



**Washington State Auditor's Office**

**Troy Kelley**

**Integrity • Respect • Independence**

**Financial Statements Audit Report**

# **Lake Whatcom Water and Sewer District**

**Whatcom County**

**For the period January 1, 2012 through December 31, 2013**

**Published November 17, 2014**

**Report No. 1012966**





**Washington State Auditor**  
**Troy Kelley**

November 17, 2014

Board of Commissioners  
Lake Whatcom Water and Sewer District  
Bellingham, Washington

**Report on Financial Statements**

Please find attached our report on the Lake Whatcom Water and Sewer 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***

**Lake Whatcom Water and Sewer District  
Whatcom County  
January 1, 2012 through December 31, 2013**

Board of Commissioners  
Lake Whatcom Water and Sewer District  
Bellingham, 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 Lake Whatcom Water and Sewer District, Whatcom County, Washington, as of and for the years ended December 31, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the District's financial statements, and have issued our report thereon dated November 3, 2014.

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

## ***INTERNAL CONTROL OVER FINANCIAL REPORTING***

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

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

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

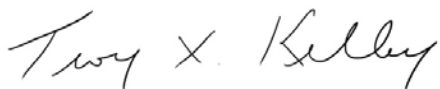
## ***COMPLIANCE AND OTHER MATTERS***

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

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

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

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



**TROY KELLEY**  
STATE AUDITOR

November 3, 2014

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

## **Lake Whatcom Water and Sewer District Whatcom County January 1, 2012 through December 31, 2013**

Board of Commissioners  
Lake Whatcom Water and Sewer District  
Bellingham, Washington

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

We have audited the accompanying financial statements of the Lake Whatcom Water and Sewer District, Whatcom County, Washington, for the years ended December 31, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the District's financial statements, as listed on page 9.

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

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the financial reporting provisions of Washington State statutes and the *Budgeting, Accounting and Reporting System* (BARS) manual prescribed by the State Auditor described in Note 1. This includes determining that the basis of accounting is acceptable for the presentation of the financial statements in the circumstances. Management is also responsible for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

### ***Unmodified Opinion on Regulatory Basis of Accounting (BARS Manual)***

As described in Note 1, the Lake Whatcom Water and Sewer District has prepared these financial statements using accounting practices prescribed or permitted by Washington State statutes and the State Auditor's *Budgeting, Accounting and Reporting System* (BARS) manual. Those accounting practices differ from accounting principles generally accepted in the United States of America (GAAP). The differences in these accounting practices are also described in Note 1.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position and results of operations of the Lake Whatcom Water and Sewer District, for the years ended December 31, 2013 and 2012, on the basis of accounting described in Note 1.

### ***Basis for Adverse Opinion on U.S. GAAP***

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

### ***Adverse Opinion on U.S. GAAP***

The financial statements referred to above were not intended to, and in our opinion they do not, present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Lake Whatcom Water and Sewer District, as of December 31, 2013 and 2012, or the changes in financial position or cash flows for the years then ended, due to the significance of the matter discussed in the above "Basis for Adverse Opinion on U.S. GAAP" paragraph.

### ***Other Matters***

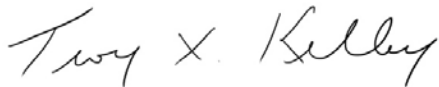
#### ***Supplementary and Other Information***

Our audits were performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying Schedules of Liabilities are presented for purposes of additional analysis as required by the prescribed BARS manual. These schedules are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including

comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated November 3, 2014 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.



**TROY KELLEY**  
STATE AUDITOR

November 3, 2014



## **Financial Section**

**Lake Whatcom Water and Sewer District  
Whatcom County  
January 1, 2012 through December 31, 2013**

### ***FINANCIAL STATEMENTS***

Fund Resources and Uses Arising from Cash Transactions – 2013  
Fund Resources and Uses Arising from Cash Transactions – 2012  
Notes to Financial Statements – 2013  
Notes to Financial Statements – 2012

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

Schedule of Liabilities – 2013  
Schedule of Liabilities – 2012

## FUND RESOURCES AND USES ARISING FROM CASH TRANSACTIONS

For the Year Ended December 31, 2013

BARS Code		401 Enterprise
<b>Beginning Cash and Investments</b>		
30810	Beg Fund Bal-Reserved	4,539,666
30880	Beg Fund Bal-Unreserved	474,708
38800/58800	Prior Period Adjustments, net	0
<b>Operating Revenues</b>		
310	Taxes	0
320	Licenses & Permits	0
330	Intergovernmental Revenues	0
340	Charges for Goods and Services	5,030,581
350	Fines & Penalties	79,026
360	Miscellaneous Revenues	97,718
Total Operating Revenues:		5,207,325
<b>Operating Expenditures</b>		
530	Utilities	3,716,959
598	Intergovernmental Payments	0
Total Operating Expenditures:		3,716,959
Net Operating Increase (Decrease):		1,490,366
<b>Nonoperating Revenues</b>		
370, 380, 395, 398	Other Financing Sources	95,824
391-393	Debt Proceeds	0
397	Transfers-In	0
Total Nonoperating Revenues:		95,824
<b>Nonoperating Expenditures</b>		
580, 596, 599	Other Financing Uses	0
591-593	Debt Service	3,324,893
594-595	Capital Expenditures	704,906
597	Transfers-Out	0
Total Nonoperating Expenditures:		4,029,799
Increase (Decrease) in Cash and Investments		-2,443,609
<b>Ending Cash and Investments</b>		
50810	End Fund Bal-Reserved	563,840
50880	End Fund Balance-Unreserved	2,006,925

The accompanying notes are an integral part of this Statement.

## FUND RESOURCES AND USES ARISING FROM CASH TRANSACTIONS

For the Year Ended December 31, 2012

BARS Code		401 Enterprise
<b>Beginning Cash and Investments</b>		
30810	Beg Fund Bal-Reserved	4,964,558
30880	Beg Fund Bal-Unreserved	227,342
38800/58800	Prior Period Adjustments, net	0
<b>Operating Revenues</b>		
310	Taxes	0
320	Licenses & Permits	0
330	Intergovernmental Revenues	0
340	Charges for Goods and Services	4,640,410
350	Fines & Penalties	0
360	Miscellaneous Revenues	252,808
Total Operating Revenues:		4,893,218
<b>Operating Expenditures</b>		
530	Utilities And Environment	3,524,225
598	Intergovernmental Payments	0
Total Operating Expenditures:		3,524,225
Net Operating Increase (Decrease):		1,368,993
<b>Nonoperating Revenues</b>		
370, 380, 395, 398	Other Financing Sources	93,199
391-393	Debt Proceeds	0
397	Transfers-In	0
Total Nonoperating Revenues:		93,199
<b>Nonoperating Expenditures</b>		
580, 596, 599	Other Financing Uses	0
591-593	Debt Service	848,917
594-595	Capital Expenditures	791,977
597	Transfers-Out	0
Total Nonoperating Expenditures:		1,640,894
Increase (Decrease) in Cash and Investments		-178,702
<b>Ending Cash and Investments</b>		
50810	End Fund Bal-Reserved	4,539,661
50880	End Fund Balance-Unreserved	473,537

The accompanying notes are an integral part of this Statement.

# LAKE WHATCOM WATER AND SEWER DISTRICT

## NOTES TO FINANCIAL STATEMENTS

December 31, 2013

### **NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

The District was incorporated in 1968 and operates under the laws of the state of Washington applicable to a water-sewer district. The District is a general purpose government and provides water and sewer services. The District uses single-entry, cash basis accounting which is a departure from generally accepted accounting principles (GAAP).

#### a. Fund Accounting

The accounts of the District are organized on the basis of funds, each of which is considered a separate accounting entity. Each fund is accounted for with a separate set of single-entry accounts that comprises its cash, investments, revenues, and expenditures, as appropriate. The District's resources are allocated to and accounted for in individual funds depending on their intended purposes. The following fund type is used by the District:

#### PROPRIETARY FUND TYPE:

##### Enterprise Funds

These funds account for operations that provide goods and services to the general public and are supported primarily through user charges.

#### b. Basis of Accounting

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

Purchases of capital assets are expensed during the year of acquisition. There is neither capitalization of capital assets nor allocation of depreciation expense. Inventory is expensed when purchased.

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

#### c. Cash

It is the District's policy to invest all temporary cash surpluses. The amount is included in the cash and investments shown on the statement of fund resources and uses arising from cash transactions. The interest on these investments is posted to the enterprise fund.

LAKE WHATCOM WATER AND SEWER DISTRICT

NOTES TO FINANCIAL STATEMENTS

December 31, 2013

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued**

d. Deposits

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

e. Investments See Note 2, *Investments*.

f. Capital Assets

Capital assets are assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. The capital assets of the District are recorded as expenditures when purchased.

g. Compensated Absences

Vacation leave may each be accumulated up to 80 hours and is payable upon separation or retirement.

Sick leave may be accumulated up to 720 hours. If an employee terminates with at least ten years of service, he or she will be paid for sick leave balances up to 720 hours at one-quarter of his or her final pay rate.

h. Long-Term Debt See Note 3, *Debt Service Requirements*.

i. Risk Management

The District is a member of the Water and Sewer Risk Management Pool (the Pool). Chapter 48.62 RCW authorizes the governing body of any one or more governmental entities to form together or join a pool 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-insurance, 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 Pool was formed in November 1987 when water and sewer districts in the State of Washington joined together by signing an Interlocal Governmental Agreement to pool their self-insured losses and jointly purchase insurance and administrative services. The Pool has 70 members as of the fiscal year ending October 31, 2013. The Pool's fiscal year is November 1st through October 31st.

The Pool allows members to jointly purchase insurance coverage, establish a plan of self-insurance coverage, and provide related services, such as risk management and loss prevention. The Pool provides the following forms of group purchased insurance coverage for its members: Property (including Building, Electronic Data Processing, Boiler and Machinery, and Mobile Equipment); General Liability; Automotive Liability; Excess Liability; Crime; Public Officials Liability; Identity Fraud Reimbursement Program; and bonds of various types. All coverages are on an "occurrence" basis.

**LAKE WHATCOM WATER AND SEWER DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

December 31, 2013

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued**

i. Risk Management, continued

Members make an annual contribution to fund the Pool. The Pool purchases insurance policies from unrelated underwriters as follows:

TYPE OF COVERAGE	MEMBER DEDUCTIBLE	SELF-INSURED RETENTION	EXCESS LIMITS
<b>Property Loss:</b>			
Buildings and Contents	\$1,000 - \$10,000	\$25,000	\$1,000,000,000
Flood	See (A) below	\$25,000	\$50,000,000
Earthquake	See (B) below	\$25,000	\$75,000,000
Terrorism	\$1,000 - \$10,000	\$25,000	\$100,000,000
Boiler & Machinery	\$1,000 - \$10,000	\$25,000 - \$350,000	\$100,000,000
Auto - Physical Damage	\$25,000	\$200,000	\$10,000,000
<b>Liability:</b>			
Comprehensive General Liability	\$1,000 - \$10,000 (C)	\$200,000	\$10,000,000
Auto Liability	\$1,000 - \$10,000	\$200,000	\$10,000,000
Public Officials Errors and Omissions	\$1,000 - \$10,000	\$200,000	\$10,000,000
Employment Practices/Benefits	\$1,000 - \$10,000	\$200,000	\$10,000,000
Crime	\$1,000 - \$10,000	\$25,000	\$2,000,000
Terrorism	\$1,000 - \$10,000	\$200,000	\$100,000,000
Identity Fraud	\$0	\$25,000	\$0
A. \$100,000 member deductibles, per occurrence, in Flood zones except Zones A&V; \$250,000 member deductible per occurrence, in Flood Zones A&V.			
B. Member deductible for earthquakes is 5% subject to \$100,000 minimum Earthquake Shock. If the stated deductible is a flat dollar amount, the deductible will apply on a per occurrence basis, unless otherwise states. If the stated deductible is on a percentage basis, the deductible will apply per occurrence on a per unit basis, as defined in the policy form, subject to the stated minimum.			
C. Cyber liability has a 10% coinsurance for Public Relations Consultancy and Credit File Monitoring. Cyber liability retention is \$50,000 per occurrence for each insured/member with TIV up to \$500,000,000 at the time of loss. \$100,000 per occurrence for each insured/member with TIV greater than \$500,000,000 at the time of loss. 8 hour waiting period for first party claims.			

Pool members are responsible for a deductible on each coverage and the Pool is responsible for the remainder of the self-insured retention listed in the table above. The insurance carriers then cover the loss to the maximum limit of the policy. Each member is responsible for the full deductible applicable to the perils of earthquake and flood (the Pool is not responsible for any deductible or self-insured retention for earthquake and flood claims).

Upon joining, the members contract to remain in the Pool for one full policy period. Following completion of one full policy period, members must give six months notice before terminating participation (e.g. to withdraw from the Pool on November 1, 2014, written notice must be in the Pool possession by April 30, 2014). The Interlocal Governmental Agreement is renewed automatically each year. Even after termination of relationship with the Pool, a member is still responsible for contributions to the Pool for any unresolved, unreported, and in process claims for the period that the District was a signatory to the Interlocal Governmental Agreement.

**LAKE WHATCOM WATER AND SEWER DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

December 31, 2013

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued**

i. Risk Management, continued

The Pool is fully funded by its member participants. Claims are filed by members with the Pool who determines coverage and performs claims adjustment in consultation with Arcadia Claims Service.

The Pool is governed by a Board of Directors, which is comprised of one designated representative from each participating member. An Executive Committee is elected at the annual meeting, and is responsible for overseeing the business affairs of the Pool and providing direction to the Pool's Executive Director.

j. Reserved Fund Balance

In accordance with bond resolutions (and certain related agreements) separate restricted funds are required to be established. The assets held in these funds are restricted or have been reserved for specific uses including debt service and other special reserve requirements. Restricted funds totaled \$563,840 as of December 31, 2013.

**NOTE 2. INVESTMENTS**

As required by state law, all investments of the District's funds are obligations of the U.S. Government or deposits with Washington State banks and savings and loan institutions or other investments allowed by Chapter 39.59 RCW.

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

<u>Investment Type</u>	<u>Total</u>	<u>Investment Maturities</u>			
		<u>Less Than 6 Months</u>	<u>6 Months to 1 Year</u>	<u>1-5 years</u>	<u>More Than 5 Years</u>
Local Government					
Investment Pool	\$ 100,808	\$ 100,808	\$ -	\$ -	\$ -
Federal National Mortgage					
Association Note	484,056	-	484,056	-	-
Financing Corporation					
Strip Bond	<u>630,868</u>	<u>-</u>	<u>-</u>	<u>630,868</u>	<u>-</u>
	<u>\$ 1,215,732</u>	<u>\$ 100,808</u>	<u>\$ 484,056</u>	<u>\$ 630,868</u>	<u>\$ -</u>

The District's Federal National Mortgage Association Note and Financing Corporation Strip Bond have maturity dates ranging from July 2014 to September 2015. The securities have 0% interest rates.

Credit Risk - The District's investment policy limits investments to those authorized by State of Washington statutes governing the investment of public funds. As of December 31, 2013, the District's investment in Federal National Mortgage Association was rated Aaa by Moody's Rating Service.

**LAKE WHATCOM WATER AND SEWER DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

December 31, 2013

**NOTE 3. DEBT SERVICE REQUIREMENTS**

Revenue Debt - The District issued revenue debt in 2009 for the purpose of constructing upgrades to water and sewer pump stations, replacing telemetry equipment throughout the District, refunding the District's outstanding 1997 revenue bonds and paying the issuance costs of the bonds. The District has also issued revenue debt to finance construction of various improvements to the water and sewer systems.

The revenue debts currently outstanding are as follows:

<u>Project</u>	<u>Original Amount</u>	<u>Interest Rate</u>	<u>Amount Outstanding</u>
2009 Refunding Bonds	\$ 6,080,000	3.0%-4.0%	\$ 5,095,000
SV / Geneva Intertie Loan PW-01-691-PRE-119	167,628	1%	71,524
SV / Geneva Intertie Loan PW-02-691-064	<u>893,683</u>	2%	<u>425,268</u>
Totals	<u>\$ 7,141,311</u>		<u>\$ 5,591,792</u>

The annual debt service requirements to maturity for revenue debts are as follows:

<u>Fiscal Year Ending December 31</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 291,192	\$ 221,370	\$ 512,562
2015	301,192	210,936	512,128
2016	306,192	200,101	506,293
2017	321,192	189,067	510,259
2018	331,192	177,433	508,625
2019-2023	1,745,832	709,721	2,455,553
2024-2028	1,870,000	356,563	2,226,563
2029	<u>425,000</u>	<u>19,550</u>	<u>444,550</u>
Totals	<u>\$ 5,591,792</u>	<u>\$ 2,084,741</u>	<u>\$ 7,676,533</u>

Total Debt – The accompanying Schedule of Liabilities (09) provides more details of the outstanding debt and liability of the District and summarizes the District's debt transactions for the period ended December 31, 2013. There is \$563,840 in restricted assets of the District as of December 31, 2013. These represent sinking funds and reserve requirements as contained in the various indentures.

There are a number of other limitations and restrictions contained in the various bond indentures. The District is in compliance with all significant limitations and restrictions.



## LAKE WHATCOM WATER AND SEWER DISTRICT

### NOTES TO FINANCIAL STATEMENTS

December 31, 2013

#### **NOTE 4. PENSION PLANS**

Substantially all the District's full-time and qualifying part-time employees participate in the Public Employees' Retirement System (PERS) Plans 1, 2, and 3 administered by the Washington State Department of Retirement Systems, under cost-sharing multiple-employer public employee defined benefit and defined contribution retirement plans. Actuarial information is on a system-wide basis and is not considered pertinent to the District's financial statements. Contributions to the systems by both employee and employer are based upon gross wages covered by plan benefits.

Historical trends or other information regarding each plan is presented in the Washington State Department of Retirement Systems annual financial report. A copy of this report may be obtained by writing to:

Department of Retirement Systems  
Communications Unit  
PO Box 48380  
Olympia, WA 98504-8380

#### **NOTE 5. DEFERRED COMPENSATION PLAN**

The District offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. This plan is with the State of Washington, Committee for Deferred Compensation. The plan, available to eligible employees, permits them to defer a portion of their salary until future years.

The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. In June 2004, the State of Washington Deferred Compensation plan assets were placed into trust for the exclusive benefit of participants and their beneficiaries. Pursuant to Governmental Accounting Standards Board (GASB) Statement 32, since the District is no longer the owner of these assets, as of December 31, 1998, the plan assets and liabilities are no longer considered to be property of the District.

#### **NOTE 6. CAPITAL ASSET ACTIVITY**

In addition to protecting against variations in the timing of operating costs and revenues, it is prudent to maintain a capital contingency amount to meet unexpected emergency capital outlays. While it would be impractical to reserve against major system-wide failures as a result of a catastrophic event, it is reasonable to identify and quantify possible failures of individual system components. The District utilizes an estimate of replacement costs to derive the targeted contingency dollar amount. The District's replacement costs in capital assets as of December 31, 2013 amounts to \$121,000,000. This investment in capital assets includes water collection and transmission lines, pumping stations and equipment, sewage collection and transmission lines, service pipes from the distribution mains to customers' meters, administration and operation facilities, and transportation and office equipment. The District currently has approximately \$1,353,000 (1.1% of replacement value) for capital contingency.

## LAKE WHATCOM WATER AND SEWER DISTRICT

### NOTES TO FINANCIAL STATEMENTS

December 31, 2012

#### **NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

The District was incorporated in 1968 and operates under the laws of the State of Washington applicable to a water-sewer district. The District is a general purpose government and provides water and sewer services. The District reports using single-entry, cash basis accounting which is a departure from generally accepted accounting principles (GAAP).

a. Fund Accounting

The accounts of the District are organized on the basis of funds, each of which is considered a separate accounting entity. Each fund is accounted for with a separate set of single-entry accounts that comprises its cash, investments, revenues, and expenditures, as appropriate. The District's resources are allocated to and accounted for in individual funds depending on their intended purposes. The following fund type is used by the District:

PROPRIETARY FUND TYPE:

Enterprise Funds

These funds account for operations that provide goods and services to the general public and are supported primarily through user charges.

b. Basis of Accounting

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

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

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

c. Cash

It is the District's policy to invest all temporary cash surpluses. The amount is included in the cash and investments shown on the statement of activities arising from cash transactions. The interest on these investments is posted to the enterprise fund.

# LAKE WHATCOM WATER AND SEWER DISTRICT

## NOTES TO FINANCIAL STATEMENTS

December 31, 2012

### **NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued**

d. Deposits

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

e. Investments See Note 3.

f. Capital Assets

Capital assets are assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. The capital assets of the District are recorded as expenditures when purchased.

g. Compensated Absences

Vacation and comp time may each be accumulated up to 80 hours and are payable on separation or retirement.

Sick leave may be accumulated up to 720 hours. If an employee terminates with at least ten years of service, he or she will be paid for sick leave balances up to 720 hours at one-quarter of his or her final pay rate.

h. Debt Service Requirements See Note 4.

i. Risk Management

The District is a member of the Water and Sewer Risk Management Pool (the Pool). Chapter 48.62 RCW authorizes the governing body of any one or more governmental entities to form together or join a pool 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-insurance, 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 Pool was formed in November 1987 when water and sewer districts in the State of Washington joined together by signing an Interlocal Governmental Agreement to pool their self-insured losses and jointly purchase insurance and administrative services. The Pool currently has 67 members as of the fiscal year ending 10-31-12. The Pool's fiscal year is November 1st through October 31st.

The Pool allows members to jointly purchase insurance coverage, establish a plan of self-insurance coverage, and provide related services, such as risk management and loss prevention. The Pool provides the following forms of group purchased insurance coverage for its members: Property (including Building, Electronic Data Processing, Boiler and Machinery, and Mobile Equipment); General Liability; Automotive Liability; Excess Liability; Crime; Public Officials Liability; Identity Fraud Reimbursement Program; and bonds of various types. All coverages are on an "occurrence" basis.

# LAKE WHATCOM WATER AND SEWER DISTRICT

## NOTES TO FINANCIAL STATEMENTS

December 31, 2012

### **NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued**

#### **i. Risk Management, continued**

Members make an annual contribution to fund the Pool. The Pool purchases insurance policies from unrelated underwriters which are subject to a per occurrence deductible or self-insured retention as follows: General Liability of \$200,000 (including General Liability, Public Officials Liability and Automobile Liability; Property Insurance of \$25,000 (except earthquake and flood. Earthquake is subject to a deductible of 5% of the values at risk at the time of the loss subject to a minimum of \$100,000. For flood, those properties that are NOT located in National Flood Insurance Program (NFIP) Flood Zones A and V are subject to a \$100,000 deductible while those properties located in NFIP Flood Zones A and V are subject to a \$250,000 deductible); Boiler & Machinery which is \$25,000; and Crime which is \$15,000 per occurrence. Pool members are responsible for a deductible on each coverage and the Pool is responsible for the remainder of the self-insured retention. The insurance carriers then cover the loss to the maximum limit of the policy. Each member is responsible for the full deductible applicable to the perils of earthquake and flood (the Pool is not responsible for any deductible or self-insured retention for earthquake and flood claims).

Upon joining, the members contract to remain in the Pool for one full policy period. Following completion of one full policy period, members must give six months notice before terminating participation (e.g. to withdraw from the Pool on November 1, 2012, written notice must be in the Pool possession by April 30, 2012). The Interlocal Governmental Agreement is renewed automatically each year. Even after termination, a member is still responsible for contributions to the Pool for any unresolved, unreported, and in process claims for the period that the District was a signatory to the Interlocal Governmental Agreement.

The Pool is fully funded by its member participants. Claims are filed by members with the Pool who determines coverage and performs claims adjustment in consultation with Arcadia Claims Service. In fiscal year 2011-12 the Pool engaged AssetWorks who performed appraisal services valued at \$15,607, for approximately one third of all member structures valued at \$250,000 or more.

The Pool is governed by a Board of Directors, which is comprised of one designated representative from each participating member. An Executive Committee is elected at the annual meeting, and is responsible for conducting the business affairs of the Pool and providing direction to the Pool's Executive Director.

#### **j. Reserved Fund Balance**

In accordance with bond resolutions (and certain related agreements) separate restricted funds are required to be established. The assets held in these funds are restricted or have been reserved for specific uses including debt service and other special reserve requirements. Restricted funds totaled \$4,539,661 as of December 31, 2012.

**LAKE WHATCOM WATER AND SEWER DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

December 31, 2012

**NOTE 2. COMPLIANCE AND ACCOUNTABILITY**

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

There have been no expenditures exceeding legal appropriations in any of the funds of the District.

**NOTE 3. INVESTMENTS**

As required by state law, all investments of the District's funds are obligations of the U.S. Government or deposits with Washington State banks and savings and loan institutions or other investments allowed by Chapter 39.59 RCW.

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

Investment Type	Total	Investment Maturities			
		Less Than 6 Months	6 Months to 1 Year	1-5 years	More Than 5 Years
Local Government Investment Pool	\$ 1,039,286	\$ 1,039,286	\$ -	\$ -	\$ -
Federal National Mortgage Association Note	484,056	-	-	484,056	-
Federal Home Loan Mortgage Corp. Note	1,058,890	1,058,890	-	-	-
Financing Corporation Strip Bond	<u>630,868</u>	<u>-</u>	<u>-</u>	<u>630,868</u>	<u>-</u>
	<u>\$ 3,213,100</u>	<u>\$ 2,098,176</u>	<u>\$ -</u>	<u>\$ 1,114,924</u>	<u>\$ -</u>

The District's Federal National Mortgage Association Note, Federal Home Loan Mortgage Corp. Note, and Financing Corporation Strip Bond have maturity dates ranging from May 2013 to September 2015. The securities have interest rates ranging from 0% to 3.5%.

Credit Risk - The District's investment policy limits investments to those authorized by State of Washington statutes governing the investment of public funds. As of December 31, 2012, the District's investments in Federal National Mortgage Association and Federal Home Loan Bank were each rated Aaa by Moody's Rating Service.

**LAKE WHATCOM WATER AND SEWER DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

December 31, 2012

**NOTE 4. DEBT SERVICE REQUIREMENTS**

Revenue Debt - The District issued revenue debt in 2009 for the purpose of constructing upgrades to water and sewer pump stations, replacing telemetry equipment throughout the District, refunding the District's outstanding 1997 revenue bonds and paying the issuance costs of the bonds. The District has also issued revenue debt to finance construction of various improvements to the water and sewer systems.

The revenue debts currently outstanding are as follows:

<u>Project</u>	<u>Original Amount</u>	<u>Interest Rate</u>	<u>Amount Outstanding</u>
2009 Refunding Bonds	\$ 6,080,000	3.0%-4.0%	\$ 5,320,000
SV Water Dist. System #98-78898-044	341,332	4.35%	128,441
SV / Geneva Intertie Loan PW-01-691-PRE-119	167,628	1%	80,465
SV / Geneva Intertie Loan PW-02-691-064	<u>893,683</u>	2%	<u>472,520</u>
Totals	<u>\$ 7,482,643</u>		<u>\$ 6,001,426</u>

The annual debt service requirements to maturity for revenue debts are as follows:

<u>Fiscal Year Ending December 31</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 299,541	\$ 234,742	\$ 534,283
2014	309,541	226,159	535,700
2015	319,541	214,927	534,468
2016	324,541	203,294	527,835
2017	339,541	191,462	531,003
2018-2022	1,783,721	773,663	2,557,384
2023-2027	1,795,000	434,268	2,229,268
2028-2029	<u>830,000</u>	<u>57,730</u>	<u>887,730</u>
Totals	<u>\$ 6,001,426</u>	<u>\$ 2,336,245</u>	<u>\$ 8,337,671</u>

# LAKE WHATCOM WATER AND SEWER DISTRICT

## NOTES TO FINANCIAL STATEMENTS

December 31, 2012

### **NOTE 4. DEBT SERVICE REQUIREMENTS, continued**

Special Assessment Debt with Governmental Commitment - The District has issued debt through the State of Washington Department of Ecology to finance part of the Lake Louise Road Interceptor Project. Repayment of the loan will be paid through assessments levied against the property owners of the District.

The assessment debt outstanding is as follows:

	<u>Original Amount</u>	<u>Interest Rate</u>	<u>Total</u>
Lake Louise Rd. Intcptr Loan L9800044A	\$ 271,788	4.4%	\$ 134,270
Lake Louise Rd. Intcptr Loan PW-02-691-063	2,513,700	.5%	1,322,963
Lake Louise Rd. Intcptr Loan L980044B	<u>1,998,516</u>	4.4%	<u>1,206,344</u>
Totals	<u>\$ 4,784,004</u>		<u>\$ 2,663,577</u>

The annual debt service requirements to maturity for assessment debts are as follows:

<u>Fiscal Year Ending December 31</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 246,177	\$ 64,363	\$ 310,540
2014	251,242	58,634	309,876
2015	256,534	52,683	309,217
2016	262,060	46,494	308,554
2017	267,832	40,061	307,893
2018-2022	<u>1,379,732</u>	<u>96,781</u>	<u>1,476,513</u>
Totals	<u>\$ 2,663,577</u>	<u>\$ 359,016</u>	<u>\$ 3,022,593</u>

Total Debt – The accompanying Schedule of Liabilities (09) provides more details of the outstanding debt and liability of the District and summarizes the District's debt transactions for the period ended December 31, 2012. The debt service payments for the year being reported and future payment requirements, including interest, are as follows:

<u>Fiscal Year Ending December 31</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 545,718	\$ 299,105	\$ 844,823
2014	560,783	284,793	845,576
2015	576,075	267,610	843,685
2016	586,601	249,788	836,389
2017	607,373	231,523	838,896
2018-2022	3,163,453	870,444	4,033,897
2023-2027	1,795,000	434,268	2,229,268
2028-2029	<u>830,000</u>	<u>57,730</u>	<u>887,730</u>
Totals	<u>\$ 8,665,003</u>	<u>\$ 2,695,261</u>	<u>\$ 11,360,264</u>

There is \$4,539,661 in restricted assets of the District as of December 31, 2012. These represent sinking funds and reserve requirements as contained in the various indentures.

# LAKE WHATCOM WATER AND SEWER DISTRICT

## NOTES TO FINANCIAL STATEMENTS

December 31, 2012

### **NOTE 4. DEBT SERVICE REQUIREMENTS, continued**

There are a number of other limitations and restrictions contained in the various bond indentures. The District is in compliance with all significant limitations and restrictions.

#### Changes in Liabilities

During the year ended December 31, 2012, the following changes occurred in long term-liabilities:

	Balance January 1, 2012	Additions	Reductions	Balance December 31, 2012	Due Within One Year
Revenue debt	\$ 6,295,967	\$ -	\$ 294,541	\$ 6,001,426	\$ 299,541
Special assessment debt with governmental commitment	<u>2,904,904</u>	<u>-</u>	<u>241,327</u>	<u>2,663,577</u>	<u>246,177</u>
Total bonds payable and special assessment debt	<u>9,200,871</u>	<u>-</u>	<u>535,868</u>	<u>8,665,003</u>	<u>545,718</u>
Other deferred credits	18,500	-	-	18,500	-
Compensated absences	<u>65,556</u>	<u>-</u>	<u>11,487</u>	<u>54,069</u>	<u>-</u>
Total other long-term liabilities	<u>84,056</u>	<u>-</u>	<u>11,487</u>	<u>72,569</u>	<u>-</u>
Total long-term Liabilities	<u>\$ 9,284,927</u>	<u>\$ -</u>	<u>\$ 547,355</u>	<u>\$ 8,737,572</u>	<u>\$ 545,718</u>

### **NOTE 5. PENSION PLANS**

Substantially all the District's full-time and qualifying part-time employees participate in Public Employees' Retirement System (PERS) Plans 1, 2, and 3 administered by the Washington State Department of Retirement Systems, under cost-sharing multiple-employer public employee defined benefit and defined contribution retirement plans. Actuarial information is on a system-wide basis and is not considered pertinent to the District's financial statements. Contributions to the systems by both employee and employer are based upon gross wages covered by plan benefits.

Historical trends or other information regarding each plan is presented in the Washington State Department of Retirement Systems annual financial report. A copy of this report may be obtained by writing to:

Department of Retirement Systems  
Communications Unit  
PO Box 48380  
Olympia, WA 98504-8380

### **NOTE 6. DEFERRED COMPENSATION PLAN**



## LAKE WHATCOM WATER AND SEWER DISTRICT

### NOTES TO FINANCIAL STATEMENTS

December 31, 2012

The District offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. This plan is with the State of Washington, Committee for Deferred Compensation. The plan, available to eligible employees, permits them to defer a portion of their salary until future years.

The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. In June 2004, the State of Washington Deferred Compensation plan assets were placed into trust for the exclusive benefit of participants and their beneficiaries. Pursuant to Governmental Accounting Standards Board (GASB) Statement 32, since the District is no longer the owner of these assets, as of December 31, 1998, the plan assets and liabilities are no longer considered to be property of the District.

#### **NOTE 7. CAPITAL ASSET ACTIVITY**

The District's investment in capital assets as of December 31, 2012 amounts to \$24,929,617 (net of accumulated depreciation). This investment in capital assets includes water collection and transmission line, pumping stations and equipment, sewage collection and transmission lines, service pipes from the distribution mains to customers' meters, and transportation and office equipment. District owned land is valued at \$794,039.

Schedule of Liabilities  
For the year ended December 31, 2013

Debt Type	ID. No.	Description	Maturity/Payment Due Date	Beginning Balance January 1, 2013	Additions	Reductions	Ending Balance December 31, 2013
<b>Revenue Obligations</b>							
	259.12	Compensated absences		54,069	23,154	0	77,223
	263.92	Latecomer fees and other deferred credits	12/31/2090	18,500	0	0	18,500
	263.92	SV Water Dist. System #98-78898-044 - Issued 2000	10/1/2019	128,441	0	128,441	0
	263.92	SV / Geneva Intertie Loan PW-01-691-PRE-119 - Issued 2002	7/1/2021	80,465	0	8,941	71,524
	263.92	SV / Geneva Intertie Loan PW-02-691-064- Issued 2002	7/1/2022	472,520	0	47,252	425,268
	252.11	Refunding Bonds - Issued 2009	11/1/2029	5,320,000	0	225,000	5,095,000
	263.92	Lake Louise Rd. Intcptir Loan L9800044A - Issued 2000	6/1/2020	134,270	0	134,270	0
	263.92	Lake Louise Rd. Intcptir Loan PW-02-691-063 - Issued 2002	7/1/2022	1,322,963	0	1,322,963	0
	263.92	Lake Louise Rd. Intcptir Loan L980044B - Issued 2002	1/2/2023	1,206,344	0	1,206,344	0
<b>Total Revenue Obligations:</b>				<b>8,737,572</b>	<b>23,154</b>	<b>3,073,211</b>	<b>5,687,515</b>
<b>Total Liabilities:</b>				<b>8,737,572</b>	<b>23,154</b>	<b>3,073,211</b>	<b>5,687,515</b>

## Lake Whatcom Water and Sewer District

Schedule of Liabilities  
For the year ended December 31, 2012

Debt Type	ID. No.	Description	Maturity/Payment Due Date	Beginning Balance January 1, 2012	Additions	Reductions	Ending Balance December 31, 2012
<b>General Obligations</b>							
	263.98	Lake Louise Rd. Intcptlr Loan L9800044A - Issued 2000	6/1/2020	149,085	0	14,815	134,270
	263.98	Lake Louise Rd. Intcptlr Loan PW-02-691-063 - Issued 2002	7/1/2022	1,455,259	0	132,296	1,322,963
	263.98	Lake Louise Rd. Intcptlr Loan L980044B - Issued 2002	1/2/2023	1,300,560	0	94,216	1,206,344
<b>Total General Obligations:</b>				<b>2,904,904</b>	<b>0</b>	<b>241,327</b>	<b>2,663,577</b>
<b>Revenue Obligations</b>							
	252.11	SV Water Dist. System #98-78898-044 - Issued 2000	10/1/2019	146,790	0	18,349	128,441
	252.11	SV / Geneva Intertie Loan PW-01-691-PRE-119 - Issued 2002	7/1/2021	89,405	0	8,940	80,465
	252.11	SV / Geneva Intertie Loan PW-02-691-064- Issued 2002	7/1/2022	519,772	0	47,252	472,520
	252.11	Refunding Bonds - Issued 2009	11/1/2029	5,540,000	0	220,000	5,320,000
	259.12	Compensated absences		65,556	0	11,487	54,069
	263.92	Latecomer fees and other deferred credits		18,500	0	0	18,500
<b>Total Revenue Obligations:</b>				<b>6,380,023</b>	<b>0</b>	<b>306,028</b>	<b>6,073,995</b>
<b>Total Liabilities:</b>				<b>9,284,927</b>	<b>0</b>	<b>547,355</b>	<b>8,737,572</b>

The accompanying notes to the financial statements are an integral part of this schedule

## 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.

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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	
<b>Deputy Director for Communications</b>	Thomas Shapley <a href="mailto:Thomas.Shapley@sao.wa.gov">Thomas.Shapley@sao.wa.gov</a> (360) 902-0367
<b>Public Records requests</b>	(360) 725-5617
<b>Main telephone</b>	(360) 902-0370
<b>Toll-free Citizen Hotline</b>	(866) 902-3900
<b>Website</b>	<a href="http://www.sao.wa.gov">www.sao.wa.gov</a>