



Washington State Auditor's Office

Government that works for citizens

Financial Statements Audit Report

Spokane County Water District No. 3

For the period January 1, 2014 through December 31, 2015

Published July 21, 2016

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Washington State Auditor's Office

July 21, 2016

Board of Commissioners
Spokane County Water District No. 3
Spokane Valley, Washington

Report on Financial Statements

Please find attached our report on Spokane County Water District No. 3's financial statements.

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

Sincerely,

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

TROY KELLEY
STATE AUDITOR
OLYMPIA, WA

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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**

**Spokane County Water District No. 3
January 1, 2014 through December 31, 2015**

Board of Commissioners
Spokane County Water District No. 3
Spokane, Washington

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Spokane County Water District No. 3, Washington, as of and for the years ended December 31, 2015 and 2014, and the related notes to the financial statements, which collectively comprise the District's financial statements, and have issued our report thereon dated June 21, 2016.

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 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.

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

TROY KELLEY
STATE AUDITOR
OLYMPIA, WA

June 21, 2016

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Spokane County Water District No. 3 January 1, 2014 through December 31, 2015

Board of Commissioners
Spokane County Water District No. 3
Spokane, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of Spokane County Water District No. 3, Washington, for the years ended December 31, 2015 and 2014, and the related notes to the financial statements, which collectively comprise the District's financial statements, as listed on page 11.

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, Spokane County Water District No. 3 has prepared these financial statements to meet the financial reporting requirements of Washington State statutes using accounting practices prescribed by 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 Spokane County Water District No. 3, for the years ended December 31, 2015 and 2014, 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 Spokane County Water District No. 3, as of December 31, 2015 and 2014, 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 June 21, 2016 on our consideration of the District’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report

is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "Troy X. Kelley". The signature is written in dark ink and is positioned above the printed name.

TROY KELLEY
STATE AUDITOR
OLYMPIA, WA

June 21, 2016

FINANCIAL SECTION

Spokane County Water District No. 3 January 1, 2014 through December 31, 2015

FINANCIAL STATEMENTS

Fund Resources and Uses Arising from Cash Transactions – 2015
Fund Resources and Uses Arising from Cash Transactions – 2014
Notes to Financial Statements – 2015
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SUPPLEMENTARY AND OTHER INFORMATION

Schedules of Liabilities – 2015
Schedules of Liabilities – 2014

Spokane County Water District No. 3
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2015

Beginning Cash and Investments

30810	Reserved	-
30880	Unreserved	2,070,613
388 & 588	Prior Period Adjustments, Net	-

Operating Revenues

310	Taxes	-
320	Licenses and Permits	-
330	Intergovernmental Revenues	-
340	Charges for Goods and Services	3,802,240
350	Fines and Penalties	-
360	Miscellaneous Revenues	4,652
Total Operating Revenues:		<u>3,806,892</u>

Operating Expenditures

530	Utilities	2,425,966
598	Miscellaneous Expenses	-
Total Operating Expenditures:		<u>2,425,966</u>
Net Operating Increase (Decrease):		<u>1,380,926</u>

Nonoperating Revenues

370-380, 395 & 398	Other Financing Sources	614,693
391-393	Debt Proceeds	-
397	Transfers-In	-
Total Nonoperating Revenues:		<u>614,693</u>

Nonoperating Expenditures

580, 596 & 599	Other Financing Uses	-
591-593	Debt Service	-
594-595	Capital Expenditures	2,315,468
597	Transfers-Out	-
Total Nonoperating Expenditures:		<u>2,315,468</u>

Net Increase (Decrease) in Cash and Investments: **(319,849)**

Ending Cash and Investments

5081000	Reserved	-
5088000	Unreserved	1,750,764
Total Ending Cash and Investments		<u>1,750,764</u>

The accompanying notes are an integral part of this statement.

Spokane County Water District No. 3
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2014

Beginning Cash and Investments

30810	Reserved	-
30880	Unreserved	2,104,595
388 & 588	Prior Period Adjustments, Net	-

Operating Revenues

310	Taxes	-
320	Licenses and Permits	-
330	Intergovernmental Revenues	-
340	Charges for Goods and Services	3,143,166
350	Fines and Penalties	-
360	Miscellaneous Revenues	6,403
Total Operating Revenues:		3,149,569

Operating Expenditures

530	Utilities	2,291,630
Total Operating Expenditures:		2,291,630
Net Operating Increase (Decrease):		857,939

Nonoperating Revenues

370-380, 395 & 398	Other Financing Sources	368,721
391-393	Debt Proceeds	-
397	Transfers-In	-
Total Nonoperating Revenues:		368,721

Nonoperating Expenditures

580, 596 & 599	Other Financing Uses	-
591-593	Debt Service	131,214
594-595	Capital Expenditures	1,129,429
597	Transfers-Out	-
Total Nonoperating Expenditures:		1,260,642

Net Increase (Decrease) in Cash and Investments: **(33,983)**

Ending Cash and Investments

5081000	Reserved	-
5088000	Unreserved	2,070,613
Total Ending Cash and Investments		2,070,613

The accompanying notes are an integral part of this statement.

SPOKANE COUNTY WATER DISTRICT NO. 3
NOTES TO FINANCIAL STATEMENTS
JANUARY 1, 2015 THROUGH DECEMBER 31, 2015

Note 1 - Summary Of Significant Accounting Policies

The Spokane County Water District #3 was incorporated in 1986 assumed water system operations in August, 1988 and operates under the laws of the state of Washington applicable to water and sewer districts under Chapter 57 RCW. The district is a proprietary special purpose district that provides water services to the general public and is supported primarily through user fees and utility limited improvement assessments.

The Spokane County Water District #3 reports financial activity in accordance with the *Cash Basis Budgeting, Accounting and Reporting System* (BARS) Manual prescribed by the State Auditor's Office under the authority of Washington State law, Chapter 43.09 RCW. This manual prescribes a financial reporting framework that differs from generally accepted accounting principles (GAAP) in the following manner:

- Financial transactions are recognized on a cash basis of accounting as described below.
- Component units are required to be disclosed, but are not included in the financial statements.
- Government-wide statements, as defined in GAAP, are not presented.
- All funds are presented, rather than a focus on major funds.
- The *Schedule of Liabilities* is required to be presented with the financial statements as supplementary information.
- Supplementary information required by GAAP is not presented.
- Ending balances are not presented using the classifications defined in GAAP.

A. Fund Accounting

Financial transactions of the government are reported in individual funds. Each fund uses a separate set of self-balancing accounts that comprises its cash and investments, revenues and expenditures. The government's resources are allocated to and accounted for in individual funds depending on their intended purpose. Each fund is reported as a separate column in the financial statements. The following fund types are used:

PROPRIETARY FUND TYPES:

Enterprise Funds

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

B. Basis of Accounting and Measurement Focus

Financial statements are prepared using the cash basis of accounting and measurement focus. Revenues are recognized when cash is received and expenditures are recognized when paid.

C. Budgets

The District is not required by State law to adopt an annual appropriations budget; however, it is the District's practice to adopt an annual budget as a fiscal management tool.

D. Cash and Investments

See Note 2, Deposits and Investments

E. Capital Assets

Capital assets are assets with an initial individual cost of more than \$5,000.00 and an estimated useful life in excess of 10 years. Capital assets and inventory are recorded as capital expenditures when purchased.

F. Compensated Absences

Vacation leave may be accumulated up to the total amount that the employee is capable of earning in two years; the earning rate is dependent upon years of service. The maximum earnings rate is 4 weeks per year. Vacation leave balances are payable upon separation or retirement.

Sick leave may be accumulated up to a total of 130 days. Upon separation from employment, any unused sick leave is forfeited and is not paid as separation pay, except that for separation due to death, retirement or termination after twenty (20) years. The employee will be paid twenty-five percent (25%) of their accumulated sick leave up to 130 days at their permanent rate of pay. This amount may be paid to the employee over a 3 month period.

G. Long-Term Debt See Note 3, Debt Service Requirements

H. Other Financing Sources or Uses

The District did not have any activity in fiscal period 2015 that would be classified as "Other Financing Sources or Uses".

I. Risk Management

Spokane County Water District #3 is a member of the Cities Insurance Association of Washington (CIAW). Chapter 48.62 RCW authorizes the governing body of any one or more governmental entities to form together into 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-insure, or hire or contract for risk management services. An agreement to form a pooling arrangement was made pursuant to the provisions of Chapter 39.34 RCW, the Interlocal Cooperation Act. The pool was formed on September 1, 1988 when 34 cities 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. As of December 1, 2015, there are 210 members in the program.

The pool provides the following forms of joint self-insurance and excess coverage for its members: Property, including automobile comprehensive and collision, equipment breakdown and crime protection, and liability, including general, automobile and wrongful acts, are included to fit members' various needs.

The pool acquires liability insurance through their Administrator, Clear Risk Solutions, which is subject to a per-occurrence self-insured retention of \$100,000, with the exception of Wrongful Acts and law Enforcement Liability which have a self-insured retention of \$25,000. The standard member deduction is \$1,000 for each claim (deductible may vary per member), while the program is responsible for the \$100,000 self-insured retention. Insurance carriers cover insured losses over \$101,000 to the limits of each policy. Since the program is a cooperative program, there is a joint liability among the participating members towards the sharing of the \$100,000 portion of the self-insured retention. The program also purchases a Stop Loss Policy as another layer of protection to its membership, with an attachment point of \$2,140,107.

Property insurance is subject to a per-occurrence self-insured retention of \$25,000. Members are responsible for the first \$1,000 of the deductible amount of each claim. The pool bears the \$25,000 self-insured retention, in addition to the deductible.

Equipment breakdown insurance is subject to a per-occurrence deductible of \$2,500 which may vary per member with the exception of Pumps & Motors which is \$10,000. Members are responsible for the deductible amount of each claim. There is no program self-insured retention on this coverage, with the exception of Pumps & Motors which is \$15,000 and is covered by the CIAW.

Members contract to remain in the pool for a minimum of one year, and must give notice before December 1, to terminate participation the following December 1. The Interlocal Agreement is renewed automatically each year. In the event of termination, a member is still responsible for contributions to the program for any unresolved, unreported, and in-process claims for the period they were a signatory to the Interlocal Agreement.

A board of ten members is selected by the membership from three geographic areas of the state on a staggered term basis and is responsible for conducting the business affairs of the program.

The program has no employees. Claims are filed by members/brokers with Clear Risk Solutions, who has been contracted to perform program administration, claims adjustment, and loss prevention for the program. Fees paid to the third party administrator under this arrangement for the year ended December 1, 2015 were \$627,702.49.

Note 2 – Deposits and Investments

It is the District's policy to invest all temporary cash surpluses.

All deposits and certificates of deposit are covered by the Federal Deposit Insurance Corporation and/or the Washington Public Deposit Protection Commission. All investments are insured, registered or held by the District or its agent in the government's name.

Investments are reported at original cost. Investments by type at December 31, 2015 are as follows:

Type of Investment	District's Own investments	Investments held by District as an agent for other local governments, individuals or private organizations	Total
L.G.I.P.	\$1,003,022.23	\$0.00	\$1,003,022.23
Banner Bank	\$ 250,000.00	\$0.00	\$ 250,000.00
Other			
Total	\$1,253,022.23	\$0.00	\$1,253,022.23

Note 3 – Contingent Liability

The District provides or makes available a life insurance benefit for each of the District's employees. In addition, the District self-insures certain employees for any deficit between the benefit amount paid by the insurance carrier and three (3) times an employee's annual salary. As of December 31, 2015, the District's potential obligation would not exceed \$144,000.

Note 4 – Pension Plans

Substantially all District full-time and qualifying part-time employees participate in the following statewide retirement systems administered by the Washington State Department of Retirement Systems (DRS), under cost-sharing multiple-employer public employee defined benefit and defined contribution retirement plans PERS 1 and PERS 2.

The State Legislature establishes, and amends, laws pertaining to the creation and administration of all public retirement systems.

The Department of Retirement Systems, a department within the primary government of the State of Washington, issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for each plan. The DRS CAFR may be obtained by writing to:

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

Also, the DRS CAFR may be downloaded from the DRS website at www.drs.wa.gov.

At June 30, 2015 (the measurement date of the plans), the district's proportionate share of the collective net pension liabilities, as reported on the Schedule 09, was as follows:

	Allocation %	Liability (Asset)
PERS 1	0.002654%	\$ 138,829
PERS 1 UAAL	0.005603%	\$ 293,089
PERS 2 and 3	0.007235%	\$ 258,511

SPOKANE COUNTY WATER DISTRICT NO. 3
NOTES TO FINANCIAL STATEMENTS
JANUARY 1, 2014 THROUGH DECEMBER 31, 2014

Note 1 - Summary Of Significant Accounting Policies

The Spokane County Water District #3 was incorporated in 1986 assumed water system operations in August, 1988 and operates under the laws of the state of Washington applicable to water and sewer districts under Chapter 57 RCW. The district is a proprietary special purpose district that provides water services to the general public and is supported primarily through user fees and utility limited improvement assessments.

The Spokane County Water District #3 reports financial activity in accordance with the *Cash Basis Budgeting, Accounting and Reporting System* (BARS) Manual prescribed by the State Auditor's Office under the authority of Washington State law, Chapter 43.09 RCW. This manual prescribes a financial reporting framework that differs from generally accepted accounting principles (GAAP) in the following manner:

- Financial transactions are recognized on a cash basis of accounting as described below.
- Component units are required to be disclosed, but are not included in the financial statements.
- Government-wide statements, as defined in GAAP, are not presented.
- All funds are presented, rather than a focus on major funds.
- The *Schedule of Liabilities* is required to be presented with the financial statements as supplementary information.
- Supplementary information required by GAAP is not presented.
- Ending balances are not presented using the classifications defined in GAAP.

A. Fund Accounting

Financial transactions of the government are reported in individual funds. Each fund uses a separate set of self-balancing accounts that comprises its cash and investments, revenues and expenditures. The government's resources are allocated to and accounted for in individual funds depending on their intended purpose. Each fund is reported as a separate column in the financial statements. The following fund types are used:

PROPRIETARY FUND TYPES:

Enterprise Funds

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

B. Basis of Accounting and Measurement Focus

Financial statements are prepared using the cash basis of accounting and measurement focus. Revenues are recognized when cash is received and expenditures are recognized when paid.

C. Budgets

The District is not required by State law to adopt an annual appropriations budget; however, it is the District's practice to adopt an annual budget as a fiscal management tool.

D. Cash and Investments

See Note 2, Deposits and Investments

E. Capital Assets

Capital assets are assets with an initial individual cost of more than \$5,000.00 and an estimated useful life in excess of 10 years. Capital assets and inventory are recorded as capital expenditures when purchased.

F. Compensated Absences

Vacation leave may be accumulated up to the total amount that the employee is capable of earning in two years; the earning rate is dependent upon years of service. The maximum earnings rate is 4 weeks per year. Vacation leave balances are payable upon separation or retirement.

Sick leave may be accumulated up to a total of 130 days. Upon separation from employment, any unused sick leave is forfeited and is not paid as separation pay, except that for separation due to death, retirement or termination after twenty (20) years. The employee will be paid twenty-five percent (25%) of their accumulated sick leave up to 130 days at their permanent rate of pay. This amount may be paid to the employee over a 3 month period.

G. Long-Term Debt See Note 3, Debt Service Requirements

H. Other Financing Sources or Uses

The District did not have any activity in fiscal period 2014 that would be classified as "Other Financing Sources or Uses".

I. Risk Management

Spokane County Water District #3 is a member of the Cities Insurance Association of Washington (CIAW). Chapter 48.62 RCW authorizes the governing body of any one or more governmental entities to form together into 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-insure, or hire or contract for risk management services. An agreement to form a pooling arrangement was made pursuant to the provisions of Chapter 39.34 RCW, the Interlocal Cooperation Act. The pool was formed on September 1, 1988 when 34 cities 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. As of December 1, 2014, there are 223 member in the program.

The pool provides the following forms of joint self-insurance and excess coverage for its members: Property, including automobile comprehensive and collision, equipment breakdown and crime protection, and liability, including general, automobile and wrongful acts, are included to fit members' various needs.

The pool acquires liability insurance through their Administrator, Canfield, that is subject to a per-occurrence self-insured retention of \$100,000. The standard member deduction is \$1,000 for each claim (deductible may vary per member), while the pool is responsible for the remaining \$100,000 self-insured retention. Insurance carriers cover insured losses over \$101,000 to the limits of each policy. Since the program is a cooperative program, there is a joint liability among the participating members towards the sharing of the \$100,000 portion of the self-insured retention. The program also purchases a Stop Loss Policy with an attachment point of \$3,259,396 to cap the total claims paid by the program in any one policy term.

Property insurance is subject to a per-occurrence self-insured retention of \$25,000. Members are responsible for the first \$1,000 of the deductible amount of each claim. The pool bears the \$25,000 self-insured retention in addition to the deductible.

Equipment breakdown insurance is subject to a per-occurrence deductible of \$2,500 which may vary per member with the exception of Pumps & Motors which is \$10,000. Members are responsible for the deductible amount of each claim. There is no program self-insured retention on this coverage, with the exception of Pumps & Motors which is \$15,000 and is covered by the CIAW.

Members contract to remain in the pool for a minimum of one year, and must give notice before August 31 before terminating participation the following September 1. The Interlocal Agreement is renewed automatically each year. In the event of termination, a member is still responsible for contributions to the program for any unresolved, unreported, and in-process claims for the period they were a signatory to the Interlocal Agreement.

A board of ten members is selected by the membership from three geographic areas of the state on a staggered term basis and is responsible for conducting the business affairs of the program. On July 21, 2014, the Board passed a resolution changing the CIAW's renewal date from September 1, to December 1st beginning with the 2014-15 policy term. An endorsement was added to the 2013-14 Memorandum of Coverage, extending coverage to December 1, 2014. The next full policy year will begin on December 1,

2014. Premiums were prorated for the extension period. Invoices and certificates were issued.

The program has no employees. Claims are filed by members/brokers with Canfield, which has been contracted to perform program administration, claims adjustment, and loss prevention for the program. Fees paid to the third party administrator under this arrangement for the year ended December 1, 2014 were \$1,817,654.59.

NOTE 2 – INVESTMENTS

The District's investments are either insured, registered or held by the District or its agent in the name of Spokane County Water District No. 3.

Investments are presented at cost.

Investments by type at December 31, 2014 are as follows:

Type of Investment	District's Own investments	Investments held by District as an agent for other local governments, individuals or private organizations	Total
L.G.I.P.	\$1,501,492.90	\$0.00	\$1,501,492.90
Banner Bank	\$250,000.00	\$0.00	\$250,000.00
Other			
Total	\$1,751,492.90	\$0.00	\$1,751,492.90

NOTE 3 –DEBT SERVICE REQUIREMENTS

The accompanying Schedule of Liabilities (09) provides more details of the outstanding debt and liabilities of the Spokane County Water District #3 and summarizes the district's debt transactions for year ended December 31, 2014.

The district paid off its outstanding Public Works Trust Fund loan in 2014.

NOTE 4 – CONTINGENT LIABILITY

The District provides or makes available a life insurance benefit for each of the District's employees. In addition, the District self-insures certain employees for any deficit between the benefit amount paid by the insurance carrier and three (3) times an employee's annual salary. As of December 31, 2014, the District's potential obligation would not exceed \$140,000.

NOTE 5 – PENSION PLANS

Substantially all District full-time and qualifying part-time employees participate in the Public Employees Retirement System 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 trend 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

Spokane County Water District No. 3
Schedule of Liabilities
For the Year Ended December 31, 2015

ID. No.	Description	Due Date	Beginning Balance	Additions	Reductions	Ending Balance
Revenue Obligations						
259.12	Compensated Absence Liability	12/31/2015	87,312	-	20,164	67,148
263.94	Contingent Liability - Life Insurance	12/31/2015	140,000	4,000	-	144,000
263.94	Pension Liability -PERS	6/30/2015	-	690,429	-	690,429
Total Revenue Obligations:			227,312	694,429	20,164	901,577
Total Liabilities:			227,312	694,429	20,164	901,577

Spokane County Water District No. 3
Schedule of Liabilities
For the Year Ended December 31, 2014

ID. No.	Description	Due Date	Beginning Balance	Additions	Reductions	Ending Balance
Revenue Obligations						
263.82	PWTF - 1999	6/30/2014	128,641	-	128,641	-
259.12	Compensated Absence Liability	12/31/2014	107,990	-	20,678	87,312
263.94	Contingent Liabilities - Life Insurance	12/31/2014	133,000	7,000	-	140,000
Total Revenue Obligations:			369,631	7,000	149,319	227,312
Total Liabilities:			369,631	7,000	149,319	227,312

ABOUT THE STATE AUDITOR'S OFFICE

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

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

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

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

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

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

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

Contact information for the State Auditor's Office	
Public Records requests	PublicRecords@sao.wa.gov
Main telephone	(360) 902-0370
Toll-free Citizen Hotline	(866) 902-3900
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