Washington State Auditor's Office

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Financial Statements Audit Report

Public Utility District No. 1 of Skagit County

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

Published October 27, 2016

Report No. 1017756

Washington State Auditor's Office

October 27, 2016

Board of Commissioners
Public Utility District No. 1 of Skagit County
Mount Vernon, Washington

Report on Financial Statements

Please find attached our report on Public Utility District No. 1 of Skagit County's financial statements.

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

Sincerely,

Troy X. Kelley

TROY KELLEY
STATE AUDITOR
OLYMPIA, WA

TABLE OF CONTENTS

SCHEDULE OF AUDIT FINDINGS AND RESPONSES

Skagit County Public Utility District No. 1
January 1, 2015 through December 31, 2015

2015-001 The District's internal controls over financial statements, preparation are inadequate to ensure accurate reporting.

Background

District commissioners, state and federal agencies, and the public rely on the information included in the financial statements and report to make decisions. It is the responsibility of District management to design and follow internal that provide reasonable assurance regarding the reliability of financial reporting.

Our audit identified a deficiency in internal controls over financial reporting that affected the District's ability to produce reliable financial statements.

Description of Condition

The District does not have a process in place to ensure capital assets are properly re-classified from construction in progress and begin to be depreciated when they are substantial complete/placed in service.

This deficiency in internal controls over financial reporting represents a material weakness.

Cause of Condition

The District's general ledger system, AS400, does not allow the District to begin depreciating an asset until the entire cost of the asset has been paid. The District did not make manual corrections to the general ledger or financial statements to compensate for the limitation in the general ledger system.

Effect of Condition

The material weakness in internal controls resulted in the following misstatement found in the financial statements submitted for audit:

- Assets that were substantially complete and at least partially in use were misclassified as Construction in Progress (CIP), and were not depreciated during the audit period.

Recommendation

We recommend the District implement procedures to ensure capital assets are properly re-classified from construction in progress and begin to be depreciated when they are substantial complete/placed in service.

District's Response

Skagit PUD is committed to cooperating with the State Auditor's Office to ensure the District is in compliance with all regulations. The District appreciates the Auditor's input regarding the proper classification of assets within the financial statements. The project in question has been completed in 2016 and capitalized to Plant. Not changing the classification in 2015 does not have a material impact on the financial statements overall, therefore we opted to make the correction to 2016.

Auditor's Remarks

We thank the District for its commitment to resolving the issue identified above. We will follow-up on the status of this finding during our next audit.

Applicable Laws and Regulations

RCW 3.09.200 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:
>
> 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:

> 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 Accounts defines significant deficiencies and material weaknesses in its Codification of Statements on Audit Standards section 115 as follows:

> a. Significant deficiency: A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.
>
> b. Material weakness: A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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*

Public Utility District No. 1 of Skagit County
January 1, 2014 through December 31, 2015

Board of Commissioners
Public Utility District No. 1 of Skagit County
Mount Vernon, 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 Public Utility District No. 1 of Skagit County, 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 basic financial statements, and have issued our report thereon dated October 18, 2016. As discussed in Note 1 to the financial statements, during the year ended December 31, 2015, the District implemented Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*.

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 2015-001 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 RESPONSE TO FINDINGS

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

PURPOSE OF THIS REPORT

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

It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Troy X. Kelley

TROY KELLEY

STATE AUDITOR

OLYMPIA, WA

October 18, 2016

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Public Utility District No. 1 of Skagit County
January 1, 2014 through December 31, 2015

Board of Commissioners
Public Utility District No. 1 of Skagit County
Mount Vernon, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of Public Utility District No. 1 of Skagit County, 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 basic financial statements as listed on page 13.

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 Public Utility District No. 1 of Skagit County, as of December 31, 2015 and 2014, 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 1 to the financial statements, in 2015, the District adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*. 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 14 through 18, information on postemployment benefits other than pensions on page 53 and pension plan information on pages 54 through 55 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated October 18, 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.

Troy X. Kelley

TROY KELLEY

STATE AUDITOR

OLYMPIA, WA

October 18, 2016

FINANCIAL SECTION

Public Utility District No. 1 of Skagit County
January 1, 2014 through December 31, 2015

REQUIRED SUPPLEMENTARY INFORMATION

BASIC FINANCIAL STATEMENTS

REQUIRED SUPPLEMENTARY INFORMATION

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Management Discussion and Analysis of Public Utility District No. 1 of Skagit County (the District) provides an overview and analysis of the District's financial activities for the years ended December 31, 2015 and 2014. This information is designed to be used in conjunction with the financial statements and notes which follow this section.

OVERVIEW OF THE FINANCIAL STATEMENTS

Basic Financial Statements

The District's basic financial statements are comprised of two components: 1) Proprietary fund financial statements and 2) Notes to the financial statements. The District uses a single-enterprise fund with voter-approved authority for both water and sewer, although the District does not have sewer operations at this time. The District also provides wholesale telecommunication services within the District which is authorized under the Revised Code of Washington[1].

The financial statements of the District are designed to provide readers with a broad overview of the District's finances similar to statements of a private-sector business. They are prepared using the accrual basis of accounting in accordance with generally accepted accounting principles. Under this basis of accounting, revenues are recognized in the period in which they are earned and expenses are recognized in the period in which they are incurred, regardless of the timing of related cash flows. These statements offer short-term and long-term financial statement information about District activities.

The Comparative Statement of Net Position provides information on all of the District's assets and liabilities with the difference between the two reported as net position. Increases or decreases in net position are useful indicators of the financial position of the District. The statement also provides information about the nature and amount of investments in assets, as well as the obligations of the District.

The Comparative Statements of Revenues, Expenses, and Changes in Fund Net Position provide information on the District's current and prior year revenues and expenses. This statement measures the success of the District's operations and its ability to recover its costs through user fees and other charges.

The Comparative Statement of Cash Flows provides relevant information about the District's cash receipts and cash payments. This statement reports net cash receipts from operations, investing, and financing activities, as well as changes in cash balances during the year.

Notes to the Financial Statements

The Notes to the Financial Statements provide additional information that is essential to a full understanding of the data provided in the basic financial statements.

[1] RCW 54.16.330 Provision of Wholesale Telecommunication Services

FINANCIAL ANALYSIS

The following analysis provides a three-year comparison of key financial information:

CONDENSED COMPARATIVE FINANCIAL INFORMATION
December 31, 2015, 2014, and 2013

NET POSITION

	2015	2014	2013
Current and other assets	$ 16,040,638	$ 15,091,717	$ 16,618,457
Capital assets	153,002,914	150,906,976	149,588,317
Total assets	169,043,552	165,998,693	166,206,774
Deferred outflow of resources	562,579	246,758	0
Current & other liabilities	2,185,299	1,890,738	2,292,683
Current portion of debt	2,647,223	2,607,223	2,492,223
Long-term debt	17,765,275	19,439,504	21,537,166
Net pension liability	4,783,347	3,706,562	0
Total liabilities	27,381,144	27,644,027	26,322,072
Deferred inflow of resources	713,799	1,572,800	0
Total net position	$ 141,511,188	$ 137,028,624	$ 139,884,702

NET POSITION DETAIL

	2015	2014	2013
Invested in capital assets, net	$ 134,148,357	$ 130,145,390	$ 126,634,508
Restricted assets	417,093	396,075	454,190
Unrestricted assets	6,945,738	6,487,159	12,796,004
Total net position	$ 141,511,188	$ 137,028,624	$ 139,884,702

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

	2015	2014	2013
Operating revenues	$ 18,168,335	$ 16,474,394	$ 15,427,658
Non-operating revenues	191,165	224,926	239,196
Total revenues	$ 18,359,500	$ 16,699,320	$ 15,666,854
Operating expenses	$ 16,211,118	$ 15,969,112	$ 14,407,919
Non-operating expenses	328,641	498,728	772,338
Total expenses	$ 16,539,759	$ 16,467,840	$ 15,180,257
Income (loss)	$ 1,819,741	$ 231,480	$ 486,597
Capital contributions	2,662,823	1,945,046	1,754,713
Change in net position	$ 4,482,564	$ 2,176,526	$ 2,241,310
Total net position, January 1	137,028,624	139,884,702	137,643,392
Cummulative effect of a change in accounting principle-GASB 68	0	(5,032,604)	0
Total net position, December 31	$ 141,511,188	$ 137,028,624	$ 139,884,702

Total Net Position may serve as a useful indicator of the District's financial position. At the end of 2015, the District's total net position was $141,511,188 as compared with $137,028,624 for 2014, an increase of $4,482,564.

Invested in capital assets, net of related debt, constitutes the largest portion of the District's Total Net Position. This classification reflects the District's investment in capital assets (land, plant, and equipment) less any remaining related debt. The District uses its capital assets to provide services to its customers. These assets are not available for future spending. Although the District's investments in capital assets are reported net of related debt, it should be noted that the resources needed to repay debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Restricted assets, which constitute another portion of the District's Total Net Position, represent resources that are subject to external restrictions on how the funds may be used. Restrictions placed on these assets generally relate to constraints derived from grants, loans, or other debt. The significant portion of the 2015 and 2014 restricted asset balances are associated with water revenue bond interest, which was $155,257 in 2015 and $174,457 in 2014. The remaining funds are restricted for the District's bonds sinking fund, and bond. In total, restricted assets increased slightly by $21,018 between 2015 and 2014 because of Grant money due, as compared to the decrease between 2014 and 2013 of $58,115, which is due to a reduction in water revenue bond interest.

Unrestricted assets constitute the remainder of the District’s Total Net Position. Unrestricted assets may be used to meet the District’s ongoing obligations to customers and creditors. Unrestricted assets increased between 2015 and 2014 by $458,579 and decreased between 2014 and 2013 by $6,308,845. The 2015 increase is from additional engineering and design costs for capital projects. The 2014 decrease includes a $5,032,604 restatement of value for the effect of the GASB 68 principle change, the remaining decrease of $1,326,676 is due to the use of reserves to fund capital projects and to pay down accounts payable.

Water sales increases for the year were based in part upon an 8.00 percent rate increase, which became effective January 1, 2015.

Operating expenses increased in 2015 by $242,006 and increased in 2014 by $1,561,193. The increase in the 2015 operating expenses was mainly due to the construction/maintenance crew time was concentrated on maintenance work.

Non-operating revenues decreased by $33,761 in 2015 and by $14,270 in 2014. The decrease from 2014 to 2015 is attributed to a reduction in miscellaneous non-operating income and the amount of revenue derived from interest and penalty income from Local Utility District (LUD) assessments. This reduction is the result of LUD systems being paid in full and the District actively pursuing collections of delinquent assessments.

Non-operating expenses decreased in 2015 by $170,087 and decreased in 2014 by $273,610. The 2015 decrease in non-operating expenses was the result of less interest on debts and a gain related to the sale of land. In 2014, the difference was largely attributable to a loss related to the disposal of assets.

The District continues to maintain a solid financial position.

CAPITAL ASSETS AND DEBT ADMINISTRATION

At the end of 2015 and 2014, the District had $153.0 million and $150.9 million, respectively, invested in a broad range of utility capital assets, including its water treatment plant, transmission and distribution mains, water storage facilities, pump stations, administration facilities, and vehicle and equipment fleet. This represents an increase of $2,095,938 in 2015 and an increase of $1,318,659 in 2014.

For 2015, major changes to depreciable assets (before depreciation) included:

- Plant increase $ 6,421,590
- Equipment decrease $ (75,129)

The significant increase is primarily the result of the completion of a few large multi-year pipeline replacement projects that transferred the related costs from the construction in progress classification to the capital asset classification. The decrease is due to the retirement of surplus vehicles.

The District’s 2016 capital budget includes plans for investing an additional $9.58 million of new and existing funds into capital improvements. This plan includes:

- East Division Street Tank, Pump Station and Piping
- North 30th Street and Digby Road Pipelines
- Judy WTP to Mount Vernon Transmission Line-Phase 2
- Annual plant replacement and upsizing of infrastructure

In 2014, the District received a $300,000 loan from the Public Works Trust Fund (PWTF) to fund the pre-construction of the East Division Street Tank, Pump Station and Piping. The District was approved for a $10,004,050 Drinking Water State Revolving Fund (DWSRF) loan to fund the construction of this project and began making loan draws in 2015.

As of December 31, 2015 and 2014, the District had three outstanding bond issues with an aggregate total outstanding of $6,205,000 and $7,190,000, respectively, with interest rates ranging from 2.75 to 5.82 percent. The bonds are scheduled to be fully repaid by 2016, 2018, and 2029. The District also has aggregate outstanding loans of $12,649,558 and $13,571,586 for 2015 and 2014 respectively, with interest rates ranging from 0.25 to 1.5 percent and final maturity dates of 2018, 2021, 2022, and 2031.

Additional information on the District's long-term debt is included in Note 6, in the *Notes to the Financial Statements*. Additional information on the District's capital assets and construction-in-progress are included in Notes 3 and 4.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The District's annual budget, as approved by the Board of Commissioners, outlines its plan for operations, maintenance, and growth, in order to provide quality potable water to the District's customers for the present and foreseeable future.

In considering the District's budget for the 2016 year, the Board of Commissioners and management used the following estimates:

- Revenue from water sales and charges are expected to increase as a result of a 0.8 percent estimated growth factor for residential customers of the District. Rates will increase by 8.00 percent.

- Capital contributions are expected to be $2,430,000. This amount includes $370,000 in fees approved to fund pipe replacement.

- Operating expenses, excluding depreciation, are expected to increase in 2016 approximately $1,357,300 over the 2015 year-end results.

- Capital improvements for 2016 are budgeted at $9.58 million as previously noted. The District plans to use existing cash and future revenues to fund the capital budget plan for its ongoing capital improvements program.

REQUESTS FOR INFORMATION

This financial report is designed to provide the District's customers and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have any questions about the report, or need additional financial information, contact the District CFO/ Treasurer at:

Public Utility District No. 1 of Skagit County
Attention: Treasurer
Post Office Box 1436
Mount Vernon, Washington 98273-1436

PUBLIC UTILITY DISTRICT NO. 1 OF SKAGIT COUNTY

COMPARATIVE STATEMENT OF NET POSITION

DECEMBER 31, 2015 AND 2014

ASSETS	2015	2014
Current Assets:		
Cash and Cash Equivalents	$ 5,806,402	$ 6,617,557
Investments	2,974,298	1,994,898
Accounts Receivable (Net)	929,126	823,112
Federal Stimulus Credit Receivable	-	-
Unbilled Revenues	1,278,280	1,249,995
Inventory	1,647,025	1,374,081
Prepaid Insurance	26,073	70,893
Other Current and Accrued Assets	167,578	198,057
Restricted Assets:		
Cash and Cash Equivalents	377,162	396,075
Grants Receivable	39,931	-
TOTAL CURRENT ASSETS	13,245,875	12,724,668
Non-current Assets:		
Preliminary Survey and Investigation	1,781,775	1,131,242
Assessments Receivable	879,191	1,060,705
Unamortized Debt Expense	133,797	175,102
Capital Assets Not Being Depreciated		
Non-operating Property	29,521	29,521
Land and Land Rights	579,821	585,877
Earthen Impounding Reservoir	12,375,489	12,375,489
Construction in Progress	7,666,801	8,076,635
Capital Assets Net of Accumulated Depreciation		
Plant	125,632,784	123,082,297
Equipment	6,718,498	6,757,157
TOTAL NON-CURRENT ASSETS	155,797,677	153,274,025
TOTAL ASSETS	$ 169,043,552	$ 165,998,693
DEFERRED OUTFLOWS OF RESOURCES		
Deferred Outflows Related to Pensions	562,579	246,758
TOTAL DEFERRED OUTFLOWS OF RESOURCES	$ 562,579	$ 246,758

The notes to the financial statements are an integral part of this statement.

PUBLIC UTILITY DISTRICT NO. 1 OF SKAGIT COUNTY

COMPARATIVE STATEMENT OF NET POSITION

DECEMBER 31, 2015 AND 2014

	2015	2014
LIABILITIES		
Current Liabilities:		
Warrants Payable	$ 92,625	$ 84,066
Accounts Payable	1,128,701	890,592
Customer Deposits	165,688	168,905
Taxes Payable	118,339	72,202
Accrued Interest on Debt	194,568	208,225
Compensated Absences	335,781	355,231
Retainages Payable	89,840	40,794
Unearned Revenue	59,757	70,723
Current Portion of Long-term Debt	2,647,223	2,607,223
TOTAL CURRENT LIABILITIES	4,832,522	4,497,961
Non-current Liabilities:		
Other Post-employment Benefits	1,018,703	743,464
Compensated Absences	484,280	454,902
Unamortized Debt Premium	54,958	86,775
First Lien Bonds	5,180,000	6,205,000
Long-term Loans	11,027,334	11,949,363
TOTAL NON-CURRENT LIABILITIES	17,765,275	19,439,504
Net Pension Liability		
Net Pension Liability	4,783,347	3,706,562
TOTAL NET PENSION LIABILITY	4,783,347	3,706,562
TOTAL LIABILITIES	$ 27,381,144	$ 27,644,027
DEFERRED INFLOWS OF RESOURCES		
Deferred Inflows Related to Pensions	713,799	1,572,800
TOTAL DEFERRED INFLOWS OF RESOURCES	$ 713,799	$ 1,572,800
NET POSITION		
Net Investment in Capital Assets	$ 134,148,357	$ 130,145,390
Restricted for:		
Debt Service	377,162	396,075
Capital Projects	39,931	-
Unrestricted	6,945,738	6,487,159
TOTAL NET POSITION	$ 141,511,188	$ 137,028,624

The notes to the financial statements are an integral part of this statement.

PUBLIC UTILITY DISTRICT NO. 1 OF SKAGIT COUNTY

COMPARATIVE STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION

FOR YEARS ENDED DECEMBER 31, 2015 AND 2014

	2015	2014
OPERATING REVENUES:		
Water Sales		
Residential - Multiple	$ 12,597,211	$ 11,294,951
Commercial - Industrial - Farms	4,122,563	3,893,645
Government	505,485	444,925
Resale	96,143	79,307
Irrigation	416,131	351,171
Total Water Sales	17,737,533	16,063,999
Other Water and Broadband Revenues	430,802	410,395
TOTAL OPERATING REVENUES	18,168,335	16,474,394
OPERATING EXPENSES:		
Water Expenses		
Supply	735,439	1,041,561
Treatment	1,718,875	1,670,822
Transmission and Distribution	2,867,310	2,379,424
Broadband	35,316	23,388
Customer Accounts	1,109,612	1,095,831
Administrative and General	4,276,836	4,256,097
Utility Taxes	906,570	820,237
Depreciation Expense	4,561,160	4,681,752
TOTAL OPERATING EXPENSES	16,211,118	15,969,112
OPERATING INCOME (LOSS)	1,957,217	505,282
NON-OPERATING REVENUES:		
Interest Income	7,947	22,523
Interest, Penalty Income on LUDs	44,442	53,435
Amortization of Premiums	31,817	31,817
Misc Nonoperating Income and Grants	106,959	117,151
TOTAL NON-OPERATING REVENUES	191,165	224,926
NON-OPERATING EXPENSES:		
Miscellaneous Nonoperating Expense	2,341	3,694
Interest on Debt	374,509	437,719
Amortization of Discounts	41,305	41,306
Other Taxes	14,880	15,259
Loss (Gain) from Retirement of Assets	(104,394)	750
TOTAL NON-OPERATING EXPENSES	328,641	498,728
INCOME (LOSS) BEFORE CONTRIBUTIONS	1,819,741	231,480

The notes to the financial statements are an integral part of this statement.

PUBLIC UTILITY DISTRICT NO. 1 OF SKAGIT COUNTY

COMPARATIVE STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION

FOR YEARS ENDED DECEMBER 31, 2015 AND 2014

CAPITAL CONTRIBUTIONS:	2015	2014
Non-donated Plant	269,388	162,780
Donated Plant	513,224	234,052
System Development Fees	1,216,991	1,033,866
Services	248,944	131,716
Pipe Replacement	374,345	370,626
Local Utility Districts	-	12,006
Grants	39,931	-
TOTAL CAPITAL CONTRIBUTIONS	2,662,823	1,945,046
CHANGE IN NET POSITION	4,482,564	2,176,526
TOTAL NET POSITION, JANUARY 1, as previously reported	137,028,624	139,884,702
Cumulative Effect of Change in Accounting Principle-GASB 68	-	(5,032,604)
	137,028,624	134,852,098
TOTAL NET POSITION, DECEMBER 31	$ 141,511,188	$ 137,028,624

The notes to the financial statements are an integral part of this statement.

PUBLIC UTILITY DISTRICT NO. 1 OF SKAGIT COUNTY
COMPARATIVE STATEMENT OF CASH FLOWS
FOR YEARS ENDED DECEMBER 31, 2015 AND 2014

	2015	2014
Cash Flows from Operating Activities:		
Cash Received From Customers	$ 18,099,325	$ 16,308,280
Cash Payments To Suppliers for Goods and Services	(3,550,238)	(4,636,885)
Cash Payments To Employees for Services	(7,878,316)	(7,022,549)
Cash Payments for Taxes	(860,433)	(813,092)
Other Operating Income	32,431	(808)
Net Cash Provided By Operating Activities	5,842,769	3,834,946
Cash Flows from Noncapital Financing Activities:		
Cash Received From Noncapital Grants	-	5,000
Net Cash Provided (Used) For Noncapital Financing Actitivies	-	5,000
Cash Flows From Capital and Related Financing Activities:		
Acquisition and Construction of Capital Assets	(5,853,356)	(5,615,789)
Proceeds from Sale of Capital Assets	128,999	2,250
Principal Paid on Revenue Bond Maturities & Notes	(2,607,223)	(2,492,223)
Interest and Related Charges Paid on Debt	(429,828)	(472,617)
Proceeds From Bonds & Government Loans	627,336	429,816
Proceeds From Grants/Fed Stimulus	66,009	73,547
Proceeds from Customers for Capital Purposes (Net of Ret)	2,372,741	1,943,702
Net Cash Provided (Used) For Capital Financing Activities	(5,695,322)	(6,131,314)
Cash Flows From Investing Activities:		
Purchase of Investment Securities	(2,990,203)	(1,000,000)
Proceeds From Sale and Maturities of Investment Securities	2,000,000	2,000,000
Interest on Investments	12,689	23,415
Net Cash Provided (Used) for Investing Activities	(977,514)	1,023,415
Net Increase (Decrease) in Cash and Cash Equivalents	(830,067)	(1,267,953)
Cash and Cash Equivalents at Beginning of Year	7,013,632	8,281,585
Cash and Cash Equivalents at End of Year	$ 6,183,565	$ 7,013,632

The notes to the financial statements are an integral part of this statement.

PUBLIC UTILITY DISTRICT NO. 1 OF SKAGIT COUNTY

COMPARATIVE STATEMENT OF CASH FLOWS

FOR YEARS ENDED DECEMBER 31, 2015 AND 2014

Reconciliation of Operating Income to Net Cash Provided by Operating Activities:	2015	2014
Net Operating Income(Loss)	$ 1,957,217	$ 505,282
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:		
Depreciation	4,561,160	4,681,752
Other Income (Expenses)	32,431	(808)
Change in Assets and Liabilities		
(Increase)Decrease in Accts Receivable, Other Assets	(38,074)	(76,133)
(Increase)Decrease in Accrued Unbilled Revenues	(28,285)	(89,385)
(Increase)Decrease in Materials and Supplies	(272,944)	(127,311)
(Increase)Decrease in Prepayments and Advances	44,820	(44,858)
(Increase)Decrease in Preliminary Survey Charges	(939,320)	(874,450)
Increase (Decrease) In Warrants Payable	8,559	(201,360)
Increase(Decrease) in Accounts Payable, Taxes and Other	241,966	(87,423)
Increase (Decrease) In OPEB	275,239	149,640
Total Adjustments	3,885,552	3,329,664
Net Cash Provided By Operating Activities	$ 5,842,769	$ 3,834,946

During the year 2015, plant assets of $497,725 were donated to the District.

During the year 2014, plant assets of $243,052 were donated to the District.

The notes to the financial statements are an integral part of this statement.

NOTES TO FINANCIAL STATEMENTS
For the Years Ended December 31, 2015 and 2014

These notes are an integral part of the accompanying financial statements.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Public Utility District No. 1 of Skagit County (District) conform to generally accepted accounting principles (GAAP) as applicable to proprietary funds of governments. The following is a summary of the most significant policies (including identification of those policies which result in material departures from generally accepted accounting principles):

Reporting Entity

The District is a municipal corporation governed by an elected three 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.

Basis of Accounting and Presentation

The accounting records of the District are maintained in accordance with methods prescribed by the State Auditor under the authority of Chapter 43.09 RCW.

The District uses the Uniform System of Accounts for Class A and B Water Utilities as prescribed by the National Association of Regulatory Utility Commissioners. The District's predominant business activity is the provision of water service to the residents of Mount Vernon, Burlington, Sedro Woolley, and surrounding rural areas. The accompanying financial statements include the financial position and results of operations of all enterprise operations which the District manages. The financial statements include, as well, the assets and liabilities of all funds for which the District has a custodial or trust responsibility.

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

Unbilled utility service receivables are recorded at year end.

The District distinguishes between operating and non-operating revenues and expenses. Operating revenues and expenses are defined as related to the sale of water to customers and to other services that are usually provided under standard rate schedules or by contractual arrangements. Operating expenses for the District include the cost of sales and services, administrative expenses, utility taxes, and depreciation on capital assets. Non-operating revenues and expenses include merchandising and contract services, assessment revenues and expenses, rental of property, interest income and expense, and other items not usually directly related to the provision of water service.

Cash and Cash Equivalents

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

Utility Plant and Depreciation

See Note 3 regarding capitalization, depreciation, and retirement policies.

Restricted Funds

In accordance with bond resolutions and certain related agreements, separate restricted funds are required to be established. The assets held in these funds are restricted for specific uses, including construction, debt service and other special reserve requirements. Restricted funds at year end 2015 and 2014 include the following:

	2015	2014
Retainage in Trust	$ 0	$ 0
Bond Sinking Funds	628	1,233
Bond Reserve	221,277	220,385
Fiscal Agency Deposits	155,257	174,457
	$ 377,162	$ 396,075

Receivables

The District carries its receivables at actual billed amount. It is the District's policy to write off accounts as uncollectible after 90 days, at which time they are turned over to collection. Any subsequently collected accounts reduce bad debt expense.

At year end, the District calculates the percentage of sales during the year that have been referred to collection and the average recovery rate on those accounts so referred. From this information, the District is able to estimate the amount of uncollectible sales occurring during the final 90 days of the year. During 2015, the rate of accounts sent to collection was 0.21 percent and the recovery of those accounts was 41.71 percent. The 2014 rate for accounts sent to collection was 0.21 percent while the recovery rate was 34.38 percent.

Inventories

Inventories are valued at average weighted cost, which approximates the market value.

Investments

See Note 2 for investment disclosure.

Compensated Absences

Compensated absences are absences for which employees will be paid. The District maintains a Personal Leave Plan for vacation, sick and family leave purposes; recording unpaid leave for compensated absences as an expense and liability when incurred. Personal Leave may be accumulated to a maximum of 800 hours. Any accumulated Personal Leave balance is paid to the employee at retirement, termination of employment or death. The exception is for employees retiring from the PERS 1 Retirement System. These employees may be paid a maximum of 240 hours compensated leave at retirement.

The District maintains a Supplemental Leave Bank balance to be used only for purposes supplementary to the District's short-term disability plan. The Supplemental Leave Bank originated with the accumulated sick pay existing on January 1997, at the change to the Personal Leave Plan. The old sick leave is non-accruing and no portion is payable at termination of employment. It is used solely to supplement short-term disability for those eligible. The District cannot determine the likelihood or the amount of future payments.

Unamortized Debt Premium or Expense

Premiums realized on bond issues and costs related to the sale of bonds are deferred and amortized over the lives of the various bond issues.

Construction Financing

The District is typically involved in the creation and construction of utility plant, to be paid by special assessments upon benefited properties, through the creation of Local Utility Districts (LUDs). At December 31, 2015, the District has a LUD project in the planning stage.

Purchase Commitments

The District is currently not obligated under any long-term purchase or similar commitments.

Use of Estimates

The preparation of the financial statements, in conformity with generally accepted accounting principles, requires management to make estimates and assumptions that affect amounts reported in the financial statements. Actual results could differ from these estimates.

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of all state sponsored pension plans and additions to/deductions from those plans' fiduciary net position have been determined on the same basis as they are reported by the Washington State Department of Retirement Systems. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

NOTE 2 – DEPOSITS AND INVESTMENTS

Deposits

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

Investments

Interest Rate Risk – Interest rate risk is the risk that changes in interest rates of debt instruments will adversely affect the fair value of an investment. The District's investment policy attempts to hold investments to maturity whenever possible and therefore maintain maturity dates equal to or less than cash flow requirements. The District's plan is to invest for a two year maximum maturity although exceptions are possible.

Credit Risk – Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The District's investment policy conforms with State law which restricts investments of public funds to obligations of the U.S. Government and its agencies, deposits with the Washington State Treasurer's Local Government Investment Pool (LGIP), or deposits with Washington State financial institutions. The LGIP is an un-rated 2a-7-like pool, as defined by GASB 31 and considered extremely low risk. The LGIP funds are limited to high quality obligations with limited maximum and average maturities, the effect of which is to minimize both market and credit risk.

Concentration of Credit Risk – Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. To mitigate this risk the investment policy requires diversification of investments by security type and institution, with the exception of U.S. Treasuries and the LGIP.

Custodial Credit Risk – For deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned. All District deposits are held by public depositories authorized by the PDPC and are not subject to custodial credit risk. For investments, this is the risk that in the event of a failure of the counterparty to an investment transaction the District would not be able to recover the value of the investment or collateral securities. The investment policy requires that securities purchased be held by an independent third party in its safekeeping or trust department.

As of December 31, 2015 and 2014 respectively, the District had the following deposits and investments:

2015		Deposits & Investments	Maturities		Fair Value
WA State Investment Pool	$	4,389,919	n/a	$	4,389,919
Government Agencies/Securities		3,000,000	various		2,974,298
Cash and Cash Equivalents		1,793,645	n/a		1,793,645
Total	$	9,183,564		$	9,157,862

2014		Deposits & Investments	Maturities		Fair Value
WA State Investment Pool	$	5,160,657	n/a	$	5,160,657
Government Agencies/Securities		2,000,000	various		1,994,898
Cash and Cash Equivalents		1,852,975	n/a		1,852,975
Total	$	9,013,632		$	9,008,530

In 2012, the District purchased $3 million in securities. At the end of 2015 the fair value of the securities was $15,905 more than cost. Although the difference is immaterial to cash and investments and the financial statements taken as a whole, the District has elected to report investments at fair value in 2015 and 2014 in order to fully comply with GASB 31.

NOTE 3 - UTILITY PLANT AND DEPRECIATION – CAPITAL ASSETS

Capital assets are defined by the District as assets with initial individual cost of more than $5,000 and an estimated useful life of at least two years.

Major expenses for capital assets, including capital leases (of which the District had none during the year) and major repairs that increase useful lives, are capitalized. Maintenance, repairs, and minor renewals are accounted for as expenses when incurred.

Utility plant in service and other capital assets are recorded at cost where the historical cost is known. Where historical cost is not known, assets are recorded at estimated cost. Donations by developers and customers are recorded at the contract price and donor cost or appraised value.

Utility plant activity for the years ended December 31, 2015 and 2014 was as follows:

2015	Jan 01	Increase	Decrease	Dec 31
Utility Plant not being Depreciated				
Non-operating Property	$ 29,521	$ -	$ -	$ 29,521
Land and Land Rights	585,877	-	(6,056)	579,821
Earthen Impounding Reservoir	12,375,489	-	-	12,375,489
Construction in Progress	8,076,635	6,183,979	(6,593,813)	7,666,801
Total Utility Plant not being Depreciated	21,067,522	6,183,979	(6,599,869)	20,651,632
Utility Plant being Depreciated				
Plant	182,414,049	6,868,830	(447,240)	188,835,639
Equipment	9,818,451	222,708	(297,837)	9,743,322
Total Utility Plant being Depreciated	192,232,500	7,091,538	(745,077)	198,578,961
Less Accumulated Depreciation for:				
Plant	(59,086,051)	(4,318,900)	480,874	(62,924,077)
Equipment	(3,061,294)	(209,184)	245,654	(3,024,824)
Salvage and Fiber	(245,702)	(33,076)	-	(278,778)
Total Accumulated Depreciation	(62,393,047)	(4,561,160)	726,528	(66,227,679)
Total Utility Plant being Depreciated, net	129,839,453	2,530,378	(18,549)	132,351,282
TOTAL UTILITY PLANT, NET	$ 150,906,975	$ 8,714,357	$ (6,618,418)	$ 153,002,914

2014	Jan 01	Increase	Decrease	Dec 31
Utility plant not being depreciated:				
Non-operating property	$ 26,349	$ 3,172	$ -	$ 29,521
Land and land rights	585,877	-	-	585,877
Earthen impounding reservoir	12,375,489	-	-	12,375,489
Construction in progress	5,926,289	5,718,711	(3,568,365)	8,076,635
Total utility plant not being depreciated	18,914,004	5,721,883	(3,568,365)	21,067,522
Utility plant being depreciated:				
Plant	179,053,103	3,561,381	(200,435)	182,414,049
Equipment	9,458,738	373,787	(14,074)	9,818,451
Total utility plant being depreciated	188,511,841	3,935,168	(214,509)	192,232,500
Less accumulated depreciation for:				
Plant	(54,787,142)	(4,414,334)	115,425	(59,086,051)
Equipment	(2,837,068)	(235,300)	11,074	(3,061,294)
Salvage and Fiber	(213,318)	(32,384)	-	(245,702)
Total accumulated depreciation	(57,837,528)	(4,682,018)	126,499	(62,393,047)
Total utility plant being depreciated, net	130,674,313	(746,850)	(88,010)	129,839,453
TOTAL UTILITY PLANT, NET	$149,588,317	$ 4,975,033	$(3,656,375)	$150,906,975

The original cost of operating property retired or otherwise disposed of and the cost of installation, less salvage, is charged to accumulated depreciation. However, in the case of the sale of a significant operating unit or system, the original cost is removed from the utility plant accounts, accumulated depreciation is reduced by the accumulated depreciation related to the property sold, and the net gain or loss on disposition is credited or charged against income.

An allowance for funds used during construction is capitalized as a part of the cost of utility plant. The procedure is intended to remove the cost of financing construction activity from the income statement and to treat such cost in the same manner as construction labor and material costs.

During 2015, the District incurred $416,172 of interest costs and of that amount, $41,663 was capitalized. In 2014, the District incurred $452,303 of interest costs and of that amount, $14,584 was capitalized.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

Asset	Years
Mains (Transmission, distribution, and supply)	70
Structures and improvements	
(Treatment, pumping, transmission, and distribution)	50
Services	40
Intakes, wells, reservoirs, standpipes, and hydrants	30
Pumping equipment	20
Meters	15
General plant, furniture, tools, lab, and other equipment	10
Transportation and power-operated equipment	6.67

Initial depreciation on utility plant is recorded in the year subsequent to purchase or construction.

Preliminary costs incurred for proposed projects are deferred pending construction of the facility. Costs relating to projects ultimately constructed are transferred to utility plant; charges that relate to abandoned projects are expensed.

NOTE 4 – CONSTRUCTION IN PROGRESS

Construction in progress represents costs to date on projects whose authorizations total $41,416,036. Of the committed balance of $33,749,235, the District is required to raise funds for future financing for two projects. The construction on the Division Street Tank, Booster Pump Station and Piping project is primarily funded through a Drinking Water State Revolving Fund loan. The design and construction on the Judy WTP to Mount Vernon Transmission Line project will be primarily funded through bonds issued in 2016 and 2017. All other projects for the years ended 2015 and 2014 are primarily funded by revenues of the District.

Construction in progress for 2015 comprised of the following:

Project Description	Project Budget Authorization	Expended through 12/31/2015	Committed/ Remaining (Over)	Required Future Financing
Old Day Creek Rd, A St to Transmission Line	$ 1,250,000	$1,179,869	$ 70,131	$ 0
Division St Tank, Booster Pump Station, 30th St & Digby Pipeline	10,300,000	486,625	9,813,375	9,400,000
Josh Wilson Rd Improvements	1,690,000	1,535	1,688,465	0
Judy WTP to Mount Vernon Transmission Line Phase 2	21,300,000	1,643	21,298,357	10,000,000
Cedar Hills Booster Station	112,000	1,617	110,383	0
Various Other Projects	6,764,036	5,995,512	768,524	0
Totals	$41,416,036	$7,666,801	$33,749,235	$19,400,000

Construction in progress for 2014 was comprised of the following:

Project Description	Project Budget Authorization	Expended through 12/31/2014	Committed/ Remaining (Over)	Required Future Financing
Fir Island Road, Mann to Maupin Rd	$ 2,263,500	$2,368,325	$(104,825)	$0
Division Street Tank, Booster Pump Station and Piping	10,304,050	48,037	10,256,013	10,004,050
Financial / Utility Billing Upgrade	1,500,000	1,102,679	397,321	0
Gibralter, Jura Way, Dewey Crest Replacement	850,000	43,348	806,652	0
Old Day Creek Rd Transmission Line Replacement	1,250,000	880,217	369,783	
Mountain View Dr, E Highland to N 12th	628,168	714,389	(86,221)	
Francis Rd, N 30th to Swan Rd	417,320	252,667	164,653	0
Various other projects	3,111,204	2,666,973	444,231	0
Totals	$20,324,242	$8,076,635	$12,247,607	$10,004,050

NOTE 5 – SHORT-TERM DEBT

During years 2015 and 2014, the District did not have any short-term debt, either new or continuing.

NOTE 6 – LONG-TERM DEBT AND LIABILITIES

Long-term Debt

The District's long-term debt at December 31, 2015 and 2014 are $18,854,558 and $20,761,586 respectively. The District's long-term debt is comprised of bonds and loans.

The District has one classification of secured bonds and those are the District's revenue/partial assessment publicly issued bonds. In October 2009, the district sold two issues of bonds: 2009A Bonds total $1,335,000, interest ranges from 2.75 to 4 percent, and matures in July 2016; and 2009B Bonds total $3,660,000 and require interest only payments until July 2017 when principal payments will commence. Maturity is in July 2029. Interest ranges from 4.159 percent to 5.824 percent; however, the expected federal tax credit of 35 percent would have reduced the effective rate to 3.62 percent. In 2015, the federal tax credit was only 32.62 percent, resulting in an effective rate of 3.74 percent for the year. It is not known if or when the federal tax credit will return to 35 percent. Payments are due in January and July of each year. The proceeds from the 2009 bonds were used for the Skagit River Diversion project and the Judy to Mount Vernon transmission line.

The secured bonds classification also includes 2008 Water Revenue Bonds. The total outstanding at year end 2015 and 2014 are $2,325,000 and $3,100,000, respectively.

The debt service ratio of the District is calculated by adding depreciation, bond discount amortization, and debt interest to the Net Income before Contributions, then subtracting bond premium amortization. The ratio of this sum to the annual debt service must comply with bond covenants by meeting or exceeding the minimum required factor of 1.25. For the year 2015 and 2014, the District exceeded the factor with ratios of 2.56 and 2.2, respectively.

There is $417,093 in restricted assets of the District as of December 31, 2015, of which $221,905 represent sinking funds and reserve requirements as contained in the various indentures. At December 31, 2014, restricted assets totaled $396,075, of which $221,618 represented sinking funds and reserve requirements.

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

The schedules for first priority revenue/assessment bonds:

Water Revenue Refunding Bonds, 2008

Payment Date	Principal	Interest 3.5 to 4.25%	Total
	July 1	Jan 1/July 1	
2016	805,000	98,813	903,813
2017	840,000	64,600	904,600
2018	680,000	28,900	708,900
Total	$ 2.325.000	$ 192.313	$ 2,517,313

2009A Water Revenue Bonds

Payment Date	Principal	Interest 4.00%	Total
	July 1	Jan 1/July 1	
2016	220,000	8,800	228,800
Total	$ 220,000	$ 8,800	$ 228,800

2009B Water Revenue Bonds

Payment Date	Principal	Interest 4.16 to 5.82%	Federal Tax Credit Pymt	Total
	July 1	Jan 1/July 1		
2016	-	202,901	(71,015)	131,886
2017	230,000	202,901	(71,015)	361,886
2018	235,000	193,335	(67,667)	360,668
2019	240,000	182,995	(64,048)	358,947
2020	250,000	172,100	(60,235)	361,865
2021-2025	1,395,000	631,322	(220,963)	1,805,359
2026-2029	1,310,000	194,230	(67,981)	1,436,249
Total	$ 3,660,000	$ 1,779,784	$ (622,924)	$ 4,816,860

In 2001, the District entered into a $10,000,000 loan agreement with the Public Works Trust Fund. Loan proceeds of $9,500,000 were received in May 2001, with the remaining $500,000 to be paid upon completion of the projects. Of the remaining amount, $400,000 was paid October 2009 and $100,000 was drawn in September 2010. The loan partially funds a source-replacement project for improvements and expansion to the District facilities, including the Skagit River Diversion and additional filters and improvements at the Water Treatment Plant. The loan has a 20-year repayment term with an interest rate of 0.5 percent.

Public Works Trust Fund 2001 Loan

Payment Date	Principal	Interest 0.50%	Total
	July 1	July 1	
2016	542,424	16,273	558,697
2017	542,424	13,561	555,985
2018	542,424	10,848	553,272
2019	542,424	8,136	550,560
2020	542,424	5,424	550,848
2021	542,424	2,712	545,136
Total	$ 3,254,544	$ 56,954	$ 3,311,498

In 2002, the District entered into a second $10,000,000 loan agreement with the Public Works Trust Fund. The original loan proceeds of $1,500,000 were received in June 2002. Additional payments of $8,000,000, $400,000, and $100,000 were drawn in May 2005, October 2009, and September 2010 respectively. The loan is partially funding a source-replacement project including improvements and expansion to District facilities, transmission lines, and control revisions at the Water Treatment Plant. The loan has a 20-year repayment term with an interest rate of 0.5 percent.

Public Works Trust Fund 2002 Loan

Payment Date	Principal	Interest 0.50%	Total
	July 1	July 1	
2016	562,494	19,687	582,181
2017	562,494	16,875	579,369
2018	562,494	14,062	576,556
2019	562,494	11,250	573,744
2020	562,494	8,437	570,931
2021-2022	1,124,991	8,437	1,133,428
Total	$ 3,937,461	$ 78,748	$ 4,016,209

In 2012, the District entered into a $4,687,000 loan agreement with the Public Works Trust Fund to partially fund the Josh Wilson Road 18” Water Transmission Line. The original loan proceeds were received in November 2012 for $2,012,667.49. Additional proceeds were received in January 2013 for $745,860.31, April 2013 for $453,810.50 and April 2014 for $122,603.89. This loan is partially funding the installation of approximately 23,000 feet of transmission pipeline along Josh Wilson Road in Burlington to serve the Bay View Ridge area. The loan has a 20-year repayment term with an interest rate of 0.25 percent.

Public Works Trust Fund 2012 Loan

Payment Date	Principal	Interest .25%	Total
	Jun 1	Jun 1	
2016	176,282	7,051	183,333
2017	176,282	6,611	182,893
2018	176,282	6,170	182,452
2019	176,282	5,729	182,011
2020	176,282	5,288	181,570
2021-2025	881,412	19,832	901,244
2026-2030	881,413	8,814	890,227
2031	176,284	441	176,725
Total	$ 2,820,519	$ 59,936	$ 2,880,455

In 2014, the District entered into a $300,000 loan agreement with the Public Works Trust Fund to partially fund the Division Street Tank, Pump Station and Piping. The original proceeds were received in July 2014 for $86,833. Additional proceeds were received in September 2014 for $164,027 and November 2014 for $49,140. The loan has a 4-year repayment term with an interest rate of 1.0 percent.

Public Works Trust Fund 2014 Loan

Payment Date	Principal	Interest 1.00%	Total
	Jun 1	Jun 1	
2016	75,000	2,250	77,250
2017	75,000	1,500	76,500
2018	75,000	750	75,750
Total	$ 225,000	$ 4,500	$ 229,500

In December 2001, the District received two loans from the Drinking Water State Revolving Fund to fund Skagit View Village LUD #27. The first, a $704,070 loan, financed the distribution system, and the second, for $64,619, funded corrosion control. Both loans carry interest rates of 1.5 percent and mature October 1, 2021.

Drinking Water State Revolving Fund Loan
Skagit View Village Distribution System LUD #27

Payment Date	Principal	Interest 1.50%	Total
	Oct 1	Oct 1	
2016	39,728	3,575	43,303
2017	39,728	2,980	42,708
2018	39,728	2,384	42,112
2019	39,728	1,788	41,516
2020	39,728	1,192	40,920
2021	39,728	596	40,324
Total	$ 238,368	$ 12,515	$ 250,883

Drinking Water State Revolving Fund Loan
Skagit View Village Corrosion Control LUD #27

Payment Date	Principal	Interest 1.50%	Total
	Oct 1	Oct 1	
2016	4,068	366	4,434
2017	4,068	305	4,373
2018	4,068	244	4,312
2019	4,068	183	4,251
2020	4,068	122	4,190
2021	4,071	61	4,132
Total	$ 24,411	$ 1,281	$ 25,692

In 2001, the District received a $1,803,360 loan from the Drinking Water State Revolving Fund to finance the Clearwell #3 project at the Water Treatment Plant. The original loan proceeds of $1,683,814 were received in October 2005. The remaining $119,546 was drawn in October 2006. The loan carries an interest rate of 1.5 percent and matures October 1, 2021.

Drinking Water State Revolving Fund Loan
Clearwell LUD #3

Payment Date	Principal	Interest 1.50%	Total
	Oct 1	Oct 1	
2016	106,520	9,587	116,107
2017	106,520	7,989	114,509
2018	106,520	6,391	112,911
2019	106,520	4,793	111,313
2020	106,519	3,196	109,715
2021	106,519	1,598	108,117
Total	$ 639,118	$ 33,554	$ 672,672

In 2002, the District received a $1,758,480 loan from the Drinking Water State Revolving Fund to finance construction of transmission lines. The original loan proceeds of $137,733 were received in October 2005. Additional payments of $1,239,204 and $381,543 were drawn in October 2007 and October 2008 respectively. The loan carries an interest rate of 1.5 percent and matures October 1, 2022.

Drinking Water State Revolving Fund Loan
Transmission Lines

Payment Date	Principal	Interest 1.50%	Total
	Oct 1	Oct 1	
2016	110,538	11,607	122,145
2017	110,538	9,948	120,486
2018	110,538	8,290	118,828
2019	110,538	6,632	117,170
2020	110,538	4,974	115,512
2021-2022	221,078	4,974	226,052
Total	$ 773,768	$ 46,425	$ 820,193

In February 2008, the District received a $77,520 loan from the Drinking Water State Revolving Fund to finance improvements to the Water Treatment Plant Controls. The loan carries an interest rate of 1.5 percent and matures October 1, 2022.

Drinking Water State Revolving Fund Loan
Water Treatment Plant Controls

Payment Date	Principal	Interest 1.50%	Total
	Oct 1	Oct 1	
2016	5,168	543	5,711
2017	5,168	465	5,633
2018	5,168	388	5,556
2019	5,168	310	5,478
2020	5,168	233	5,401
2021-2022	10,336	233	10,569
Total	$ 36,176	$ 2,172	$ 38,348

In September 2013, the District received a $10,004,050 loan from the Drinking Water State Revolving Fund to partially finance the Division Street Tank, Booster Station and Piping. The original proceeds were received in March 2015 for $422,163. Additional proceeds were received in July 2015 for $106,123 and March 2016 for $398,711. Additional drawings are anticipated. The loan carries an interest rate of 1.5% with a term of 24 years.

SUMMARY OF LONG-TERM LIABILITIES

	Current Portion	Long-term Debt	Total
2008 Water Revenue Bonds	805,000	1,520,000	2,325,000
2009A Water Revenue Bonds	220,000	-	220,000
2009B Water Revenue Bonds	-	3,660,000	3,660,000
2001 Public Works Trust Fund Loan	542,425	2,712,120	3,254,545
2002 Public Works Trust Fund Loan	562,494	3,374,967	3,937,461
2012 Public Works Trust Fund Loan	176,282	2,644,237	2,820,519
2014 Public Works Trust Fund Loan	75,000	150,000	225,000
DWSRF SVV LUD #27 Distribution Loan	39,728	198,639	238,367
DWSRF SVV LUD #27 Corrosion Loan	4,068	20,343	24,411
DWSRF Clearwell LUD #3 Loan	106,520	532,597	639,117
DWSRF Transmission Lines Loan	110,538	663,230	773,768
DWSRF WTP Control Revisions Loan	5,168	31,008	36,176
DWSRF Division St Tank construction	-	700,194	700,194
Totals	$ 2,647,223	$16,207,335	$18,854,558

Changes in Long-Term Liabilities

During the year ended December 31, 2015, the following transpired in long-term liabilities:

	Beginning Balance 1/1/2015	Additions	Reductions	Ending Balance 12/31/2015	Due Within One Year
Total Bonds Payable:	7,190,000	-	(985,000)	6,205,000	1,025,000
Public Works Trust Fund Loans	11,593,728	-	(1,356,201)	10,237,527	1,356,201
Drinking Water State Rev Fund Loans	1,977,860	700,194	(266,022)	2,412,032	266,022
Total Loans Payable:	13,571,588	700,194	(1,622,223)	12,649,559	1,622,223
Compensated Absences	810,133	566,395	(556,467)	820,061	335,782
OPEB	743,464	275,239	-	1,018,703	-
Total Long-term Liabilities	$22,315,185	$ 1,541,828	$ (3,163,690)	$ 20,593,323	$2,983,005

During the year ended December 31, 2014, the following transpired in long-term liabilities:

	Beginning Balance 1/1/2014	Additions	Reductions	Ending Balance 12/31/2014	Due Within One Year
Bonds Payable	8,135,000	-	(945,000)	7,190,000	985,000
Public Works Trust Fund Loans	12,574,929	300,000	(1,281,201)	11,593,728	1,356,201
Drinking Water State Rev Fund Loans	2,243,882	-	(266,022)	1,977,860	266,022
Total Loans Payable:	14,818,811	300,000	(1,547,223)	13,571,588	1,622,223
Compensated Absences	691,305	547,643	(428,815)	810,133	355,231
OPEB	593,824	149,640	-	743,464	-
Total Long-term Liabilities	$ 24,238,940	$ 997,283	$ (2,921,038)	$ 22,315,185	$ 2,962,454

NOTE 7 – LOCAL UTILITY DISTRICTS

The District receives annual installments on outstanding assessments, which have remaining terms ranging from 1 to 16 years. Outstanding assessment balances carry annual interest rates ranging from 1.75 to 7.25 percent. On eight LUDs (Cedargrove #10, Big Lake #16, Panorama #20, Alger #22, Lake Samish LUD #24, Marblemount #28, Bayview #29, and Samish Park #30), there are 14 participants who are more than two years in arrears on their installment payments with a cumulative total of $7,333. At 2014 year end there were nine LUDs more than two years delinquent which included 23 participants with a cumulative total of $59,744. It is noted that there is minimal risk of collection on any LUD amounts since the LUD forms a lien on each individual property.

NOTE 8 – TELECOMMUNICATION SERVICES

The District provides wholesale telecommunications (fiber optic) services within the District to Diversint Inc. and Wave Broadband, Internet Service Providers (ISP), for resale. Service commenced in 2009. Revenue, expense, and capital investment activity for years 2015 and 2014 are as follows:

	2015	2014
Operating Revenues:		
Wholesale Fiber Services to ISP	$ 14,368	$ 14,368
Operating Expenses:		
Administration and General	$ 35,316	$ 23,388
Capital Investment:		
Current Year	$ 175,728	$ 28,701
Cumulative (since 2000)	$1,168,028	$ 992,297

NOTE 9 - RESTRICTED NET POSITION

At December 31, 2015 and 2014, the District's statement of net position reports Restricted Assets of $417,093 and $396,075, respectively. None of the assets are restricted by enabling legislation.

NOTE 10 – PENSION PLANS

The following table represents the aggregate pension amounts for all plans subject to the requirements of the GASB Statement 68, *Accounting and Financial Reporting for Pensions* for the year 2015:

Aggregate Pension Amounts – All Plans	
Pension liabilities	$4,783,347
Pension assets	-
Deferred outflows of resources	$ 562,579
Deferred inflows of resources	$ 713,799
Pension expense/expenditures	$ 466,965

State Sponsored Pension Plans

Substantially all the District's full-time and qualifying part-time employees participate in one of the following statewide retirement systems administered by the Washington State Department of Retirement Systems, under cost-sharing, multiple-employer public employee defined benefit and defined contribution retirement plans. The state Legislature establishes, and amends, laws pertaining to the creation and administration of all public retirement systems.

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

Department of Retirement Systems
Communications Unit
P.O. Box 48380
Olympia, WA 98540-8380

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

Public Employees' Retirement System (PERS)

PERS members include elected officials; state employees; employees of the Supreme, Appeals and Superior Courts; employees of the legislature; employees of district and municipal courts; employees of local governments; and higher education employees not participating in higher education retirement programs. PERS is comprised of three separate pension plans for membership purposes. PERS plans 1 and 2 are defined benefit plans, and PERS plan 3 is a defined benefit plan with a defined contribution component.

PERS Plan 1 provides retirement, disability and death benefits. Retirement benefits are determined as two percent of the member's average final compensation (AFC) times the member's years of service. The AFC is the average of the member's 24 highest consecutive service months. Members are eligible for retirement from active status at any age with at least 30 years of service, at age 55 with at least 25 years of service, or at age 60 with at least five years of service. Members retiring from active status prior to the age of 65 may receive actuarially reduced benefits. Retirement benefits are actuarially reduced to reflect the choice of a survivor benefit. Other benefits include duty and non-duty disability payments, an optional cost-of-living adjustment (COLA), and a one-time duty-related death benefit, if found eligible by the Department of Labor and Industries. PERS 1 members were vested after the completion of five years of eligible service. The plan was closed to new entrants on September 30, 1977.

<u>PERS Plan 1 Contributions</u>

The **PERS Plan 1** member contribution rate is established by State statute at 6 percent. The employer contribution rate is developed by the Office of the State Actuary and includes an administrative expense component that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates. The PERS Plan 1 required contribution rates (expressed as a percentage of covered payroll) for 2015 were as follows:

PERS Plan 1		
Actual Contribution Rates:	**Employer**	**Employee***
January through June 2015	9.21%	6.00%
July through December 2015	11.18%	6.00%

The District's actual contributions to the plan were $ 259,018 for the year ended December 31, 2015.

PERS Plan 2/3 provides retirement, disability and death benefits. Retirement benefits are determined as two percent of the member's average final compensation (AFC) times the member's years of service for Plan 2 and 1 percent of AFC for Plan 3. The AFC is the average of the member's 60 highest-paid consecutive service months. There is no cap on years of service credit. Members are eligible for retirement with a full benefit at 65 with at least five years of service credit. Retirement before age 65 is considered an early retirement. PERS Plan 2/3 members who have at least 20 years of service credit and are 55 years of age or older, are eligible for early retirement with a benefit that is reduced by a factor that varies according to age for each year before age 65. PERS Plan 2/3 members who have 30 or more years of service credit and are at least 55 years old can retire under one of two provisions:

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

PERS Plan 2/3 members hired on or after May 1, 2013 have the option to retire early by accepting a reduction of five percent for each year of retirement before age 65. This option is available only to those who are age 55 or older and have at least 30 years of service credit. PERS Plan 2/3 retirement benefits are also actuarially reduced to reflect the choice of a survivor benefit. Other PERS Plan 2/3 benefits include duty and non-duty disability payments, a cost-of-living allowance (based on the CPI), capped at three percent annually and a one-time duty related death benefit, if found eligible by the Department of Labor and Industries. PERS 2 members are vested after completing five years of eligible service. Plan 3 members are vested in the defined benefit portion of their plan after ten years of service; or after five years of service if 12 months of that service are earned after age 44.

PERS Plan 3 defined contribution benefits are totally dependent on employee contributions and investment earnings on those contributions. PERS Plan 3 members choose their contribution rate upon joining membership and have a chance to change rates upon changing employers. As established by statute, Plan 3 required defined contribution rates are set at a minimum of 5 percent and escalate to 15 percent with a choice of six options. Employers do not contribute to the defined contribution benefits. PERS Plan 3 members are immediately vested in the defined contribution portion of their plan.

<u>PERS Plan 2/3 Contributions</u>

The **PERS Plan 2/3** employer and employee contribution rates are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. The Plan 2/3 employer rates include a component to address the PERS Plan 1 UAAL and an administrative expense that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 2 employer and employee contribution rates and Plan 3 contribution rates. The PERS Plan 2/3 required contribution rates (expressed as a percentage of covered payroll) for 2015 were as follows:

PERS Plan 2/3		
Actual Contribution Rates:	**Employer 2/3**	**Employee 2***
January through June 2015	9.21%	4.92%
July through December 2015	11.18%	6.12%
Employee PERS Plan 3		varies

The District's actual contributions to the plan were $ 305,984 for the year ended December 31, 2015.

<u>Actuarial Assumptions</u>

The total pension liability (TPL) for each of the DRS plans was determined using the most recent actuarial valuation completed in 2015 with a valuation date of June 30, 2014. The actuarial assumptions used in the valuation were based on the results of the Office of the State Actuary's (OSA) *2007-2012 Experience Study*.

Additional assumptions for subsequent events and law changes are current as of the 2014 actuarial valuation report. The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2015. Plan liabilities were rolled forward from June 30, 2014, to June 30, 2015, reflecting each plan's normal cost (using the entry-age cost method), assumed interest and actual benefit payments.

- **Inflation:** 3% total economic inflation; 3.75% salary inflation

- **Salary increases**: In addition to the base 3.75% salary inflation assumption, salaries are also expected to grow by promotions and longevity.
- **Investment rate of return:** 7.5%

Mortality rates were based on the RP-2000 report's Combined Healthy Table and Combined Disabled Table, published by the Society of Actuaries. The OSA applied offsets to the base table and recognized future improvements in mortality by projecting the mortality rates using 100 percent Scale BB. Mortality rates are applied on a generational basis; meaning, each member is assumed to receive additional mortality improvements in each future year throughout his or her lifetime.

There were minor changes in methods and assumptions since the last valuation.

- The OSA updated demographic assumptions, consistent with the changes from the *2007-2012 Experience Study Report*, used when valuing the PERS 1 and TERS 1 Basic Minimum COLA.
- The OSA corrected how valuation software calculates a member's entry age under the entry age normal actuarial cost method. Previously, the funding age was rounded, resulting in an entry age one year higher in some cases.
- For purposes of calculating the Plan 2/3 Entry Age Normal Cost contribution rates, the OSA now uses the current blend of Plan 2 and Plan 3 salaries rather than using a long-term membership assumption of two-thirds Plan 2 members and one-third Plan 3 members.
- The OSA changed the way it applies salary limits, as described in the *2007-2012 Experience Study Report*.

<u>Discount Rate</u>

The discount rate used to measure the total pension liability for all DRS plans was 7.5 percent.

To determine that rate, an asset sufficiency test included an assumed 7.7 percent long-term discount rate to determine funding liabilities for calculating future contribution rate requirements. (All plans use 7.7 percent except LEOFF 2, which has assumed 7.5 percent). Consistent with the long-term expected rate of return, a 7.5 percent future investment rate of return on invested assets was assumed for the test. Contributions from plan members and employers are assumed to continue being made at contractually required rates (including PERS 2/3, PSERS 2, SERS 2/3, and TRS 2/3 employers, whose rates include a component for the PERS 1, and TRS 1 plan liabilities). Based on these assumptions, the pension plans' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return of 7.5 percent was used to determine the total liability.

<u>Long-Term Expected Rate of Return</u>

The long-term expected rate of return on the DRS pension plan investments of 7.5 percent was determined using a building-block-method. The Washington State Investment Board (WSIB) used a best estimate of expected future rates of return (expected returns, net of pension plan investment expense, including inflation) to develop each major asset class. Those expected returns make up one component of WSIB's capital market assumptions. The WSIB uses the capital market assumptions and their target asset allocation to simulate future investment returns at various future times. The long-term expected rate of return of 7.5 percent approximately equals the median of the simulated investment returns over a 50-year time horizon.

Estimated Rates of Return by Asset Class

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2015, are summarized in the table below. The inflation component used to create the table is 2.2 percent and represents the WSIB's most recent long-term estimate of broad economic inflation.

Asset Class	Target Allocation	% Long-Term Expected Real Rate of Return Arithmetic
Fixed Income	20%	1.70%
Tangible Assets	5%	4.40%
Real Estate	15%	5.80%
Global Equity	37%	6.60%
Private Equity	23%	9.60%
	100%	

Sensitivity of NPL

The table below presents the District's proportionate share of the net pension liability calculated using the discount rate of 7.5 percent, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.5 percent) or 1-percentage point higher (8.5 percent) than the current rate.

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
PERS 1	$ 3,230,317	$ 2,653,232	$ 2,156,992
PERS 2/3	$ 6,228,563	$ 2,130,114	($ 1,007,915)

Pension Plan Fiduciary Net Position

Detailed information about the State's pension plans' fiduciary net position is available in the separately issued DRS financial report.

Pension Liabilities (Assets), Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2015, the District's reported a total pension liability of $4,783,347 for its proportionate share of the net pension liabilities as follows:

	Liability (or Asset)
PERS 1	$ 2,653,233
PERS 2/3	$ 2,130,114

At June 30, the District's proportionate share of the collective net pension liabilities was as follows:

	Proportionate Share 6/30/14	Proportionate Share 6/30/15	Change in Proportion
PERS 1	.004436 %	.004574 %	.000138 %
PERS 2/3	.050026 %	.0507220 %	.0006960%

Employer contribution transmittals received and processed by the DRS for the fiscal year ended June 30 are used as the basis for determining each employer's proportionate share of the collective pension amounts reported by the DRS in the *Schedules of Employer and Nonemployer Allocations* for all plans except LEOFF 1.

The collective net pension liability (asset) was measured as of June 30, 2015, and the actuarial valuation date on which the total pension liability (asset) is based was as of June 30, 2014, with update procedures used to roll forward the total pension liability to the measurement date.

Pension Expense

For the year ended December 31, 2015, the District's recognized pension expense as follows:

	Pension Expense
PERS 1	196,722
PERS 2/3	270,243
TOTAL	$ 466,965

Deferred Outflows of Resources and Deferred Inflows of Resources

At December 31, 2015, the District's reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

PERS 1	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	-	-
Net difference between projected and actual investment earnings on pension plan investments	-	145,160
Changes of assumptions	-	-
Changes in proportion and differences between contributions and proportionate share of contributions	-	-
Contributions subsequent to the measurement date	139,144	-
TOTAL	$ 139,144	$ 145,160

PERS 2/3	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	226,432	-
Net difference between projected and actual investment earnings on pension plan investments	-	568,639
Changes of assumptions	3,432	-
Changes in proportion and differences between contributions and proportionate share of contributions	29,571	-
Contributions subsequent to the measurement date	164,000	-
TOTAL	$ 423,435	$ 568,639

Deferred outflows of resources related to pensions resulting from the District's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2016. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31:	PERS 1	PERS 2/3
2016	(56,259)	(145,691)
2017	(56,259)	(145,691)
2018	(56,259)	(145,692)
2019	23,617	124,390
2020	-	-
Thereafter	-	-

Western Conference of Teamsters Pension Trust Fund

As of January 1, 2013, the District started to make contributions to the Western Conference of Teamsters Pension Trust Fund, a defined benefit pension plan, on the behalf of all collective bargaining employees at a rate of $0.50 per hour for each hour of paid. The District contributed 100% of the required amount in each year. There is no unfunded liability on the District's part.

Year ended December 31:	District Contributions	Covered Employees
2015	$36,458	35
2014	$35,332	36

Additional information can be obtained by writing to Western Conference of Teamster Pension Trust Plan, 2323 Eastlake Avenue East, Seattle, WA 98102.

NOTE 11 – CONTINGENCIES AND LITIGATIONS

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

As discussed in Note 6, *Long-Term Debt*, the District is contingently liable for repayment of refunded debt.
The District participates in a number of federal and state-assisted programs. These grants are subject to audit by the grantors or their representatives. Such audits could result in requests for reimbursement to grantor agencies for expenditures disallowed under the terms of the grants. District management believes that such disallowances, if any, will be immaterial.

NOTE 12 – SUBSEQUENT EVENTS

The District has evaluated subsequent events through the report date to ensure that these financial statements include appropriate disclosure of events both recognized in the financial statements as of December 31, 2015 and events which occurred subsequent to December 31, 2015 but were not recognized in the financial statements.

The District was approved for a $10,500,000 bond to fund the construction of the Judy to Mount Vernon transmission line project and other various construction projects. The District received $6,300,000 in 2016 and will receive $4,200,000 in 2017.

As of January 1, 2016, the District changed its Liability and Property insurance carrier to Enduris. Health and Welfare will remain with PURMS.

NOTE 13 – RISK MANAGEMENT

The District is a member of the Public Utility Risk Management Services Self-Insurance Fund (PURMS). 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 service 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 (Pool or Liability Pool) was made pursuant to the provisions of Chapter 54.16 RCW, and interlocal government agreements. The Pool was formed on December 31, 1976, when certain Public Utility Districts (PUDs) in the State of Washington joined together by signing an Agreement to pool their self-insured losses and jointly purchase insurance and administrative services. As of December 31, 2015 there were 19, 19, and 12 members in the Liability, Property, and Health & Welfare pools, respectively. For 2014 year end there were 18, 18, and 12 members in the Liability, Property, and Health & Welfare pools, respectively.

The Pool provides liability, property, and health and welfare insurance coverage for its members and their employees under an agreement entitled “PURMS Joint Self-Insurance Agreement” (SIA).

Liability Risk Pool

Under the SIA, from 1977 through 1995, the Liability Pool's self-insured retention (or Liability Coverage Limit) was $500,000 per occurrence. Effective January 1, 1996, PURMS increased the Liability Coverage Limit to $1,000,000 per occurrence. This was the Coverage Limit in effect for 2015, and in effect as of December 31, 2015. The Liability Pool is financed through assessments of its participating members (Liability Assessment) in accordance with the terms of the Liability General Assessment Formula (Automatic Assessments). An Automatic Annual Assessment is issued at the beginning of each calendar year to replenish the Liability Pool to its $3,000,000 Designated Liability Pool Balance. In addition, Automatic Interim Assessments are also issued at any time during the year that the actual Liability Pool Balance becomes $500,000 less than the Designated Liability Pool Balance or to the amount of the 70 percent Funding Level, whichever occurs first.

In November 2008, the PURMS Board approved an increase in the liability pool balance to $3,000,000. This will be affected by additional assessments of $165,000 for five years and $175,000 for the sixth year. The first assessment was due January 2009.

In accordance with Washington State regulatory requirements applicable to public entity risk pools, on an annual basis, PURMS engages an independent qualified actuary to determine the claim financing levels and liabilities for unpaid claims and claims adjustments expense for the Liability Pool. A copy of the Liability Pool Actuarial Report is provided to the Washington State Risk Manager and made available to the Washington State Auditor's Office.

Property Risk Pool

PURMS provides property insurance coverage for its members participating in the Property Risk Pool in accordance with the terms of the SIA. Under the SIA, from its inception in 1997 to the present, the Property Pool has had a self-insured retention (or Property coverage Limit) of $250,000 per property loss.

At all times, PURMS maintains Excess Property Insurance for its members in the Property Pool. For 2015 and 2014, the amount of the Excess Property Insurance was $200 million, with excess coverage attaching at the $250,000 Property Coverage Limit for all Property Losses except those subject to increased retention levels for certain property risks.

The Property Pool also provides its Members with Automatic Extended Property Coverage for Property Losses that exceed the Property Pool's $250,000 Property Coverage Limit if those Losses were also subject to Increased Retentions under the Excess Property Insurance. Under the Excess Property Insurance retentions in effect for 2015, the maximum exposure to the Property Pool from a Property Loss that exceeded $250,000, and that was subject to an Increased Retention, was $250,000, less the applicable deductible, or a maximum of $250,000 more than the Property Coverage Limit.

A copy of the Actuarial Report for the Property Pool is provided to the Washington State Risk Manager and made available to the Washington State Auditor's Office.

Health & Welfare Risk Pool

PURMS provides health and welfare insurance coverage for the employees of each of its Members participating in the Health & Welfare Risk Pool (H&W Pool) in accordance with the terms of the Health & Welfare Coverage of the SIA (H&W Pool) and the terms of each member's respective Coverage Booklet provided to its Employees. The H&W Pool was established as one of PURMS' risk pools effective March 31, 2000.

Under the H&W assessment formula, each month, each member of the H&W Pool is assessed for (a) the cost the H&W Pool incurred during the preceding month for the H&W claims for such member's employees; and (b) for such member's share of Shared H&W Costs. Shared H&W Costs consist of administrative expenses incurred by the H&W Pool, premiums for Stop-Loss Insurance, PPO charges, and Shared H&W Claims.

Each of PURMS risk pools is audited annually by the State Auditor's Office. In addition, as required by State regulations, PURMS provides audited financial reports to the State Risk Manager reflecting the claims and administrative expenses of the Risk Pools. On an annual basis, PURMS engages the services of the accounting firm Moss Adams to perform a claims audit for each of the Risk Pools.

Unemployment Benefits

Unemployment benefits are provided by the District as a "reimbursable employer" with the Washington State Department of Employment Security. Unemployment compensation is paid to eligible individuals by the Washington State Department of Employment Security and the District is subsequently billed for actual costs. As a result, the District will experience periods of fluctuating costs, depending on the number and size of eligible claims each year. These costs are immaterial to the District's financial statements.

NOTE 14 –POST-EMPLOYMENT BENEFITS OTHER THAN PENSION BENEFIT

The District implemented Governmental Accounting Standards Board (GASB) 45 *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, prospectively, as of December 31, 2009.

Plan Description

In addition to the pension benefits described in Note 10, the District provides Other Post-Employment Benefits (OPEB), in accordance with RCW 41.04.208, to all employees who are vested members in the Public Employees Retirement System (PERS), who leave the employment of the District and are eligible to immediately receive benefits under PERS. This single-employer health and welfare benefit plan is provided through the Public Utility Risk Management Services (PURMS). Commissioners who serve at least one six-year term and have been re-elected for a second term of office shall be eligible for coverage under this policy. Plan benefits for retirees are reduced upon eligibility for Medicare, regardless of whether or not Medicare enrollment occurs. The surviving spouse of a retiree who is covered at the time of the retiree's death may continue his/her coverage until the time of the surviving spouse's death. A new spouse to a surviving spouse is not eligible for this coverage. In the event of a divorce after retirement, the spouse of the retired employee will not be eligible to remain on the District's plan. COBRA benefits will be offered to the divorced spouse according to statutory regulations.

Funding Policy

The District establishes contribution requirements on an annual basis. As of December 31, 2015 and 2014, the District had sixteen retirees enrolled in the District's health and welfare plan. The premium charged to the retirees is based on the District's experience for all members of its health and welfare plan, as determined by the PURMS Self-Insurance Fund. Costs in excess of the retirees' contributions are covered by the District on a pay-as-you-go financing plan.

Annual OPEB Cost and Net OPEB Obligation

The District's annual OPEB cost is calculated based upon the Annual Required Contribution (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities over a period of 30 years as of December 31, 2009.

The District's annual OPEB cost, the percentage of OPEB cost contributed to the Plan, and the net OPEB obligation for 2015, 2014, and 2013 were as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2015	$ 433,135	36.45%	$1,018,703
2014	$ 289,739	48.35%	$ 743,464
2013	$ 291,096	55.94%	$ 593,824

Funded Status and Funding Progress

As of December 31, 2015, the most recent actuarial valuation date, the plan was 0% funded. The accrued liability for benefits was $5.485 million, and the actuarial value of assets was $0, resulting in an Unfunded Actuarial Accrued Liability and Amortization (UAAL) of $5.485 million. Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the Plan and the Annual Required Contributions (ARC) of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

Unfunded Actuarial Liability (UAAL)	
Valuation Date	12/31/2015
Actuarial Value of Assets	$ 0
Actuarial Accrued Liability	$5,485,372
Reserve Fund	$ 0
Unfunded Actuarial Accrued Liability (UAAL)	$5,485,372
Funded Ratio	0%

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities, consistent with the long-term perspective of the calculations.

In the December 31, 2015 actuarial valuation, the Entry Age Normal Actuarial Cost Method was used. The actuarial assumptions used included a 2.30% inflation assumption and a 3.50% discount rate, which is based upon the long-term investment yield on the investments that are expected to be used to finance the payment of benefits.

The medical trend assumptions were as follow:

Year	Medical Trend
2016	7.3%
2017	6.4%
2020	5.3%
2030	5.2%

The medical cost rate is assumed to continue grading downward until achieving the ultimate rate of 4.1% in 2071 and beyond. The first year trend reflects assumed increases based on ACA fees. These trend rates assume that, over time, deductibles and out-of-pocket maximums will be periodically increased as medical trends increase. The trends above do not reflect increased in costs due to the excise tax.

The UAAL is being amortized as a level percentage of pay on a closed basis at the assumed discount rate. Payroll is assumed to increase at 3.5%

Annual OPEB Cost and Net OPEB Obligation

	December 31, 2015	December 31, 2014
Determination of Annual Required Contribution		
Normal cost at year end	$ 209,535	$ 153,211
Amortization of UAAL	228,557	139,497
Annual Required Contribution (ARC)	438,092	292,708
Determination of Net OPEB Obligation		
Annual Required Contribution	438,092	292,708
Interest on prior year Net OPEB Obligation	26,021	20,784
Adjustment to ARC	(30,978)	(23,753)
Annual OPEB Cost	433,135	289,739
Contribution made by District	(157,896)	(140,099)
Increase in Net OPEB Obligation	275,239	149,640
Net OPEB Obligation – beginning of year	743,464	593,824
Net OPEB Obligation – end of year	$ 1,018,703	$ 743,464

NOTE 15 –CHANGE IN ACCOUNTING PRINCIPLE

In 2015, the District implemented GASB Statement No. 68, Accounting and Financial Reporting for Pensions and GASB Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68.

These statements establish standards for measuring and recognizing liabilities, deferred outflows of resources, and deferred inflows of resources, and expenses related to pensions.

As the result of implementing these standards, the District recognized an adjustment to beginning net position by $5,032,604, presented as a cumulative effect of change in accounting principle.

REQUIRED SUPPLEMENTARY INFORMATION
For the Year Ended December 31, 2015

Actuarial valuations for OPEB are performed every three years using the Entry Age Normal Actuarial Cost Method. The most recent valuation was performed December 31, 2015. The next scheduled valuation date is December 31, 2018.

Schedule of funding progress

	Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liabilities Entry Age (AAL)	Unfunded actuarial accrued Liabilities (UAAL)	Funded Ratio	Covered Payroll	UAAL as a % of Covered Payroll
OPEB	12/31/2009	0	2,481,348	2,481,348	0%	N/A	N/A
	12/31/2012	0	3,766,422	3,766,422	0%	N/A	N/A
	12/31/2015	0	5,485,372	5,485,372	0%	N/A	N/A

Schedule of employer contributions

	Year Ending	Annual Required Contribution (ARC)	Employer Contributions	Percentage Contributed
OPEB	12/31/2009	180,124	71,579	40.63%
	12/31/2010	180,124	114,770	44.00%
	12/31/2011	180,124	142,595	97.99%
	12/31/2012	292,708	151,469	14.01%
	12/31/2013	292,708	162,829	55.63%
	12/31/2014	292,708	140,099	47.86%
	12/31/2015	438,092	157,896	36.04%

See accompanying Note 14 to the Financial Statements

Schedule of Proportionate Share of the Net Pension Liability
PERS Plan 1
As of June 30, 2015

	2015*
Employer's proportion of the net pension liability	0.050722%
Employer's proportionate share of the net pension liability	$2,653,233
Employer's covered employee payroll	$5,522,456
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	48.0%
Plan fiduciary net position as a percentage of the total pension liability	59.10%

Schedule of Proportionate Share of the Net Pension Liability
PERS Plan 2/3
As of June 30, 2015

	2015*
Employer's proportion of the net pension liability	0.059616%
Employer's proportionate share of the net pension liability	$2,130,114
Employer's covered employee payroll	$5,289,649
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	40.3%
Plan fiduciary net position as a percentage of the total pension liability	89.20%

Notes to Schedules:
As of the date of this schedule, there have not been any changes to the benefit terms and the actuarial assumptions applied for June 30, 2014 are the same for June 30, 2015

*Fiscal year 2015 was the 1st year of implementation, therefore only one year is shown

See accompanying Note 10 to the Financial Statements

Schedule of Employer Contributions
PERS Plan 1
As of December 31, 2015

	2015*
Statutorily or contractually required contributions	$23,821
Contributions in relation to the statutorily or contractually required contributions	$23,821
Contributions deficiency (excess)	0
Covered employer payroll	$238,226
Contributions as a percentage of covered employee payroll	10.0%

Schedule of Employer Contributions
PERS Plan 2/3
As of December 31, 2015

	2015*
Statutorily or contractually required contributions	$546,332
Contributions in relation to the statutorily or contractually required contributions	$546,332
Contributions deficiency (excess)	0
Covered employer payroll	$5,466,178
Contributions as a percentage of covered employee payroll	9.99%

Notes to Schedules:
As of the date of this schedule, there have not been any changes to the benefit terms and the actuarial assumptions applied for June 30, 2014 are the same for June 30, 2015. The employer contribution rate changed as of July 1, 2015 to 11.18% from 9.21%.

*Fiscal year 2015 was the 1st year of implementation, therefore only one year is shown

See accompanying Note 10 to the Financial Statements

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
Website	www.sao.wa.gov