Washington State Auditor's Office

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Financial Statements Audit Report

Yakima-Tieton Irrigation District

Yakima County

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

Published August 3, 2015

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Washington State Auditor's Office

August 3, 2015

Board of Directors
Yakima-Tieton Irrigation District
Yakima, Washington

Report on Financial Statements

Please find attached our report on the Yakima-Tieton Irrigation District's financial statements.

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

Sincerely,

JAN M. JUTTE, CPA, CGFM

ACTING STATE AUDITOR

OLYMPIA, WA

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Yakima-Tieton Irrigation District
Yakima County
January 1, 2012 through December 31, 2013

2013-001 The District's internal controls over financial statement preparation and journal entries are inadequate to ensure accurate financial reporting.

Background

It is the responsibility of District management to design and follow internal controls to ensure financial statements are fairly presented and provide reasonable assurance regarding the reliability of financial reporting. Controls must ensure that financial data is reliably authorized, processed and reported. Our audit identified material weaknesses in controls that adversely affects the District's ability to produce reliable financial statements.

Government Auditing Standards, prescribed by the Comptroller General of the United States, require the auditor to communicate material weaknesses, defined in the Applicable Laws and Regulations section below, as a finding.

Description of Condition

We identified the following weaknesses in internal controls that, when taken together, represent a material weakness:

- The District did not perform an adequate review of journal entries to ensure transactions were reported accurately.

- The District's review of the 2013 financial statements was ineffective in identifying and correcting significant errors.

Cause of Condition

The District relied upon its contracted Certified Public Accountant firm to prepare adjusting year-end journal entries and to compile the financial statements. The District did not establish an adequate review of journal entries and financial statements to ensure transactions were reported properly and the financial statements were accurately prepared and presented.

Effect of Condition

Inaccurate financial reports limit access to financial information used by District Officials, the public and other interested parties. It also hinders the audit process and increases audit costs.

We identified the following errors that, when combined, represent a material misstatement:

- The District earned revenues of $500,000 in December 2013 and prepared a year-end journal entry to record the transaction. This journal entry was posted incorrectly, resulting in a $499,500 understatement of 2013 revenue. When preparing the 2014 financial statements, the District identified this error and recorded a prior period adjustment.

- The District incorrectly reported transactions related to a bond refunding, resulting in a $134,999 understatement of 2013 revenue.

The District subsequently corrected the largest of these errors.

Recommendation

We recommend the District establish thorough and effective review processes of all journal entries and the financial statements to ensure financial statements and schedules are free of errors and comply with current reporting requirements.

District's Response

In regard to the $500,000 of earned revenue identified above, the District agrees that revenue was understated in the 2013 financial statement. However we disagree that the internal review process was inadequate. As Stated above "When preparing the 2014 financial statements, the District identified this error and recorded a prior period adjustment". In other words the internal process of the District detected the error however it was not detected timely. It was corrected before the 2014 financial statements were completed.

In regard to the transactions related to the bond refunding this was a difference in "netting" amounts versus presenting the gross amounts. Therefore, expenses were overstated by the same amount and total net assets were not impacted.

Subsequent to this audit the District has strengthened its internal control processes. As an example, all adjusting entries are reviewed before the financial statements are printed.

The errors outlined in this document have been corrected. The District will continue to work with the state auditor's office and our CPA to ensure accurate financial statements and compliance with current reporting standards.

Auditor's Remarks

We thank the District's staff and management for their cooperation and assistance during our audit. We look forward to working with the District on this issue and will follow up on it during the next audit.

Applicable Laws and Regulations

RCW 43.09.200 – Local government accounting – Uniform system of accounting, states in part:

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

Budgeting, Accounting and Reporting System (BARS) Manual, Accounting, Accounting Principles and General Procedures, Internal Control, states in part:

> Internal control is a management process for keeping an entity on course in achieving its business objectives, as adopted by the governing body. This management control system should ensure that resources are guarded against waste, loss and misuse; that reliable data is obtained, maintained, and fairly disclosed in financial statement and other reports; and resource use is consistent with laws, regulations and policies.
>
> Each entity is responsible for establishing and maintaining an effective system of internal control throughout their government.

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

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

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

> .07 For purposes of generally accepted auditing standards, the following terms have the meanings attributed as follows:
>
> > Material weakness. A deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.
> >
> > Significant deficiency. A deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness yet important enough to merit attention by those charged with governance.
>
> .11 Indicators of material weaknesses in internal control include:
>
> - identification of fraud, whether or not material, on the part of senior management;
> - restatement of previously issued financial statements to reflect the correction of a material misstatement due to fraud or error;
> - identification by the auditor of a material misstatement of the financial statements under audit in circumstances that indicate that the misstatement would not have been detected by the entity's internal control; and
> - ineffective oversight of the entity's financial reporting and internal control by those charged with governance.

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*

Yakima-Tieton Irrigation District
Yakima County
January 1, 2012 through December 31, 2013

Board of Directors
Yakima-Tieton Irrigation District
Yakima, 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 Yakima-Tieton Irrigation District, Yakima County, Washington, as of and for the years ended December 31, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated July 29, 2015. As discussed in Note 13 and Note 2 to the financial statements, during the year ended December 31, 2013 and 2012, the District implemented Governmental Accounting Standards Board Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources* and Statement No. 65, *Items Previously Reported as Assets and Liabilities*.

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.

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

Schedule of Audit Findings and Responses, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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. We consider the deficiencies described in the accompanying Schedule of Audit Findings and Responses as Finding 2013-001 to be material weaknesses.

COMPLIANCE AND OTHER MATTERS

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

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

DISTRICT'S REPONSE TO FINDINGS

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

PURPOSE OF THIS REPORT

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

JAN M. JUTTE, CPA, CGFM

ACTING STATE AUDITOR

OLYMPIA, WA

July 29, 2015

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Yakima-Tieton Irrigation District
Yakima County
January 1, 2012 through December 31, 2013

Board of Directors
Yakima-Tieton Irrigation District
Yakima, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the Yakima-Tieton Irrigation District, Yakima County, Washington, as of and for the years ended December 31, 2013, and 2012, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed on page 14.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

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

Matters of Emphasis

As discussed in Note 13 and Note 2 to the financial statements in 2012 and 2013, the District adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position* and Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

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 15 through 18 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 July 29, 2015 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.

JAN M. JUTTE, CPA, CGFM

ACTING STATE AUDITOR

OLYMPIA, WA

July 29, 2015

FINANCIAL SECTION

Yakima-Tieton Irrigation District
Yakima County
January 1, 2012 through December 31, 2013

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2013 and 2012

BASIC FINANCIAL STATEMENTS

Statement of Net Position – 2013 and 2012
Statement of Revenues, Expenses and Changes in Net Position – 2013 and 2012
Statement of Cash Flows – 2013 and 2012
Notes to Financial Statements – 2013 and 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following discussion and analysis provides an overview of the financial position and activities of the Yakima-Tieton Irrigation District for the fiscal years ended December 31, 2011, 2012 and 2013. Please read it in conjunction with the District's financial statements, which begin on page 6.

FINANCIAL HIGHLIGHTS

- The total liabilities for the District were reduced $942,209 or 10.6% at the close of 2013.
- During the year, the District's total operating revenues increased from $3,980,780 in 2012 to $4,459,581 in 2013 or 12.0%. The total expenses for the same period increased from $4,663,216 to $4,827,466 or 3.5%. The revenue increase is due primarily to the lump sum payment received for entries into the water delivery agreement with Cowiche Creek Waterusers Association.

FINANCIAL STATEMENTS

The financial statements are designed to provide the reader with a broad overview of the District's finances. These statements provide current and long-term report information about the District's activities. The following statements are included in this package:

The statement of net position presents information of the District's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The statement of revenues, expenses, and changes in net position presents information showing how the District's net assets change during the most recent fiscal year. All changes in new assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

The statement of cash flows presents information about the District's cash from operating, investing, and financing activities. It explains the source of cash, how it was spent, and the change in the cash and cash equivalents balances during the reporting period.

The financial statements can be found beginning on page 6 of this report.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found beginning on page 11 of this report.

The condensed statement of net position below shows that as of December 31, 2013 the total assets of the District are $35,337,495. The total liabilities, including deferred inflow of resources, are $7,373,188 and the net assets are $27,964,307. These are all reductions from the December 31, 2011 and 20112 balances. There is a reduction in long-term debt from $6,969,811 in 2012 to $5,957,920 in 2013. This is a reduction of 14.5% from 2012 to 2013. The reduction of the debt service for the bond issue continues to decline each year as the District nears the 2019 scheduled final payment. In 2013 another refinancing of the bond issue was completed to reduce the total debt service yet again.

CONDENSED STATEMENT OF NET POSITION

	DECEMBER 31,		
	2011	2012	2013
ASSETS			
TOTAL UNRESTRICTED CURRENT ASSETS	$ 1,692,487	$ 1,790,979	$ 2,240,421
RESTRICTED ASSETS	6,979,335	7,094,161	7,347,948
CAPITAL, ASSETS, LESS ACCUM.DEPRC.	29,707,905	27,683,768	25,739,226
OTHER ASSETS	137,524	119,292	9,900
TOTAL ASSETS	38,517,251	36,688,200	35,337,495
LIABILITIES AND OTHER CREDITS			
TOTAL CURRENT LIABILITIES	120,474	121,511	135,680
PAYABLE FROM RESTRICTED ASSETS	1,095,916	1,132,619	1,279,588
LONG TERM DEBT	8,710,000	7,610,000	6,506,653
TOTAL LIABILITIES	9,926,390	8,864,130	7,921,921
DEFERRED INFLOW OF RESOURCES	(731,644)	(640,189)	(548,733)
NET POSITION			
NET INVESTMENT IN CAPITAL ASSETS	20,669,549	19,613,957	18,506,602
RESTRICTED PER BOND AGREEMENT	6,901,722	7,015,881	7,271,579
UNRESTRICTED	1,751,234	1,834,421	2,186,126
TOTAL NET POSITION	29,322,505	28,464,259	27,964,307
TOTAL NET POSTION AND LIABILITIES	$ 38,517,251	$ 36,688,200	$ 35,337,495

The District has two major sources of operating revenue. They are the irrigation assessments and power sales. These sources pay for the operation and maintenance activities of the District and the bond issue debt service. The irrigation assessments were increased in 2012 and 2013. A new power purchase agreement between the District and PacifiCorp with a term of three years began in 2013. From 2013 to 2015 the District should average between 3.5 and 4.0 cents/kwh for the power generated by Orchard Ave and Cowiche Hydropower plants.

In order to balance the 2012 and 2013 adopted budgets, some reserves were used. The District received $221,325, $282,756 and $375,268 in revenue from the Tieton Hydropower Project in 2013, 2012 and 2011, respectively. The amount of the revenue will vary from year to year based upon the power production generated at the new plant. The plant came on line in September of 2006.

Nonoperating revenue will vary from year to year. It is dependent upon interest earned, interest expense, and investment earnings.

Total operating revenue increased $478,801 from 2012 to 2013. In 2013 irrigation assessments and revenue from other sources increased but revenue from power sales decreased.

Total operating expenses increased from $4,386,931 in 2011 and $4,663, 217 in 2012 to $4,827,466 in 2013. Operating expenses exclusive of depreciation increased 11.9% from 2011 to 2012 and increased 6.2% from 2012 to 2013. It is anticipated that operating costs for labor, employee benefits, materials and supplies, repairs, utilities, and general and administrative will continue to increase each year. Total ending net position reduced from $28,464,259 in 2012 to $27,964,307 in 2013.

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

	DECEMBER 31,		
	2011	2012	2013
OPERATING REVENUES			
IRRIGATION ASSESSMENTS	$ 3,174,625	$ 3,374,430	$ 3,402,326
POWER SALES	730,975	555,858	446,340
OTHER	52,258	50,492	610,915
	3,957,858	3,980,780	4,459,581
OPERATING EXPENSES			
US BUREAU OF RECLAMATION			
STORAGE ASSESSMENTS	100,643	97,121	92,927
LABOR	675,890	698,601	682,441
EMPLOYEE BENEFITS & PAYROLL TAXES	253,230	271,296	270,881
MATERIALS AND SUPPLIES	108,726	146,131	105,194
REPIARS	224,053	291,638	412,041
UTILITIES	263,887	332,344	296,197
COMMUNICATIONS	20,661	25,104	23,914
INSURANCE	112,641	145,439	116,632
DEPRECIATION	2,078,469	2,080,411	2,084,227
AMORTIZATION	18,232	18,232	109,392
GENERAL & ADMINISTRATIVE	503,499	556,899	633,620
	4,386,931	4,663,216	4,827,466
NET OPERATING LOSS	(429,073)	(682,436)	(367,885)
NONOPERATING REVENUE (EXPENSE)			
INTEREST EARNED	260,805	192,936	192,129
INTEREST EXPENSE	(519,378)	(479,589)	(314,057)
UNREALIZED GAIN(LOSS) ON INVESTMENTS	(536)	(902)	(10,139)
OTHER	-	111,745	-
TOTAL NONOPERATING REVENUE(EXPENSE)	(259,109)	(175,810)	(132,067)
CHANGE IN NET POSITION	(688,182)	(858,246)	(499,952)
TOTAL BEGINNING NET POSITION	30,010,687	29,322,505	28,464,259
TOTAL ENDING NET POSITION	$ 29,322,505	$ 28,464,259	$ 27,964,307

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

In 2011, 2012, and 2013 the District adopted budgets in which expenses exceeded revenue. In these years the anticipated deficit was reduced by closely monitoring expenses. It was anticipated that any budget shortfall would be supplemented by the reserve fund. The adoption of deficit budgets will need to be curtailed at some point so as not to reduce the general reserve fund to a critical level. In future budgets the revenue will need to be increased to offset the anticipated increases in operation expenses. In 2013, the non-union staff enrolled in a new health insurance program, which will reduce the expense to the District. The 2013 bond refinance will reduce debt service payments in 2014. Interest income applied to the debt service (bond payment) will again be decreased in 2014 due to the bankruptcy of Lehman Brothers Special Financing, which required the District to terminate the Debt Service Deposit Agreement. The resulting reduced rate of return may require an increase in assessments for the remaining years of the debt service. Reserve funds will continue to be used as needed to balance budgets over the next few years. The future revenue from the Tieton Hydropower project may be available to help offset the budget in the short term, but it cannot be assumed that it will produce revenue to the District every year, and the amount will also vary depending on the water forecast. The Board of Directors works with the management staff to prepare, review, and adopt each year's budget and set the assessment rates in accordance with RCW Title 87.

CONCLUSION

We believe the overall financial status of the District is good. The operation and maintenance programs used by the District are expected to keep the delivery system and infrastructure in good service for the near future. A cautionary comment is in order here as 2013 was the 27th year of service under the pressurized system. Costs to operate and maintain will continue to increase as the system gets older even with a good maintenance program. Power revenues from the two hydropower plants will remain level in 2014 based upon the power purchase agreement with PacifiCorp. The reduction in debt service improved the financial status from 2011 through 2013, but the need to increase assessments for operation and maintenance costs may offset these savings. The District Board of Directors and the management staff will continue to make prudent decisions to balance the economic realities facing the patrons of the District, the changing and difficult challenges facing irrigation districts, and the rising operation and maintenance costs.

YAKIMA-TIETON IRRIGATION DISTRICT
STATEMENT OF NET POSITION

	December 31, 2013	December 31, 2012
ASSETS		
Current assets:		
Cash and cash equivalent	$ 1,812,508	$ 1,355,496
Assessment receivable	23,345	27,741
Receivables - other		-
Inventories	262,364	262,695
Prepaid expenses	142,204	145,047
Total unrestricted current assets	2,240,421	1,790,979
Restricted assets:		
Investments	1,279,587	1,132,619
Total restricted current assets	1,279,587	1,132,619
TOTAL CURRENT ASSETS	3,520,008	2,923,598
Noncurrent assets:		
Water shares	9,900	9,900
Loan costs, net of amortization	-	109,392
Total noncurrent assets	9,900	119,292
Restricted assets:		
Investments	5,991,993	5,883,262
Accrued interest receivable	76,368	78,280
Total restricted noncurrent assets	6,068,361	5,961,542
Capital assets not being depreciated		
Land	99,770	99,770
Capital assets being depreciated		
Canals, laterals, and bridges	80,779,018	80,710,619
Buildings and homes	329,867	329,867
Equipment	1,248,538	1,177,251
	82,457,193	82,317,507
Less accumulated depreciation	56,717,967	54,633,739
Total capital assets	25,739,226	27,683,768
TOTAL NONCURRENT ASSETS	31,817,487	33,764,602
TOTAL ASSETS	$ 35,337,495	$ 36,688,200

The accompanying notes are an integral part of this financial statement.

YAKIMA-TIETON IRRIGATION DISTRICT
STATEMENT OF NET POSITION

	December 31, 2013	December 31, 2012
LIABILITIES		
Current liabilities:		
Accounts/vouchers payable		
Trade	$ 47,050	$ 62,427
Payroll, taxes and retirement	73,926	59,084
Long-term debt	14,704	-
Total unrestricted current liabilities	135,680	121,511
Liabilities from restricted assets:		
Bonds payable principal	1,260,000	1,100,000
Bonds payable interest	19,588	32,619
Total restricted current liabilities	1,279,588	1,132,619
TOTAL CURRENT LIABILITIES	1,415,268	1,254,130
Noncurrent liabilities:		
Long-term debt, net of current portion shown above	21,653	-
Noncurrent liabilities from restricted assets:		
Long-term debt, net of current portion shown above	6,485,000	7,610,000
TOTAL NONCURRENT LIABILITIES	6,506,653	7,610,000
TOTAL LIABILITIES	7,921,921	8,864,130
Commitments (Notes 7, 8, 9, 10 and 11)		
DEFERRED INFLOW OF RESOURCES		
Deferred amount on refunding	(548,733)	(640,189)
NET POSITION		
Net investment in capital assets	18,506,602	19,613,957
Restricted for operations and debt service	7,271,579	7,015,881
Unrestricted	2,186,126	1,834,421
TOTAL NET POSITION	27,964,307	28,464,259
TOTAL NET POSITION	$ 35,337,495	$ 36,688,200

The accompanying notes are an integral part of this financial statement.

YAKIMA-TIETON IRRIGATION DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

	December 31, 2013	December 31, 2012
OPERATING REVENUES		
Irrigation assessments	$ 3,402,326	$ 3,374,430
Power sales	446,340	555,858
Other	610,915	50,492
TOTAL OPERATING REVENUE	4,459,581	3,980,780
OPERATING EXPENSES		
US Bureau of Reclamation storage assessements	92,927	97,121
Labor	682,441	698,601
Employee benefits and payroll taxes	270,881	271,296
Materials and supplies	105,194	146,131
Repairs	412,041	291,638
Utilities	296,197	332,344
Communications	23,914	25,104
Insurance	116,632	145,439
Depreciation	2,084,227	2,080,411
Amortization	109,392	18,232
General and Adminstrative	633,620	556,899
TOTAL OPERATING EXPENSES	4,827,466	4,663,216
NET OPERATING LOSS	(367,885)	(682,436)
NONOPERATING REVENUE (EXPENSES)		
Interest earned	192,129	192,936
Interest expense	(314,057)	(479,589)
Investment earnings/loss	(10,139)	(902)
Other	-	111,745
TOTAL NONOPERATING REVENUE(EXPENSE)	(132,067)	(175,810)
CHANGE IN NET POSITION	(499,952)	(858,246)
TOTAL NET POSITION, beginning of year	28,464,259	29,322,505
TOTAL NET POSITION, end of year	$ 27,964,307	$ 28,464,259

The accompanying notes are an integral part of this financial statement.

YAKIMA-TIETON IRRIGATION DISTRICT
STATEMENT OF CASH FLOWS

	December 31, 2013	December 31, 2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from water users	$ 4,463,977	$ 4,133,368
Cash paid to suppliers	(1,677,886)	(1,564,377)
Cash paid to employees	(953,322)	(969,897)
Other cash received	-	111,745
Net cash provided by operating activities	1,832,769	1,710,839
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchases of capital assets	(96,084)	(56,273)
Interest paid on revenue bonds	(235,632)	(391,431)
Revenue bond maturities	(965,000)	(1,060,000)
Repayment of note payable	(7,244)	-
Net cash used by capital and related financing activities	(1,303,960)	(1,507,704)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	194,041	192,269
Net investment in restricted investments	(265,838)	(115,061)
Net cash provided by (used by) investing activities	(71,797)	77,208
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	457,012	280,343
CASH AND CASH EQUIVALENTS, beginning of year	1,355,496	1,075,153
CASH AND CASH EQUIVALENTS, end of year	$ 1,812,508	$ 1,355,496

The accompanying notes are an integral part of this financial statement.

	December 31, 2013	December 31, 2012
RECONCILIATION OF NET OPERATING LOSS TO NET CASH FROM OPERATING ACTIVITIES		
Net operating loss	$ (367,885)	$ (570,691)
Adjustments to reconcile net operating loss to net cash from operating activities		
Depreciation and amortization	2,084,227	2,098,643
Write-off of 2003 Bond loan costs	109,392	-
Increase (decrease) in cash due to changes in assets and liabilities		
Receivables	4,396	152,588
Inventories	331	38,928
Prepaid expenses	2,843	(9,665)
Accounts/vouchers payable	(535)	1,036
Total adjustments	2,200,654	2,281,530
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 1,832,769	$ 1,710,839
NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES		
Decrease in fair value of investment	$ (10,139)	$ (902)
Amortization of 2003 bond refunding loss	$ 91,456	$ 91,455
Equipment financed through issuance of debt	$ 43,601	$ -

The accompanying notes are an integral part of this financial statement.

Note 1 – Company Operations

Yakima-Tieton Irrigation District (the District) was organized under the laws of the state of Washington in 1918 to provide irrigation water to fruit growers and other water users located in Yakima County. The amount of water services provided can be adversely impacted by weather conditions in Eastern Washington. The current economic conditions have improved the past two years for those commodities raised in the District; however, trends are difficult to predict. Any long-term downward trend could have an impact on the District's operations.

The 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 District has no component units.

Note 2 – Summary of Significant Accounting Policies

Basis of accounting and presentation – The District's basic financial statements are presented on the full accrual basis of accounting and conform to accounting principles generally accepted in the United States of America.

The accounts of the District are organized on the basis of a proprietary fund type, specifically an enterprise fund. The activities of this fund are accounted for with a separate set of self-balancing accounts that comprise the District's assets, liabilities, net position, revenues, and expenses. Enterprise Funds account for activities (i) that are financed with debt that is secured solely by a pledge of the net revenues from fees and charges of the activity; or (ii) that are required by laws or regulations that the activity's costs of providing services, including capital costs (such as depreciation or debt service), be recovered with fees and charges, rather than with taxes or similar revenues; or (iii) that the pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs (such as depreciation or debt service). 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 accounting and financial reporting treatment applied to the District is determined by its measurement focus. The transactions of the District are accounted for on the economic resources measurement focus. With this measurement focus, all assets and liabilities associated with the operations are included on the balance sheet and statement of revenues, expenses, and changes in net position. Net position (i.e., total assets net of total liabilities) is segregated into three components: invested in capital assets, net of related debt; restricted for operations and debt service; and unrestricted components.

Cash and cash equivalents – For purposes of the statement of cash flows, the District considers all unrestricted investments with an original maturity of three months or less to be cash equivalents.

Receivables – Receivables represent uncollected assessments from current and prior years. There is no provision for uncollectible assessment receivables as these represent liens against the property.

Inventories – Inventories, consisting mainly of pipe, valves, turnouts, fittings, gates, and chemicals, are valued at the lower of cost (computed on the first-in, first-out basis) or market. Inventories are expensed when consumed as opposed to expensing when purchased.

Investments – Investments are presented at fair value. Short-term investments generally mature or are otherwise available for withdrawal in less than one year. Restricted investments consist primarily of U.S. government securities designated for specific projects which are required to be segregated pursuant to debt covenants.

Note 2 – Summary of Significant Accounting Policies (continued)

Capital assets – The District defines capital assets as assets with an initial, individual cost of more than $1,000 and an estimated useful life in excess of one year. Cost includes direct labor, outside services, materials and transportation, employee fringe benefits, overhead, and interest on funds borrowed to finance construction. The District did not capitalize interest during fiscal years 2013 and 2012. The cost and accumulated depreciation of property sold or retired is deducted from capital assets, and any profit or loss resulting from the disposal is credited or charged in the nonoperating section of the statements of revenues, expenses, and changes in net assets. The cost of current repairs, maintenance, and minor replacements is charged to expense. Depreciation is computed as follows:

	Method	Lives
Canals, laterals, and bridges	Straight-line	20 - 40 years
Buildings and homes	Straight-line	15 - 30 years
Equipment	Straight-line and declining balance	5 - 20 years

Net position – Net position comprises the various net earnings from operating income, nonoperating revenues and expenses, and capital contributions. Net position is classified into the following three components:

- **Net investment in capital assets** – This component of net position consists of capital assets, net of accumulated depreciation, and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvements of those assets. If there are significant unspent related debt proceeds at year end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of invested in capital assets, net of related debt. Rather, that portion of the debt is included in the same net position component as the unspent proceeds.

- **Restricted for operations and debt service** – This component of net position consists of constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

- **Unrestricted** – This component of net position consists of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

Arbitrage liability – The District accrues a liability for an amount of rebatable arbitrage resulting from investing low yielding tax exempt bond proceeds in higher yielding, taxable securities. Such investment activities can result in interest revenue exceeding interest cost. The arbitrage liability is payable to the Federal government every five years. The arbitrage liability is recorded as a liability on the accrual basis and as a reduction of interest income on the invested debt proceeds. Based on the results of the Arbitrage Rebate and Yield Restriction Analysis performed in 2008, no payment is due to the Federal government for the year ended December 31, 2012. In 2013, the District refunded tax exempt bonds with taxable bonds therefore an arbitrage rebate analysis is not required for the year ended December 31, 2013.

Long-term debt and costs – Long-term debt is reported at face value, net of applicable discounts and deferred loss on refunding. Costs related to the issuance of debt are expensed as incurred in accordance with GASB 65. During 2013, loan fees associated with the 2003 Refunding Bonds were expensed. Losses occurring from advance refundings of debt are deferred and amortized as interest expense over the remaining life of the old bonds, or the life of the new bonds, whichever is shorter.

Note 2 – Summary of Significant Accounting Policies (continued)

Operating revenues and expenses – Operating revenues and expenses consist of those revenues and expenses resulting from the ongoing principal operations of the District. Operating revenues consist primarily of charges for services. Nonoperating revenues and expenses consist of those revenues and expenses that are related to financing and investing activities and result from nonexchange transactions or ancillary activities. When an expense is incurred for purposes for which there are both restricted and unrestricted net assets available, it is the District's policy to apply those expenses to restricted net assets to the extent such are available and then to unrestricted net assets.

The District distinguishes between operating revenues and expenses from nonoperating revenues and expenses. Operating revenues and expenses result from providing services and producing and delivering goods in connection with a district's principal ongoing operations. The principal operating revenues of the District are the sale of power to power companies. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses, with the exception of irrigation assessments, which are reported as operating revenue.

Presentation of irrigation assessments as operating revenue results in a higher operating income. Overall it does not affect the presentation of net income or the change in net assets in the statement of revenues, expenses, and changes in net assets, or the presentation of cash and cash equivalents in the statement of cash flows.

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 a maximum of 200 hours as of February 15 of each year, is payable upon resignation, retirement, or death. Sick leave is accumulated during employment, with a maximum of 112 hours payable to those employees eligible for retirement.

Federal income tax – Yakima-Tieton Irrigation District is a political sub-division of Yakima County of the State of Washington and is not subject to federal income tax.

Financial statement estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

New accounting standard – The District adopted GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. The Statement establishes accounting and financial reporting standards that reclassify as deferred outflows or resources or deferred inflow of resources, certain items that were previously reported as assets and liabilities. In addition, under the new Statement, debt issuance costs are recognized as expenses in the period incurred, rather than amortizing the costs over the life of the debt. The requirements of GASB Statement No. 65 are effective for financial statements beginning after December 15, 2012, and were adopted by the District effective January 1, 2013. The District has elected to implement the standard prospectively and has not adjusted net assets for the year ending December 31, 2012.

Note 2 – Summary of Significant Accounting Policies (continued)

Subsequent events – Subsequent events are events or transactions that occur after the balance sheet date but before financial statements are issued. The District recognizes in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the balance sheet, including the estimates inherent in the process of preparing the financial statements. The District's financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the balance sheet but arose after the balance sheet date and before financial statements are available to be issued.

The District has evaluated subsequent events through May 12, 2014, which is the date the financial statements are available for issuance, and concluded that there were no events or transactions that need to be disclosed.

Note 3 – Canal and Lateral Rehabilitation

The District received authorization in 1982 to begin construction of the Yakima-Tieton Irrigation District Rehabilitation and Betterment Project at a cost of approximately $77 million. This project involved a complete reconstruction of the District's canal and lateral system. Approximately $62 million was borrowed from the Bureau of Reclamation at no interest. This amount was refinanced in 1988 by issuing refunding revenue bonds. The remaining $15 million was funded by a grant of approximately $8,796,000 and loans of $6,138,000 from the Washington Department of Ecology. Construction began in the fall of 1982 and was completed in May 1986. All costs associated with the construction of this project have been capitalized and are shown as canals and laterals on these financial statements. These assets are being depreciated over their estimated useful life of 35 – 40 years.

Note 4 – Cash and Investments

The District's cash and cash equivalents at December 31 were as follows:

	2013	2012
Cash and cash equivalents		
Cash on hand	$ 499,700	$ 200
Cash in bank	32,351	47,660
Money market funds	52,670	232,571
Washington government investment pool	1,227,287	1,075,065
Total unrestricted cash and cash equivalents	$1,812,008	$1,355,496

Cash and investments are presented on the accompanying balance sheet as of December 31 as follows:

	2013	2012
Total cash and cash equivalents	$1,812,008	$1,355,496
Restricted current investments	1,279,587	1,132,619
Restricted noncurrent investments	5,991,993	5,883,262
Total restricted investments	7,271,580	7,015,881
Total cash and investments	$9,083,588	$8,371,377

Note 4 – Cash and Investments (continued)

As required by state law, all investments of the District's funds are obligations of the U.S. government, deposits with Washington state banks and savings and loan institutions, or other investments allowed by Chapter 39.59 RCW. At December 31, 2013 and 2012, the District held investments in the Washington State Local Government Investment Pool (LGIP) and U.S. treasury notes.

The Washington State Local Government Investment Pool (LGIP) is an external investment pool that is not registered with the SEC as an investment company but operates under an investment policy that is consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940.

As of December 31, 2013 and 2012, the District's investment in the Washington Government Investment Pool is $1,227,287 and $1,075,065 respectively. The total amount invested by all public agencies in the Washington Government Investment Pool at that date is approximately $9,801,140,000 and $9,214,070,000, respectively. The value of the pool shares in the Washington Government Investment Pool, which may be withdrawn, is determined on an amortized cost basis, which is different than the fair value of the District's position in the pool. The District may withdraw funds on demand.

The District's deposits are entirely covered by the Federal Deposit Insurance Corporation (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (PDPC). Management intends to hold all securities until maturity.

Deposit and investment risk – The following investment risk information is presented for the years ended December 31, 2013 and 2012 in accordance with GASB 40, *Deposits of Investment Risk Disclosures.*

As of December 31, 2013 and 2012, the District had the following investment and deposits:

	2013		
		Maturities (in years)	
	Fair Value	Other	Less than 1
Deposits			
Demand deposits	$ 32,351	$ -	$ 32,351
Unrestricted money market accounts	52,670	-	52,670
Total GASB 40 deposits	85,021	-	85,021
Investments			
Restricted – Government bonds	1,159,828	-	1,159,828
Restricted – U.S. Treasury notes	6,111,752	-	6,111,752
Unrestricted – Washington State LGIP	1,227,287	1,227,287	-
Total GASB 40 investments	8,498,867	1,227,287	7,271,580
Total GASB 40 deposits and investments	8,583,888	$ 1,227,287	$ 7,356,601
Add cash on hand	499,700		
Total cash and investments	$9,083,588		

Note 4 – Cash and Investments (continued)

	2012		
		Maturities (in years)	
	Fair Value	Other	Less than 1
Deposits			
Demand deposits	$ 47,660	$ -	$ 47,660
Unrestricted money market accounts	232,571	-	232,571
Total GASB 40 deposits	280,231	-	280,231
Investments			
Restricted - Government bonds	4,508,331	-	4,508,331
Restricted - U.S. Treasury notes	2,507,550	-	2,507,550
Unrestricted - Washington State LGIP	1,075,065	1,075,065	-
Total GASB 40 investments	8,090,946	1,075,065	7,015,881
Total GASB 40 deposits and investments	8,371,177	$ 1,075,065	$ 7,296,112
Add cash on hand	200		
Total cash and investments	$ 8,371,377		

Custodial credit risk – Custodial credit risk for deposits and investments is the risk that, in the event of a failure of the counterparty, the District will not be able to recover the value of the investments in possession of an outside party. The District does not currently have a formal investment policy related to custodial credit risk.

At December 31, 2013, the District's deposits were fully insured and collateralized. The District is subject to custodial credit risk to the extent that the funds held in trust with The Bank of New York Mellon Trust Company, N.A. do not earn the guaranteed rate of returns specified in the agreements (see Note 8). Additionally, the investments held in U.S. treasury notes, which are guaranteed by the federal government, and held in LGIP investments, which are not issued in securities form, are not subject to custodial credit risk.

Credit risk – The District does not have a formal investment policy related to credit risk, rather it follows state guidelines, and it is restricted by state law in the types of investment that can be made. The state investment pool is not rated.

Interest rate risk – Interest rate risk for investments is the risk that changes in interest rates will adversely affect the fair value of an instrument. The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The District mitigates interest rate risk by investing in fixed income investments comprised of U.S. treasury notes, with maturities of generally less than six months.

Note 4 – Cash and Investments (continued)

Restricted cash and investments consisted of the following:

	2013	2012
Surplus Fund - The Bank of New York Mellon Trust Company, N.A., Trustee. Funds must be maintained in an amount which, when combined with the amount in the Emergency Fund, equals two times maximum annual debt service for the 2013 bonds. These funds are to be used to fund any unforeseen contingencies not covered by proceeds from normal assessments.	$ 1,078,058	$ 1,030,024
Emergency Fund - The Bank of New York Mellon Trust Company, N.A., Trustee. Reserve required by the United States of America until otherwise directed to transfer to surplus fund.	170,900	160,349
Principal and interest accounts - The Bank of New York Mellon Trust Company, N.A., Trustee. Funds must be maintained at levels sufficient to meet principal payments due annually on June 1 and interest payments due semi-annually on December 1 and June 1 on the 2013 bonds.	1,422,098	1,317,177
Bond Fund - The Bank of New York Mellon Trust Company N.A., Trustee.	4,600,524	4,508,331
	7,271,580	7,015,881
Accrued interest	76,368	78,280
	$ 7,347,948	$ 7,094,161

At December 31, 2013 and 2012, the restricted cash and investment accounts were in compliance with the 2013 Refunding Revenue Bond restriction requirements.

Note 5 – Capital Assets

The District's capital assets and the related accumulated depreciation for the years ended December 31, 2013 and 2012 was as follows:

	Balance December 31, 2011	Additions	Transfers and/or Retirements	Balance December 31, 2012	Additions	Transfers and/or Retirements	Balance December 31, 2013
Capital assets, non-depreciable							
Land	$ 99,770	$ -	$ -	$ 99,770	$ -	$ -	$ 99,770
Construction in progress	-	-	-	-	-	-	-
Total capital assets not being depreciated	99,770	-	-	99,770	-	-	99,770
Capital assets, depreciable							
Canals, laterals, and bridges	80,697,080	13,539	-	80,710,619	68,399	-	80,779,018
Buildings and homes	323,830	6,037	-	329,867	-	-	329,867
Equipment	1,161,288	36,698	(20,735)	1,177,251	71,287	-	1,248,538
Total capital assets being depreciated	82,182,198	56,274	(20,735)	82,217,737	139,686	-	82,357,423
Less accumulated depreciation							
Canals, laterals, and bridges	(51,266,521)	(2,037,318)	-	(53,303,839)	(2,038,114)	-	(55,341,953)
Buildings and homes	(284,008)	(4,578)	-	(288,586)	(4,378)	-	(292,964)
Equipment	(1,023,534)	(38,515)	20,735	(1,041,314)	(41,736)	-	(1,083,050)
Less accumulated depreciation	(52,574,063)	(2,080,411)	20,735	(54,633,739)	(2,084,228)	-	(56,717,967)
Total capital assets being depreciated, net	29,608,135	(2,024,137)	-	27,583,998	(1,944,542)	-	25,639,456
Total capital assets, net	$ 29,707,905	$ (2,024,137)	$ -	$ 27,683,768	$ (1,944,542)	$ -	$ 25,739,226

Note 6 – Employee Benefit Plans

The District participates in the Washington State Public Employees Retirement System (PERS) plan, a defined benefit retirement plan. The District is not separately evaluated within PERS.

Plan description – The District contributes to PERS, a cost-sharing multiple-employer defined benefit pension plan administered by the State of Washington Department of Retirement Systems. PERS Plan 1 provides retirement and disability benefits, and minimum benefit increases beginning at age 66, to eligible plan members hired prior to October 1, 1977. PERS Plan 2 provides retirement and disability benefits, and a cost-of-living allowance, to eligible plan members hired on or after October 1, 1977. The authority to establish and amend benefit provisions resides with the legislature. The Washington State Department of Retirement Services does not make separate measurements of pension benefit obligations of individual employers. Historical trend and other information regarding the plan are presented in the Washington State Department of Retirement Systems 2013 annual financial report, which may be obtained by writing to the Department of Retirement Systems, PO Box 48380, Olympia, Washington 98504-8380.

In March 2002, PERS Plan 3 was initiated. Employees hired after March 1, 2002 had an option between PERS Plan 2 and PERS Plan 3 (expiring 90 days after hire date). If employees do not make a plan choice within the 90 days, they are automatically enrolled in PERS Plan 3 at 5% contribution rate.

Note 6 – Employee Benefit Plans (continued)

Plan 3 members have a two component benefit structure: a defined benefit component and a defined contribution component. Members are eligible for the defined benefit component at age 65 if they have ten service credit years or five service credit years, including 12 service credit months after attaining age 54, or five service credit years by September 1, 2000 under Plan 2 and transferred to Plan 3. Members are also eligible for the defined benefit component at or after age 55 if they have at least ten service credit years.

Retirement benefits for members who retire before age 65 are actuarially reduced. Plan 3 provides disability and survivor benefits. Members who separate from employment at or before the defined benefit eligibility date have immediate access to the defined contribution component. The defined contribution allows participants to choose from six different rate options.

Funding policy – The Office of the State Actuary, using funding methods prescribed by statute, determines actuarially required contribution rates for PERS. Plan 1 members are required to contribute 6% of their annual covered salary. Contributions for Plan 2 members are determined by the aggregate method and may vary over time. The contribution rates for Plan 2 employees are 4.64%. The employee contribution rates for Plan 3 vary based on defined benefit plan and defined contribution plan and the funding options chosen by the participant. The contribution rate for the District at December 31, 2013 and 2012 for PERS Plans 1, 2, and 3 was 9.21% and 7.21%, respectively. The District has made 100% of required contributions.

The District's contributions to PERS for the years ended December 31, 2013 and 2012 totaled $75,539 and $66,170, respectively.

Deferred compensation plan:

The State of Washington offers employees deferred compensation plans created in accordance with Internal Revenue Code Section 457. The plans, available to all State employees, permit them to defer a portion of their salary until future years. The District's administrative involvement includes transmitting amounts withheld from payroll to the plan administrator who performs investing functions, monitoring for deferral limits, and determining employees' eligibility to participate.

Section 457 plans require that plan assets are held in trust for the benefit of the plan participants and their beneficiaries. Therefore, the financial activity of these plans is not reported in the District's financial statements.

Note 7 – Long-Term Debt

Revenue bonds – Changes in the District's bonds payable during the years ended December 31, 2013 and 2012 are summarized below:

	Balance December 31, 2012	Additions	Reductions	Balance December 31, 2013	Amounts Due within One Year
2003 refunding bonds	$ 8,710,000	$ -	$ (8,710,000)	$ -	$ -
2013 refunding bonds	-	7,745,000	-	7,745,000	1,260,000
Less deferred amount on refunding	640,189	-	(91,456)	548,733	91,456
Total noncurrent liabilities	$ 8,069,811	$ 7,745,000	$ (8,618,544)	$ 7,196,267	$ 1,168,544

	Balance December 31, 2011	Additions	Reductions	Balance December 31, 2012	Amounts Due within One Year
2003 refunding bonds	$ 9,770,000	$ -	$ (1,060,000)	$ 8,710,000	$ 1,100,000
Less deferred amount on refunding	731,644	-	(91,455)	640,189	91,455
Total noncurrent liabilities	$ 9,038,356	$ -	$ (968,545)	$ 8,069,811	$ 1,008,545

Generally accepted accounting principles generally require the disclosure of the fair market value of long-term debt. However, due to a lack of comparable data, it is considered impracticable to estimate the fair value of the District's Refunding Revenue Bonds.

Bonds payable mature as follows:

	Bonds Payable		
Year Ending December 31,	Principal	Interest	Total
2014	$ 1,260,000	$ 96,575	$ 1,356,575
2015	1,265,000	86,656	1,351,656
2016	1,275,000	74,160	1,349,160
2017	1,295,000	58,192	1,353,192
2018	1,315,000	38,133	1,353,133
2019	1,335,000	13,524	1,348,524
	$ 7,745,000	$ 367,240	$ 8,112,240

In 1988, the District issued Refunding Revenue Bonds (the 1988 bonds) to repay certain contracts with the federal and state governments. The 1988 bonds included serial bonds maturing from 1994 through 2009 and term bonds maturing in 2019. The 1988 bonds bore interest, payable semi-annually, at rates from 6.90% on serial bonds maturing in 1994 to 8.40% on term bonds maturing in 2019. The bonds were collateralized by security in future water assessments. The 1988 bonds were paid off in June 1998 with a 10-year call option.

Note 7 – Long-Term Debt (continued)

In January 1993, the District issued 1992 Refunding Revenue Bonds (the 1992 bonds) in the amount of $25,890,000. The 1992 bonds included serial bonds maturing from 1994 through 2007 and term bonds maturing in 2013 and 2019. The 1992 bonds bore interest, payable semi-annually, at rates from 3.60% on serial bonds maturing in 1994 to 6.20% on term bonds maturing in 2019. The proceeds of the bonds were to be used principally to refund $20,710,000 of outstanding 1988 Refunding Revenue Bonds with interest rates ranging from 6.90% to 8.40%. The net proceeds of $22,739,564 (after payment of $1,548,558 in underwriting fees, insurance, and other issuance costs and $1,601,878 deposited into reserve accounts) were used to purchase U.S. Government Securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the 1988 Refunding Revenue Bonds. As a result, the 1988 Refunding Revenue Bonds were considered to be in-substance defeased and the liability for those bonds was removed from long-term debt.

The advance refunding resulted in an accounting loss of $2,559,569, which was the difference between the reacquisition price and the net carrying amount of the old debt. The accounting loss, reported in the accompanying financial statements as a deduction from bonds payable, is being amortized over the life of the 1988 bonds using the bonds outstanding method. The District completed the advance refunding to reduce its total debt service payments over the next 26 years by $496,311 and to obtain an economic gain (difference between the present values of the old and new debt service payments) of $811,575. The remaining amount of $1,385,142 was amortized during the year ended December 31, 2005.

In December 2003, the District issued 2003 Refunding Revenue Bonds in the amount of $17,220,000. The 2003 bonds include term bonds maturing from 2004 to 2019. The 2003 bonds bear interest, payable semi-annually, at rates from 2.00% to 4.50%. The proceeds of the bonds were used to refund the outstanding 1992 Refunding Revenue Bonds.

The advance refunding of the 1992 Refunding Revenue Bonds resulted in an accounting loss of $1,463,288, which is the difference between the reacquisition price and the net carrying amount of the old debt. The accounting loss, reported in the accompanying financial statements as a deduction from bonds payable, is being amortized over the life of the 2003 Refunding Revenue Bonds. The accumulated amortization at December 31, 2012 was $823,100.

In June 2013, the District issued 2013 Refunding Revenue Bonds in the amount of $7,745,000. The 2013 bonds include term bonds maturing from 2014 to 2019. The 2013 bonds bear interest, payable semi-annually, at rates from 0.70% to 2.03%. The proceeds of the bonds were used to refund the outstanding 2003 Refunding Revenue Bonds.

The current refunding of the 2003 Refunding Revenue Bonds resulted in an accounting loss of $548,733, which is the difference between the reacquisition price and the net carrying amount of the old debt. The accounting loss, reported in the accompanying financial statement as a deduction from bonds payable, is being amortized over the life of the 2013 Refunding Revenue Bonds. The accumulated amortization at December 31, 2013 was $91,456. The District completed the advance refunding to reduce its total debt service payments over the next six years by $537,771 and to obtain an economic gain of $513,895.

Note 7 – Long-Term Debt (continued)

Other obligation – During 2013, the District entered into a financing agreement with CAT Financial. The agreement calls for monthly payments of $1,304, including interest at 3.20%, with any remaining unpaid principal and interest due May 2016. The agreement is collateralized by equipment. The note had an outstanding balance of $36,357 at December 31, 2013.

Long-term debt matures as follows:

	Long-Term Debt		
Year Ending December 31,	Principal	Interest	Total
2014	$ 14,704	$ 949	$ 15,653
2015	15,182	472	15,654
2016	6,471	52	6,523
	$ 36,357	$ 1,473	$ 37,830

Note 8 – Financial Derivatives

During 2006, the District entered into a forward delivery agreement with The Bank of New York Mellon Trust Company, N.A. Per the agreement, The Bank of New York Mellon Trust Company, N.A. manages the funds in the District's Reserve, Surplus, and Emergency Funds and guarantees a rate of return of 4.178%. The fair value of this derivative has not been recorded in the financial statements as of December 31, 2013.

Note 9 – Debt Service Deposit Agreement

In December 1996, the District entered into a Debt Service Deposit Agreement (DSDA). This DSDA has been structured by a Provider and requires the District to sell their rights to invest the debt service fund deposits for a part of the life (10 years) of the associated bonds. Under this arrangement, the District owns the assets held in trust with The Bank of New York Mellon Trust Company, N.A. (formerly held by J. P. Morgan Trust) and continues to fund the debt service reserve accounts. The District receives a guaranteed fixed rate of return of 6.1% on the invested funds. The Bank of New York Mellon Trust Company, N.A. is responsible for forwarding appropriate debt service amounts to the bond trustee. During 2003, the agreement was amended to include the 2003 Refunding Revenue Bonds. During 2008, Lehman Special Financing declared bankruptcy which is considered a default under the DSDA agreement. As a result of the default, the District terminated the agreement. The District, in consultation with the Bank of New York Mellon, has filed a claim in the bankruptcy court to be compensated for the lost earnings. Management, with the assistance of an outside consultant, estimates the present value earnings loss associated with the bankruptcy to be $546,000. This is the amount of the claim that was filed by the District with the court. The District received $93,652 during the year ended December 31, 2012 as a result of their claim.

Note 10 – Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; injuries to employees; and natural disasters. The District carries commercial insurance for risk of loss and financed these risks by purchasing commercial insurance for their worker's compensation and employer's liability.

The District did not have settled claims that exceeded the District's commercial insurance coverage in any of the past three years.

The District's deductible and maximum coverage are as follows:

Coverage Description	Deductibles	Commercial Insurance Coverage
General liability, law enforcement, and automobile	$ 1,000	$20,000,000 in aggregate
Property	$ 1,000**	$500,000 in aggregate
Boiler and machinery	$ 5,000*	Approximately $17,000,000
Employee dishonesty	$ 1,000	$1,000,000
Employment practices liability	$ 1,000	$50,000,000 in aggregate
Public officials liability	$ 1,000	$10,000,000

* $10,000 deductible on hydroelectric plant
** Except for earthquake and flood - see agreement for specifics.

Note 11 – Power Purchase Agreement

In 1985, the District entered into a contract with Pacific Power & Light Co. to sell the "net metered output" generated by the Cowiche Hydroelectric Station and the Orchard Avenue Hydroelectric Station. This contract originally ended in 2005 but was extended through the year ending 2012. The District was to provide a minimum of 7,000,000 kWh (kilowatt hours) and Pacific Power purchased all net metered output in excess of 7,000,000 kWh. The parties renegotiated a new contract for power sales in December 2012. The new contract became effective January 1, 2013.

During 2012, the District entered into a new contract with PacifiCorp to make available for sale "net output." The new contract will be effective January 1, 2013 through December 31, 2015. "Net output" is defined as all energy produced by the facility, less station use, less transportation and transmission losses, and other adjustments, if any. For all net output delivered, PacifiCorp will pay the District as follows:

Year	Capacity Payment Dollars/kW - Month	Energy Payment Dollars/MWH
2013	2.35	31.78
2014	2.39	34.84
2015	2.44	37.42

Note 12 - Transfer of Federal Energy Regulatory Commission License

In 2005, the District entered into a contract with Tieton Hydropower, LLC to transfer the District's Federal Energy Regulatory Commission License to Tieton Hydropower in exchange for an annual royalty for each year the project generates 30 million kWh or greater. During the first 15 years of operation, the annual royalty will be calculated at 3 of gross revenue each year. After 15 years, it will be calculated at 16 of the gross revenue of the project for the months of October through April each year, and 12 of the gross revenue of the project for the months of May through September.

In late 2009, the Tieton Hydropower Plant was sold by Tieton Hydropower, LLC to members of the Southern California Public Power Agency (SCPPA). These members are the city of Burbank and Pasadena, California. A new royalty agreement was put in place whereby the District receives $4.94 for each megawatt hour generated. The royalty payments are made twice a year, in June of the generation year and within 30 days of December 31 of each generation year.

Note 13 – New accounting standard

The District adopted GASB Statement No. 63 which amends the former net assets reporting requirements by incorporating deferred inflows of resources and deferred outflows of resources into the definitions of required financial statement components and renamed Net Assets as Net Position. The District's financial statements have been modified to conform to the requirements of this statement. Implementation did not have a material impact on the District's financial results.

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.

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