funds	$ 2,671,210.11

F. Receivables

Receivables primarily consist of assessments and excess water owed to the District by landowners and receivables owed by the US Bureau of Reclamation. The District does not write off any uncollectible accounts. There is an adjustment done for lands owned by the US Government, as they do not pay assessments. These amounts are reflected in "other expenses" as Cancelled USA Assessments.

G. Inventories

Prepaid fuel and oil inventories are valued at $73,838.96 prepaid shop parts and materials are valued at $137,119.28, and prepaid chemicals are valued at $88,849.65, which approximates the market value.

H. Investments

All investments of District funds are in the form of CD's, Money Market Accounts, Treasury Bills, passbook accounts with banks, or direct obligations of the U.S. Government pursuant to the requirements of Chapter 39.59 RCW. Investments are stated at fair market value. For further information on investments, refer to Note 2.

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 240 Hours is payable upon resignation, retirement or death. Sick leave may accumulate indefinitely. Upon resignation any outstanding sick leave is lost.

J. Contingent Liabilities and Litigation

The District does not have any Contingent Liabilities or Litigation

NOTE 2 - DEPOSITS AND INVESTMENTS

A. 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).

B. Investments are insured, registered, or held by the District or its agent in the District's name.

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

	Carrying Amount	Market Value
Certificate of Deposits	$ 5,998,000	$6,007,446
L.I.D. No. 1	65,898	65,898
Municipal Inv. Fund	498,483	498,483
Money Market (Columbia Bank)	500,000	500,261
Fish Mitigation	11,338	11,338
State Treasurer's Investment Pool	5,501,583	5,501,583
Money Market (American West Bank)	249,000	249,086
Money Market (Bank of the Pacific)	249,000	249,058
	$13,073,302	$13,083,154

Investments are stated at fair market value. Management intends to hold time deposits and securities until maturity. The District's investments are covered by the Federal Deposit Insurance Commission (FDIC) up to $250,000 and the Washington Public Deposit Protection Commission for amounts over $250,000. WPDPC is a multiple-financial institution collateral pool and may be assessed losses on a prorated basis if it is determined that the pool's collateral provides insufficient coverage. Deposits collateralized in the multiple-institution pool are considered insured and not considered exposed to custodial credit risk.

NOTE 3 - CAPITAL ASSETS

Capital assets are defined by the District as assets with initial individual cost of $4,000 or more and an estimated useful life in excess of 5 years.

Major Expense 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.

Utility plant in service and other capital assets are recorded at cost. Where historical cost is not known, assets are recorded at market value.

Utility plant activities for the year ended December 31, 2013 were as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Utility plant not being depreciated:				
Land	**133,500.00**			**133,500.00**
Construction in Progress	**0**	**1,500.00**		**1,500.00**
Total utility plant not being depreciated	**133,500.00**	**1,500.00**		**135,000.00**
Utility plant being depreciated:				
Buildings	**845,694.11**			**845,694.11**
Equipment	**10,451,803.79**	**873,088.01**	**(475,755.02)**	**10,849,136.78**
Total utility plant being depreciated	**11,297,497.90**			**11,694,830.89**
Less accumulated depreciation for:				
Buildings	**543,120.03**	**22,139.56**		**565,259.59**
Equipment	**7,365,529.62**	**187,042.80**		**7,552,572.42**
Total accumulated depreciation	**7,908,649.65**	**209,182.36**		**8,117,832.01**
Total utility plant being depreciated, Net	**11,297,497.90**			**11,694,830.89**
TOTAL UTILITY PLANT, NET	**$3,522,348.25**	**$663,905.65**	**$(475,755.02)**	**$3,710,498.88**

The original cost of operating property retired or otherwise deposed of and the cost of installation, less salvage, is charged to accumulated depreciation. However, in the case of the sale of a significant operating unit or system, the original cost is removed from the utility plant accounts, accumulated depreciation is charged with the accumulated depreciation related to the property sold, and the net gain or loss on disposition is credited or charged to income. The district did not finance any construction in 2013.

Capital assets are depreciated using the Straight-Line Method over the following estimated useful lives:

Assets	Years
Building	10, 20, 25 & 30
Office Equipment	5 & 10
Cars & Trans Vehicles	5, 6, 7 & 10
Radio Equipment	5 & 7
Heavy O&M Equipment	5,6,7,12,13,15,17,20 &22
Other O&M Equipment	5, 7,8,11,12,15,20

The District has no expenses for abandoned projects.

NOTE 4 - LONG TERM DEBT

The District owed the United States Bureau of Reclamation $6,336,896 as of December 31, 2013. Due to the terms of the agreement there is no estimate available of annual debt service beyond one year. The annual construction charges are as follows:

Year	Principal	Interest	Total
1975 – 2003	$10,724,304	0	$10,724,304
2004	699,640	0	699,640
2005	698,878	0	698,878
2006	637,578	0	637,578
2007	774,476	0	774,476
2008	766,842	0	766,842
2009	547,624	0	547,624
2010	687,364	0	687,364
2011	770,253	0	770,253
2012	774,040	0	774,040
2013	762,614	0	762,614
Total	**$17,843,613**	**$0**	**$17,843,613**

The Irrigation District has entered into a contract with the United States Bureau of Reclamation. This contract, among other things, established a repayment schedule for the construction costs of the Columbia Basin Project facilities located within the District. The Bureau of Reclamation determines each annual installment due on construction charges. Those construction charges are then assessed against the irrigation district lands. The outstanding balance at December 31, 2013 is $6,336,896. The current portion (due within one year) is $762,614.

Changes in Long-Term Liabilities
For Year Ended December 31, 2013

Contract payable:	Beginning Balance 1/1/13	Additions	Reductions	Ending Balance 12/31/13	Due Within One Year
US Bureau of Reclamation	**$7,110,936**	**-**	**$774,040**	**$6,336,896**	**$762,614**
Capital leases	**-**	**-**	**-**	**-**	**-**
Compensated absences	**-**	**-**	**-**	**-**	**-**
Claims and judgments	**-**	**-**	**-**	**-**	**-**
Total long-term liabilities	**$7,110,936**		**$774,040**	**$6,336,896**	**$762,614**

NOTE 5 - RESTRICTED NET POSITION

The government-wide statement of net position reports $2, 671,210 of restricted component of net position, none of which is restricted by enabling legislation.

NOTE 6 - PENSION PLAN

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

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

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

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

PERS Plan 1 members are vested after the completion of five years of eligible service. PERS Plan 1 members are eligible for retirement at any age with at least 30 years of service, at age 55 with 25 years of service, or at the age of 60 with five 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 percent of the average final compensation (AFC) per year of service, but the benefit may not exceed 60 percent 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 percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

PERS Plan 1 provides duty and non-duty disability benefits. Duty disability retirement benefits for disablement prior to the age of 60 consist of a temporary life annuity. 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 allowance amount is 2 percent of the AFC for each year of service reduced by 2 percent for each year that the member's age is less than 55. The total benefit is limited to 60 percent of the AFC and is actuarially reduced to reflect the choice of a survivor option. Plan 1 members may elect to receive an optional COLA amount (based on the Consumer Price Index), capped at 3 percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

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

PERS PLAN 2

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, if hired prior to May 1, 2013:

- 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 percent 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

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 rated 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 percent rate. There are currently no requirements for employer contributions to the defined contribution component of PERS Plan 3.

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 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 percent for each year before age 65; or a benefit with a smaller (or no) reduction factor (depending on age) that imposes stricter return-to-work rules.
- 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 percent 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 Plan 2 and Plan 3 members may have up to ten years of interruptive military service credit; five years at no cost and five years that may be purchased by paying the required contributions. Effective July 24, 2005, a member who becomes totally incapacitated for continued employment while serving the uniformed services, or a surviving spouse or eligible children, may apply for interruptive military service credit. Additionally, PERS Plan 2 and Plan 3 members can also purchase up to 24 months of service credit lost because of an on-the-job injury.

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

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

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

Funding Policy

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

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

The required contribution rates expressed as a percentage of current –year covered payroll, *as of December 31, 2013, were as follows:*

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

* The employer rates include the employer administrative expense fee currently set at 0.16%
** The employer rate for state officials is 10.80% for Plan 1 and 7.25% 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 4.64% for Plan 2.
*****Variable from 5.0% minimum to 15.0% maximum based on rate selected by the PERS 3 member.

Both South Columbia Basin Irrigation District and the employees made the required contributions. The District's required contribution for the year ending December 31 was as follows:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
2013	41,763	672,620	65,839
2012	36,429	317,032	58,944
2011	32.593	258,205	44,728

NOTE 7 - ACCOUNTING CHANGES

The District changed accounting software and General Ledger Account numbers in 2012.
The District's accounting policies, internal controls and operations remain unchanged.

NOTE 8 – PRIOR PERIOD ADJUSTMENT

The District in October 2013 made an adjustment to Our Construction Obligation Recevable account of $558,141.18 to accuratley portray the amount of construction charges the District has left to collect for the USBR.

NOTE 9 - JOINT VENTURES

On May 10, 1980, the East Columbia Basin Irrigation District, the Quincy-Columbia Basin Irrigation District, and the South Columbia Basin Irrigation District (the District's) pursuant to R.C.W. 87.03.013 entered into a joint venture agreement providing for the cooperation of the District's in the development, operation and maintenance of hydroelectric generating facilities (developments) to be developed on the irrigation systems or related to the Columbia Basin Project.

The District's initially developed five hydroelectric power plants known as P.E.C. 66.0 development, P.E.C. 22.7 development, E.B.C. 4.6 development, the Summer Falls development and the Main Canal Headworks (Dry Falls) development. The Cities of Seattle and Tacoma have contracted to purchase 100 percent of the power generated by these five developments in accordance with Power Purchase and Sale Contracts dated May 10, 1980.

The Districts have also developed the Quincy Chute Hydroelectric Project development. Grant County Public Utility District has contracted to purchase 100 percent of the power generated by the development in accordance with the Quincy Chute Hydroelectric Project Agreement dated May 21, 1982

On December 14, 1982, the Districts pursuant to R.C.W. 87.03.018 entered into an agreement creating the Grand Coulee Project Hydroelectric Authority to administer those developments.

The Districts have also developed the Potholes East Canal Headworks Hydroelectric Project development. Grant County Public Utility District has contracted to purchase 100 percent of the power generated by the development in accordance with the P.E.C. Headworks Power Plant Project Agreement dated July 21, 1986.

On December 10, 1987, the three Districts assigned to the Grand Coulee Project Hydroelectric Authority (the authority) the rights and obligations to administer the developments on the Districts behalf and appointed the "Authority" as their agent and representative for that purpose. On March 1, 1988, the agreement was implemented and the Grand Coulee Project Hydroelectric Authority has since been administering the developments as a separate legal entity.

The Authority is audited by the State Auditor as a separate legal entity. The Annual Report for the Grand Coulee Project Hydroelectric Authority may be obtained by writing to Grand Coulee Project Hydroelectric Authority, PO Box 219, Ephrata, Washington 98823.

NOTE 10 - RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters for which it carries commercial insurance. The District has contracted with Wells Fargo for insurance related services. The Insurance Broker of Record Service Agreement entered into

January 2007 is between East Columbia Basin Irrigation District, Quincy-Columbia Basin Irrigation District, South Columbia Basin Irrigation District, Grand Coulee Project Hydroelectric Authority and Wells Fargo. The Insurance Broker of Record Service Agreement requires the Broker of Record to provide services including marketing and underwriting strategy; estimates of insurable values for replacement costs; claims assistance; contract review; recommendations as to insurance coverage's; reports of loss trends; accident analysis and risk; insurance; risk financing and loss funding; review of insurance policies; monitoring of insurance policies; maintenance of insurance related records; early warning of changes to pending rates, coverage's or renewal status of major insurers or reinsures; brokerage services; risk management services; and claims management services. The Insurance Broker's recommendations are subject to review and approval by the District's Board of Directors. The District's settlements have not exceeded its coverage over the past 3 years. The District self-insures for unemployment Insurance.

NOTE 11 - OTHER

The District has several reserve amounts for specific uses as set forth by Board resolution and USBR requirements. The Federal Drainage Work Fund, to provide federal drainage work for small parcels. The Upgrading & Improvement Fund, for minor upgrade and improvement projects. The O&M Reserve Fund, which consists of 15% of the previous five-year average of operation and maintenance charges and held for extraordinary expenses. The Contract Construction Fund, which consists of a one-year estimate of the construction component charges. The Equipment Replacement Fund, to replace aging construction and operation equipment. The Block 24 O&M fund is used to maintain the closed system inside Block 24. The L.I.D. No. 1 consists of funds reserved for operating and maintaining the Burbank domestic water system. The Fish Mitigation Reserve Fund consists of funds reserved for unforeseen expenses associated with endangered species.

ABOUT THE STATE AUDITOR'S OFFICE

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

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

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

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

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

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

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

Contact information for the State Auditor's Office	
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