Office of the Washington State Auditor
Pat McCarthy

Financial Statements Audit Report

South Columbia Basin Irrigation District

Franklin County

For the period January 1, 2016 through December 31, 2016

Published February 22, 2018

Report No. 1020796

Office of the Washington State Auditor
Pat McCarthy

February 22, 2018

Board of Directors
South Columbia Basin Irrigation District
Pasco, Washington

Report on Financial Statements

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

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

Sincerely,

Pat McCarthy

State Auditor

Olympia, WA

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SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

South Columbia Basin Irrigation District
Franklin County
January 1, 2016 through December 31, 2016

This schedule presents the status of findings reported in prior audit periods. The status listed below is the representation of the South Columbia Basin Irrigation District. The State Auditor's Office has reviewed the status as presented by the District.

<table>
<tr><td>Audit Period:
Fiscal year 2015</td><td>Report Ref. No:
1020117</td><td>Finding Ref. No:
2015-001</td></tr>
<tr><td colspan="3">Finding Caption:
The District's internal controls over financial statement preparation are inadequate to ensure accurate reporting.</td></tr>
<tr><td colspan="3">Background:
It is the responsibility of District management to design, implement, and maintain internal controls to ensure financial statements are fairly presented and provide reasonable assurance regarding the reliability of financial reporting. Our audit identified a material weakness in controls over financial statement reporting that affected the District's ability to produce reliable financial statements.</td></tr>
<tr><td colspan="3">Status of Corrective Action: (check one)
☐ Fully Corrected   ☒ Partially Corrected   ☐ Not Corrected   ☐ Finding is considered no longer valid</td></tr>
<tr><td colspan="3">Corrective Action Taken:
District staff has taken a more thorough and extensive review of all aspects of the preparation of the financial statements, adjusting entries and the corresponding notes and MD&A. Through this comprehensive review, it is expected that staff preparing the financial statements will have a more in depth understanding of the financial reporting process. Management staff is looking into additional training for accounting personnel in order to assist them in gaining a more detailed understanding of some of the more complex issues involved in statement preparation and has taken a more proactive hands on approach to oversite and the training process. While turnover in several key positions have proven to be challenging in the past year, we feel confident that staff will be able to provide reliable financial statements moving forward.</td></tr>
</table>

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

South Columbia Basin Irrigation District
Franklin County
January 1, 2016 through December 31, 2016

Board of Directors
South Columbia Basin Irrigation District
Pasco, Washington

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the South Columbia Basin Irrigation District, Franklin County, Washington, as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated February 14, 2018.

Our report includes a reference to other auditors who audited the financial statements of the joint venture, Columbia Basin Hydropower, as described in our report on the District's financial statements. This report includes our consideration of the results of the other auditor's testing of internal control over financial reporting and compliance and other matters that are reported on separately by those other auditors. However, this report, insofar as it relates to the results of the other auditors, is based solely on the reports of the other auditors. The financial statements of the Columbia Basin Hydropower were not audited in accordance with *Government Auditing Standards* and accordingly this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with the Columbia Basin Hydropower.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

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

In addition, we noted certain matters that we have reported to the management of the District in a separate letter dated February 14, 2018.

COMPLIANCE AND OTHER MATTERS

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

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

PURPOSE OF THIS REPORT

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

Pat McCarthy

State Auditor

Olympia, WA

February 14, 2018

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

South Columbia Basin Irrigation District
Franklin County
January 1, 2016 through December 31, 2016

Board of Directors
South Columbia Basin Irrigation District
Pasco, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the South Columbia Basin Irrigation District, Franklin County, Washington, as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed on page 11.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of the Columbia Basin Hydropower, which represents 0.23 percent, 0.32 percent and 1 percent, respectively, of the assets, net position and revenues of the District. Those statements were audited by other auditors, whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Columbia Basin Hydropower is based solely on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of the Columbia Basin Hydropower were not audited in accordance with *Government Auditing Standards*.

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, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the South Columbia Basin Irrigation District, as of December 31, 2016, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated February 14, 2018 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.

Pat McCarthy

Pat McCarthy

State Auditor

Olympia, WA

February 14, 2018

FINANCIAL SECTION

South Columbia Basin Irrigation District
Franklin County
January 1, 2016 through December 31, 2016

REQUIRED SUPPLEMENTARY INFORMATION

BASIC FINANCIAL STATEMENTS

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion & Analysis

For Year Ended December 31, 2016

This section provides an overview and analysis of key data presented in the basic financial statements for the years ended December 31, 2016 and 2015. Information within this section should be used in conjunction with the basic financial statements and accompanying notes.

Overview of the Financial Statements

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

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

The financial statements, presented for the year ended December 31, 2016 are comprised of:

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

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

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

Condensed Financial Information

The following condensed financial information includes fiscal years 2016 and 2015

Statement of Net Position	2016	2015
ASSETS		
Current Assets:		
Cash & Cash Equivalents	6,118,867	8,811,203
Investments	10,980,747	9,118,525
Other Current Assets	1,159,357	1,350,668
Total Current Assets	18,258,971	19,280,396
Non-Restricted Assets		
Investment – Tenants in Common	(105,002)	114,245
Capital Assets:		
Property & Equipment	12,668,958	12,386,483
Power Generation Assets	43,598,241	42,843,291
Accumulated Depreciation – P&E	(8,747,311)	(8,502,207)
Accumulated Dep - Power Generation Assets	(26,206,033)	(25,341,075)
Total Capital Assets	21,313,855	21,386,492

	2016	2015
Other Non-Current Assets:		
Construction Obligation Receivable	4,443,516	4,936,144
Construction in Progress	252,272	144,107
Construction in Progress - Power Generation	664,276	976,221
Total Non-Current Assets	5,360,064	6,056,472
Deferred Outflows of Resources		
Deferred Outflows Related to Pensions	1,053,274	588,897
TOTAL ASSETS AND DEFERRED OUTFLOWS	**$ 45,881,162**	**$ 47,426,502**
LIABILITIES		
Current Liabilities:	2,130,904	3,365,636
Total Current Liabilities	2,130,904	3,365,636
Non-Current Liabilities:		
Contracts Payable - USBR	4,124,381	4,441,850
Other Non-Current Liabilities	6,265,751	5,297,591
Total Non-Current Liabilities	10,390,132	9,739,441
Deferred Inflows of Resources		
Deferred Inflows Related to Pensions	125,399	803,655
TOTAL LIABILITIES AND DEFERRED INFLOWS	**$ 12,646,435**	**$ 13,908,732**
NET POSITION		
Invested In Capital Assets	21,313,855	21,386,492
Restricted	3,082,969	2,978,559
Unrestricted	8,837,903	9,152,719
Total Net Position	33,234,727	33,517,770
TOTAL NET POSITION AND LIABILITIES	**$ 45,881,162**	**$ 47,426,502**

Statement of Revenue, Expenses & Net Position	**2016**	**2015**
REVENUE		
Operating Revenue	18,601,499	19,234,518
Total Operating Revenue	18,601,499	19,234,518
Operating Expenditures:		
Operating Expenses	6,326,098	6,307,907
Maintenance Expense	15,482,813	14,613,506
Depreciation Expense – P&E	819,548	707,274
Depreciation Expense-Power Generation Assets	864,958	856,536
Retainage Expense		8,127
Total Operating Expenditures	23,493,417	22,493,350
Operating Income (Loss)	(4,891,918)	(3,258,832)
Non-Operating Revenue (Expenses)		
Power Revenue	2,531,405	3,482,795
Other Revenues	711,950	2,094,614
Other Expenses	(112,806)	(198,721)
Misc. items		(34,605)
Total Non-Operating Revenue (Expenses)	3,130,549	5,344,083

Income Before Extraordinary/Special Items	(1,761,369)	2,085,251
Total Net Position – January 1	33,517,771	37,182,254
Cumulative effect of a change in accounting principle		(5,749,734)
Total Net Position, January 1 (as restated)		31,432,520
Total Net Position – December 31	**$ 31,756,402**	**$ 33,517,771**

Financial Position

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

Long-Term Debt

The District's long-term debt as of December 31, 2016 consists of assessment debt pertaining to the United States Bureau of Reclamation Repayment contract. The District owed the United States Bureau of Reclamation $4,441,850 as of December 31, 2016. The Bureau of Reclamation determines each annual installment due on construction charges. Those construction charges are then assessed against the irrigation district lands. Due to the terms of the agreement there is no estimate available of annual debt service.

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

Capital Assets

The district's investment in capital assets for operating activities as of December 31, 2016, is $21,313,855 (net of accumulated depreciation). This investment in capital assets includes land, buildings, equipment and power generation assets. The district's total capital assets being depreciated for the year ended December 31, 2016 reflects a decrease of approximately .69% from 2015.

The following vehicles were purchased to replace aging fleet:
(10) Pickup Trucks $281,154.26, (2) Dump Truck $182,321.72, (1) Excavators $214,750, (1) Box Scraper $6,939.82, (1) Grader $145,000, (1) Trailers $4,234.31, (1) Mounted Vacuum Unit $90,599.66, (2) Compactors $40,245.12, (1) Hi Volt Alert System $7,655, (3) GPS Units $50,850.50, (1) Paint Sprayer $5,501.68 and Power Generation Assets $749,462.

In 2015, the district included power generation assets on its financial reports. These assets were previously recorded as an Investment in Joint Venture. Through discussion with the Washington state auditors, it was determined that they would be included as capital assets on the districts balance sheet along with depreciation and construction in progress. More detail on the inclusion of these power generation capital assets is given in the Facts & Conditions section of the MD&A as well as Notes 3, 7 and 9 of the Notes to Financial Statement.

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

Economic Outlook

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

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

Facts or Conditions

In 2015, through discussions with the State Auditor's Office, the district entered into a change in how it recognized it's one third equal ownership share of the power generating capital assets of Columbia Basin Hydropower. In 2014, the districts recorded it's one third equal share as an Investment in Joint Venture. After in depth discussion and review, it was determined that the district would account for those assets as power generation capital assets, recognizing the associated land, power generation assets, accumulated depreciation, and construction in progress. More information and detail is referenced in Notes 3, 7 & 9.

STATEMENT OF NET POSITION
December 31, 2016

ASSETS		2016
CURRENT ASSETS:		
Cash and Cash Equivalents	$	6,118,867
Accounts Receivable		504,782
Assessments Receivable - Platted Blocks		75,115
Assessments Receivable - LID#1 O&M - Prior Years		347
Assessment Receivable - Water Service Contracts		1,508
Investment Funds		10,980,747
Prepaid Assets		577,605
TOTAL CURRENT ASSETS	$	18,258,971
NONCURRENT ASSETS:		
Construction Obligation Receivable - SCBID landowners		4,443,516
Construction in Progress - Power Generation		664,276
Construction in Progress		252,272
TOTAL RESTRICTED ASSETS	$	5,360,064
Investment - Tenants in Common		(105,002)
TOTAL NON-RESTRICTED ASSETS	$	(105,002)
Capital Assets not being depreciated		
Land		133,500
Land - Power Generation		5,487
Capital Assets being depreciated		
Plant		845,694
Power Generation Assets		43,592,754
Machinery and Equipment		11,689,764
Less Accumulated Depreciation		(8,747,311)
Less Accumulated Depreciation - Power Generation Assets		(26,206,033)
TOTAL CAPITAL ASSETS (NET)	$	21,313,855
TOTAL NONCURRENT ASSETS	$	26,568,917
DEFERRED OUTFLOWS of RESOURCES		
Deferred Outflows Related to Pensions	$	1,053,274
TOTAL ASSETS AND DEFERRED OUTFLOWS	$	45,881,162
LIABILITIES		
CURRENT LIABILITIES:		
Accounts Payable - Other		304,306
Due to USBR		71,009
Accrued Wages and Benefits		587,023
State Industrial Insurance		13,690
Accrued retirement Insurance		68,037
Unearned Revenue Prepaid Assessments		769,370
Current Portion - USBR - Long Term Obligation		317,469
TOTAL CURRENT LIABILITIES	$	2,130,904
NONCURRENT LIABILITIES:		
Contracts Payable - USBR		4,124,381
Net Pension Liability		6,215,043
Fish Mitigation Payable - State of Washington		11,380
Retainage Payable		39,328
TOTAL NONCURRENT LIABILITIES	$	10,390,132
DEFERRED INFLOWS of RESOURCES		
Deferred Inflows Related to Pensions	$	125,399
TOTAL LIABILITIES AND DEFERRED INFLOWS	$	12,646,435
NET POSITION:		
Net Investment in Capital Assets		21,313,855
Restricted Net Position		3,082,969
Unrestricted Net Position		8,837,903
TOTAL NET POSITION	$	33,234,727
TOTAL NET POSITION AND LIABILITIES	$	45,881,162

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

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
For The Year Ended December 31, 2016

		2016
OPERATING REVENUES:		
Operating Assessments	$	16,085,524
Additional Water Sales - Platted Blocks	$	824,831
Additional Water Sales - Water Service Contracts	$	182,050
Receipts - USBR S&MC	$	120,366
Rental Income - Employees	$	86,406
Artificially Stored Groundwater Revenue	$	680,085
Surplus Revenue - USBR	$	188,054
Receipt-GCPHA Saddle GAP	$	2,539
Energy Credits	$	343,929
Common Services Revenue	$	61,465
Services Income	$	23,774
Miscellaneous Collections	$	2,476
Total Operating Revenue	$	18,601,499
OPERATING EXPENSES:		
Operating Expense	$	6,326,098
Maintenance Expense	$	15,482,813
Depreciation Expense	$	819,548
Depreciation Expense-Power Generation Assets	$	864,958
Total Operating Expenses	$	23,493,417
OPERATING INCOME (LOSS)	$	(4,891,918)
NONOPERATING REVENUES (EXPENSES):		
Power Revenue	$	2,531,405
Receipts - USBR on Special Contracts	$	500,000
Interest and Dividend Income	$	111,517
Gains on Capital Asset Disposition	$	99,380
Other Nonoperating Revenues	$	1,053
(Other Nonoperating Expenses)	$	(112,806)
Total Nonoperating Revenues (Expenses)	$	3,130,549
Income Before Contributions,	$	(1,761,369)
CHANGE IN NET POSITION	$	(1,761,369)
TOTAL NET POSITION, January 1	$	33,517,771
Prior Period Adjustments		
TOTAL NET POSITION, December 31	$	31,756,402

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

STATEMENT OF CASH FLOWS
For Year Ended December 31, 2016

		2016
CASH FLOW FROM OPERATING ACTIVITY		
Receipts from Customers	$	18,910,465
Payments to Suppliers	$	(15,126,300)
Payments to Employees	$	(6,042,385)
Net cash provided (used) by operating Activities	$	(2,258,220)
CASH FLOWS from NONCAPITAL FINANCING ACTIVITIES		
Power revenue	$	2,531,405
Receipts on Special Contracts	$	500,000
Other Revenues	$	15,369
Other Net Expenses	$	(1,262,419)
Net cash provided (used) by noncapital financing activities	$	1,784,355
CASH FLOW from CAPITAL and RELATED FINANCING ACTIVITIES		
Capital expenditures	$	(1,024,082)
Proceeds on disposal of PP&E	$	99,380
Net cash provided (used) by capital and related financing activities	$	(924,702)
CASH FLOW FROM INVESTING		
Investments	$	(1,390,970)
Interest collected	$	97,201
Net cash provided by investing activities	$	(1,293,769)
Net Incr/(decrease) in cash/cash equivalents	$	(2,692,336)
Balances-Beginning of the year	$	8,811,203
Balances-End of year	$	6,118,867

RECONCILIATION OF OPERATING INCOME (LOSS)TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:

Operating income (loss)	$	(4,891,918)
Adjustments to reconcile operating income to net cash provided (used) by operating activities		
Depreciation Expense	$	819,548
Depreciation Expense - Power Generation Assets	$	864,958
Change in assets and liabilities:		
Decrease(Increase) in prepaid expenses	$	168,360
Decrease(Increase)Receivables	$	(477,326)
Increase(Decrease)Accounts payable	$	942,051
Increase(Decrease) Deferred Pension Outflows	$	628,804
Increase(Decrease) Deferred Pension Inflows	$	678,256
Increase(Decrease) Pension Liabilty	$	(936,934)
Increase(Decrease) Salaries payable	$	(54,018)
Net cash provided by operating activities	$	(2,258,219)
Net cash provided by (used in) operating activites	$	(2,258,219)
Noncash Investing, Capital and Financing Activities		
Purchase of land, structures and equipment with direct financing		
Adjustment to Investment - Tenants in Common		(172,578)

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

South Columbia Basin Irrigation District
Notes to Financial Statements
January 1, 2016 through December 31, 2016

The following notes are an integral part of the accompanying financial statement.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of South Columbia Basin Irrigation District conform to generally accepted accounting principles (GAAP) as applicable to proprietary funds of governments. The following is a summary of the most significant policies (including identification of those policies which result in material departures from generally accepted accounting principles):

A. Reporting Entity

South Columbia Basin Irrigation District is a municipal corporation governed by an elected five-member board. As required by generally accepted accounting principles, management has considered all potential component units in defining the reporting entity. The South Columbia Basin Irrigation District has no component units.

B. Basis of 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 Water Utilities.)

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

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

C. Cash & Cash Equivalents

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

D. Capital Assets

See Note 3.

E. **Assets, Liabilities, Fund Balance & Net Position**

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

O&M Reserve Fund	$ 2,976,872.00
LID#1 Investment Fund	$ 66,195.71
LID#1 O&M Reserve	$ 39,901.39
Total Restricted Funds	$ 3,082,969.10

F. **Receivables**

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

G. **Inventories**

Prepaid fuel and oil inventories are valued at $53,341.06, prepaid shop parts and materials are valued at $101,094.40, and prepaid chemicals are valued at $64,150.62, which approximates the market value.

H. **Investments**

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

I. **Compensated Absences**

Compensated absences are absences for which employees will be paid, such as vacation and sick leave. The district records unpaid leave for compensated absences as an expense and liability when incurred.

Vacation pay, which may be accumulated up to 240 Hours is payable upon resignation, retirement or death. Sick leave may accumulate indefinitely. Upon resignation any outstanding sick leave is lost.

J. **Contingent Liabilities and Litigation**

The District does not have any Contingent Liabilities or Litigation

K. **Pensions**

For the purpose of measuring the net pension lability, deferred outflows of resources and deferred inflows of resources related to pensions, pension expenses, 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

A. **Deposits**

Custodial credit risk is the risk that in 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. Of the Districts total position of $239,784.85 in December, 2016, none of the District's $239,784.85 is exposed to custodial credit risk because the investments are held by the District's bank which is also the counterparty in those particular securities.

The Districts deposits are entirely covered by the Federal Depository Insurance (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (WPDPC). Under State statute, members of WPDPC may be assessed losses on a prorated basis if the pool's collateral provides insufficient coverage. Deposits collateralized in the multiple institution collateral pool are considered insured, and therefore not exposed to custodial credit risk.

B. **Investments**

The District does not have an investment policy. Investments are stated at fair market value. Management intends to hold time deposits and securities until maturity.

Interest Rate Risk – Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. In accordance with its investment policy, the District manages its exposure to declines in fair value by limiting the maturity of investments to five years, unless matched to a specific cash flow. In addition, to achieve its financial objective of maintaining liquidity to meet all operating requirements, the District typically selects investments that have much shorter average maturities. The District had the following investments subject to interest rate risk as of December 31, 2016:

	Fair Value	Maturing in Less than One Year	Maturing in one to Five Years	Maturing in Five to Ten Years	Maturing After Ten Years
U.S. Treasury Bills	$ 5,783,852.20	$ 5,783,852.20	$ -	$ -	$ -
Certificate of Deposit	$ 5,110,410.14	$ 5,119,219.80			
Fish Mitigation	$ 11,380.00	$ 11,380.00			
L.I.D. No. 1	$ 66,295.00	$ 66,295.00			
Total Investments Subject to Interest Rate Risk:	$ 10,971,937.34	$ 10,980,747.00			
Other Investments:					
Municipal Inv. Fund	$ 424,902.00				
State Treasurer's Investment Pool	$ 5,453,580.00				
Total Investments	$ 16,850,419.34				

Credit Risk – Credit Risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. As required by state law and local ordinances, all investments of the District's funds (except as noted) are obligations of the U.S. Government, U.S. agency issues, the State Treasurer's Investment Pool or certificates of deposit with Washing State banks. The District has no investment policy that would further limit its investment choices. As of December 31, 2016, the District's investments in agency securities were rated AAA as they were unrated. The State Treasurer's Investment Pool is unrated. The credit risk of the State Treasurer's Investment Pool is limited as most investments are either obligations of the U.S. Government, government sponsored enterprises, or insured demand deposit accounts and certificates of deposit. Investments or deposits held by the State Pool are all classified as category 1 risk level investments. They are either insured or held by third party custody provider in the State Pools name.

Custodial Credit Risk – The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty, the system will not be able to recover the value of its investments that are in the possession of an outside party. The District does not have a policy for custodial credit risk.

Concentration of Credit Risk – GASB Statement No 40 require that governments disclose any investments in a single issuer exceeding 5% of the government's total investments. At December 31, 2016, the District held the following investments in excess of 5% of total investments:

Description	Market Value	Percent of Total Invesetments
U.S. Treasury Bills	$ 5,783,852.20	34.32%
State Treasurer's Investment Pool	$ 5,453,580.00	32.36%

State of Washington statues and the District resolutions authorize investment of the District funds in U.S. Government securities or certificates of deposit or accounts in financial institution insured by the Federal Deposit Insurance Corporation (FDIC) doing business in the state of Washington. The District's investment balances as of December 31, 2016 are summarized below. These investments in U.S Government securities are backed by the full faith and credit of the U.S. Government and money market insured savings accounts at an FDIC insured financial institution. The securities are held by the District or by its agent in the District's name.

U.S. Treasury Bills	$ 5,783,852.20
Certificate of Deposit	$ 5,119,219.80
Fish Mitigation	$ 11,380.00
L.I.D. No. 1	$ 66,295.00
Municipal Inv. Fund	$ 424,902.00
State Treasurer's Investment Pool	$ 5,453,580.00
Total	$ 16,859,229.00

NOTE 3 - CAPITAL ASSETS

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

Major Expense for capital assets, including capital leases and major repairs that increase useful lives, are capitalized. Maintenance, repairs, and minor renewals are accounted for as expenses when incurred.

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

A one third ownership share of Columbia Basin Hydropower generation assets are included in South Columbia Basin Irrigation Districts capital assets. These assets are included in the schedule below. Further detail on the inclusion of those assets is addressed in Note 7, Note 8 and Note 9.

Utility plant activities for the year ended December 31, 2016 were as follows:

Utility plant not being depreciated:	**Beginning Balance**	**Increases**	**Decreases**	**Ending Balance**
Land	133,500.00			133,500.00
Land Power Generation	5,487.00			5,487.00
Construction in Progress	144,106.85	108,165.29		252,272.14
Construction in Progress Power Generation	976,221.00	408,960.00	(720,905.00)	664,276.00
Total utility plant not being depreciated	1,259,314.85	517,125.29	(720,905.00)	1,055,535.14
Utility plant being depreciated:				
Buildings	845,694.11			845,694.11
Equipment	11,279,275.85	1,029,252.07	(618,764.01)	11,689,763.91
Power Generation Assets	42,843,292.00	749,462.00		43,592,754.00
Total utility plant being depreciate	54,968,261.96	1,778,714.07	(618,764.01)	56,128,212.02
Less accumulated depreciation for:				
Buildings	609,538.73	22,139.57		631,678.30
Equipment	7,892,668.22	222,964.80		8,115,633.02
Power Generation Assets	25,341,075.00	864,958.00		26,206,033.00
Total accumulated depreciation	33,843,281.95	1,110,062.37	0.00	34,953,344.32
TOTAL UTILITY PLANT, NET	22,384,294.86	1,185,776.99	(1,339,669.01)	22,230,402.84

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

The district did not finance any construction in 2016.

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

Assets	Years
Building	10 -40
Office Equipment	5 - 10
Cars & Trans Vehicles	5 - 10
Radio Equipment	5 - 7
Heavy O&M Equipment	5 - 22
Other O&M Equipment	5 - 20
Power Generation Facilities	50

The District has no expenses for abandoned projects.

NOTE 4 - LONG TERM DEBT

The District owed the United States Bureau of Reclamation $4,441,850 as of December 31, 2016. Due to the terms of the agreement there is no estimate available of annual debt service beyond one year. The annual construction charges are as follows:

Year	Principal	Interest	Total
1975 – 2004	$ 12,122,822	0	$ 12,122,822
2006	637,578	0	637,578
2007	774,476	0	774,476
2008	766,842	0	766,842
2009	547,624	0	547,624
2010	687,364	0	687,364
2011	770,253	0	770,253
2012	774,040	0	774,040
2013	762,614	0	762,614
2014	629,739	0	629,739
2015 Adjustment	8,400	0	8,400
2015	494,294	0	494,294
2016	317,469	0	317,469
Total	**$ 19,293,515**		**$ 19,293,515**

The Irrigation District has entered into a contract with the United States Bureau of Reclamation. This contract, among other things, established a repayment schedule for the construction costs of the Columbia Basin Project facilities located within the District. The Bureau of Reclamation determines each annual installment due on construction charges. Those construction charges are then assessed against the irrigation district lands. The outstanding balance at December 31, 2016 is $4,441,850. The current portion (due within one year) is $317,469.

Changes in Long-Term Liabilities
For Year Ended December 31, 2016

Contract payable:	Beginning Balance 1/1/16	Additions	Reductions	Ending Balance 12/31/16	Due Within One Year
US Bureau of Reclamation	$ 4,936,144	-	$ 494,294	$ 4,441,850	$ 317,469
Capital leases	-	-	-	-	-
Compensated absences	-	-	-	-	-
Claims and judgments	-	-	-	-	-
Total long-term liabilities	$ 4,936,144		$ 494,294	$ 4,441,850	$ 317,469

NOTE 5 - RESTRICTED NET POSITION

The government-wide statement of net position reports $3,082,969 of restricted funds, none of which are restricted by enabling legislation.

NOTE 6 - PENSION PLAN

A. Plan Description

PERS was established in 1947 and its retirement benefit provisions are contained in chapters 41.34 and 41.40 RCW. PERS is a cost-sharing multiple employer retirement system comprised of three separate pension plans for membership purposes. PERS Plan 1 and PERS Plan 2 are defined benefit plans, and PERS Plan 3 is a defined benefit plan with a defined contribution component. PERS members include elected officials; state employees; employees of the Supreme, Appeals and Superior Courts; employees of the legislature; employees of the district and municipal courts; employees of local governments; and higher education employees not participating in higher education retirement programs.

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

PERS is comprised of and reported as three separate plans for accounting purposes: Plan 1, Plan 2/3, and Plan 3. Plan 1 accounts for the defined benefits of Plan 1 members. Plan 2/3 accounts for the defined benefits of Plan 2 members, and the defined benefit portion of benefits for Plan 3 members. Plan 3 accounts for the defined contribution portion of benefits for Plan 3 members. Although members can only be a member of either Plan 2 or Plan 3, the defined benefit portions of Plan 2 and Plan 3 are accounted for in the same pension trust fund. All assets of this Plan 2/3 may legally be used to pay the defined benefits of any of the Plan 2 or Plan 3 members or beneficiaries, as defined by the terms of the plan. Therefore, Plan 2/3 is considered to be a single plan for accounting purposes. Pursuant to RCW 41.45.060, Washington Department of Retirement Systems (DRS) will allocate a certain portion of employer contributions from Plan 2/3 to Plan 1 in order to funds its unfunded actuarially accrued liability (UAAL).

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 2016:

Aggregate Pension Amounts - All Plans		
Pension liabilities	$	(6,215,043)
Pension assets	$	-
Deferred outflows of resources	$	1,053,274
Deferred inflows of resources	$	(125,399)
Pension expense/expenditures	$	490,073

B. State Sponsored Pension Plans

Substantially all the District's full-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

C. Public Employees' Retirement System (PERS)

PERS Plan 1 provides retirement, disability and death benefits. Retirement benefits are determined two percent of the member's average final compensation (AFC) times the member's years of service. The AFC is the average of the 24 highest consecutive service credit months. Members are eligible from active status at any age with at least 30 years of services, at age 55 with at least 25 years of services, 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 onetime 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 closed to new entrants on September 30, 1977.

Contributions

The **PERS Plan 1** members contribution rate is established by the State statue 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 .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 2016 were as follows:

PERS Plan 1		
Actual Contribution Rates:	**Employer**	**Employee**
PERS Plan 1	11.18%	6.00%

* For employees participating in JBM, the contribution rate was 12.26%

The District's actual contributions to the plan were $383,729 for the year ended December 31, 2016.

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 as 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 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 5 percent for each year of retirement before age 65. This option is available only to those who are age 55 or older and have at least 30 years of service. PERS Plan 2/3 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 services. Plan 3 members are vested in the defined benefit portion of their plan after then 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 employer 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 statue, 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 benefits. PERS Plan 3 members are immediately vested in the defined contribution portion of their plan.

Contributions

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 .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 2016 were as follows:

PERS Plan 2/3		
Actual Contribution Rates:	**Employer**	**Employee**
PERS Plan 2	11.18%	6.12%
PERS Plan 3	11.18%	Varies

*For employees participating in JBM, the contribution rate was 15.30%

The District's actual contributions to the plan were $383,729 for the year ended December 31, 2016.

D. 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, 2016, 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	20.00%	1.70%
Tangible Assets	5.00%	4.40%
Real Estate	15.00%	5.80%
Global Equity	37.00%	6.60%
Private Equity	23.00%	9.60%
	100%	

E. 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 rate higher (8.5 percent) that the current rate.

	1% Decrease 6.5%	Current Rate 7.5%	1% Increase 8.5%
PERS 1	3,526,252	2,924,168	2,406,037
PERS 2/3	6,059,092	3,290,875	(1,713,090)

F. 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.

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

At June 30, 2016 the District reports a total pension liability of $6,215,043 for its proportionate share of the net pension liabilities as follows:

	Liability (or Asset)
PERS 1	$ 2,924,168
PERS 2/3	$ 3,290,875

At June 30, 2016 the District's proportionate share of the collective net pension liabilities was as follows:

	Proportionate Share 6/30/15	Proportionate Share 6/30/16	Change in Proportion
PERS 1	0.056664%	0.054449%	-0.002215%
PERS 2/3	0.064764%	0.065361%	0.000597%

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.

H. Pension Expense

For the year ended December 31, 2016, the District recognized pension expenses as follows:

Aggregate Pension Amounts - All Plans		
Pension liabilities	$	(6,215,043)
Pension assets	$	-
Deferred outflows of resources	$	1,053,274
Deferred inflows of resources	$	(125,399)
Pension expense/expenditures	$	490,073

I. Deferred Outflows of Resources and Deferred Inflows of Resources

At December 31, 2016, 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	73,626	-
Changes of assumptions	-	-
Changes in proportion and differences between contributions and proportionate share of contributions		
Contributions subsequent to the measurement date	$155,921	
TOTAL	$229,547	$0

PERS 2/3	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$175,237	($108,637)
Net difference between projected and actual investment earnings on pension plan investments	$402,708	-
Changes of assumptions	$34,014	-
Changes in proportion and differences between contributions and proportionate share of contributions	$18,837	(16,762)
Contributions subsequent to the measurement date	$192,931	
TOTAL	$823,727	($125,399)

Deferred outflows of resources related to pension 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 recourse related to pensions will be recognized in pension expense as follows:

Year ended December 31	PERS 1
2017	(18,128)
2018	(18,128)
2019	67,617
2020	42,265
2021	
Thereafter	
TOTAL	**73,626**

Year ended December 31	PERS 2/3
2017	1,176
2018	1,176
2019	311,008
2020	192,037
2021	
Thereafter	
TOTAL	**505,397**

NOTE 7 - ACCOUNTING CHANGES

In 2015 the District implemented GASB Statement No. 68 Accounting and financial Reporting for Pensions. The primary objective of GASB Statement No. 68 is to improve accounting and financial reporting by state and local governments for pensions. GASB Statement No. 68 establishes standards for measuring and recognizing liabilities, deferred outflows or resources, deferred inflows of resources (See Note 12), and expense/expenditures. For defined benefit pensions, this Statement identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. In addition, prior to implementing GASB Statement No. 68, employers participating in cost-sharing plan recognized annual pension expense essentially equal to their contractually required contribution to the plan. Upon the adoption of GASB Statement No. 68, employers participating in cost-sharing plans recognize their proportionate share of the collective pension amounts for all benefits provided through the plan based on the allocation methodology.

In 2015, as a result of discussions with the State Auditor's Office and the three districts of the Columbia Basin Project, it was mutually determined that the Power Generation Capital Assets of the Columbia Basin

Hydropower should be included in the capital assets section financial statements of each of the three districts in equal one third shares. Prior to this change, each district held a one third equal share as an Investment in Joint Venture. Columbia Basin Hydropower will continue to maintain the activity of the power generation assets, depreciation schedules, construction in progress and net investment values. Columbia Basin Hydropower will provide the districts with updated schedules and values as audited annually by an independent auditing firm and verified by the Washington State Auditor's Office to support the amounts presented on the district's financial statements.

For 2016, the district has recognized the Power Generation Capital Assets, Accumulated Depreciation, Construction in Progress and Net Investment in Capital Assets within the appropriate sections of the Statement of Net Position. Depreciation expense is reflected on the Statement of Revenues, Expenses and Changes In Fund Net Position.

NOTE 8 – PRIOR PERIOD ADJUSTMENT

None.

NOTE 9 - TENANTS IN COMMON

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

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

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

On December 14, 1982, the Districts pursuant to R.C.W. 87.03.018 entered into an agreement creating the Grand Coulee Project Hydroelectric Authority to administer those developments. In 2015 Grand Coulee Project Hydroelectric Authority changed its name to Columbia Basin HydroPower (CBHP).

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

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

In 2015, it was determined that while Columbia Basin Hydropower was set up to administer the developments for the three Columbia Basin Irrigation Districts, the power generation capital assets should remain on the financial statements of each of the three districts in a one third equal share. As a result of this change, South Columbia Basin Irrigation District reduced the amount held as a net Investment in Joint Venture from $18,306,759 in 2015 to $114,245 and re-classified it as Investment-Tenants in Common.

Columbia Basin Hydropower is audited by the State Auditor as a separate legal entity and by an independent auditing firm. The Annual Report for the Columbia Basin Hydropower may be obtained by writing to Columbia Basin Hydropower, PO Box 219, Ephrata, Washington 98823.

NOTE 10 - RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters for which it carries commercial insurance. South Columbia Basin Irrigation District is a member of Cities Insurance Association of Washington (CIAW). Chapter 48.62 RCW authorizes the governing body of any one or more governmental entities to form together into or join a program or organization for the joint purchasing of insurance, and/or joint self-insuring, and/or joint hiring or contracting for risk management services to the same extent that they may individually purchase insurance, self-insure, or hire or contract for risk management services. An agreement to form a pooling arrangement was made pursuant to the provisions of Chapter 39.34 RCW, the Interlocal Cooperation Act. The program was formed on September 1, 1988, when 34 cities in the state of Washington joined together by signing an Interlocal Governmental Agreement to pool their self-insured losses and jointly purchase insurance and administrative services. **As of December 1, 2016, there are 205 members in the program**.

The program provides the following forms of joint self-insurance and reinsurance coverage for its members: Property, including Automobile Comprehensive and Collision, Equipment Breakdown, and Crime Protection; and Liability, including General, Automobile, and Wrongful Acts, which are included to fit members' various needs.

The program acquires liability insurance through their Administrator, Clear Risk Solutions, which is subject to a per-occurrence self-insured retention of $100,000, with **the exception of Wrongful Acts and Law Enforcement Liability, which have a self-insured retention of $25,000**. The standard member deductible is $1,000 for each claim (deductible may vary per member), while the program is responsible for the $100,000 self-insured retention. Insurance carriers cover insured losses over $101,000 to the limits of each policy. Since the program is a cooperative program, there is a joint liability among the participating members towards the sharing of the $100,000 of the self-insured retention. The program also purchases a Stop Loss Policy as another layer of protection to its membership, **with an attachment point of $1,718,302**.

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

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

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

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

The program has no employees. Claims are filed to members/brokers with Clear Risk Solutions, who have been contracted to perform program administration, claims adjustment and loss prevention for the program. Fees paid to the third party administrator under this arrangement for the year ending **December 1, 2016, were $1,484,482.16**.

NOTE 11 - OTHER

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

South Columbia Basin Irrigation District
Schedule of Proportionate Share of the Net Pension Liability
PERS 1
As of June 30, 2016
Last 10 Fiscal Years*

		2015	2016
Employer's proportion of the net pension liability (asset)	%	0.056664%	0.054449%
Employer's proportionate share of the net pension liability	$	2,964,054	2,924,168
TOTAL	$	2,964,054	2,924,168
Employer's covered employee payroll	$	6,211,594	6,325,225
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	%	47.71809%	46.23026%
Plan fiduciary net position as a percentage of the total pension liability	%	59.10000%	57.0360000%

South Columbia Basin Irrigation District
Schedule of Proportionate Share of the Net Pension Liability
PERS 2/3
As of June 30, 2016
Last 10 Fiscal Years*

		2015	2016
Employer's proportion of the net pension liability (asset)	%	0.064764%	0.065361%
Employer's proportionate share of the net pension liability	$	2,314,055	3,290,875
TOTAL	$	2,314,055	3,290,875
Employer's covered employee payroll	$	5,927,322	6,111,237
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	%	39.04048%	53.8496%
Plan fiduciary net position as a percentage of the total pension liability	%	89.20000%	80.820000%

REQUIRED SUPPLEMENTARY INFORMATION - State Sponsored Plans

South Columbia Basin Irrigation District
Schedule of Employer Contributions
PERS 1
As of December 31, 2016
Last 10 Fiscal Years*

		2015	2016
Statutorily or contractually required contributions	$	332,997	383,729.00
Contributions in relation to the statutorily or contractually required contributions	$	(332,997)	(383,729.00)
Contribution deficiency (excess)	$	0	0
Covered employer payroll	$	6,211,594	6,325,225
Contributions as a percentage of covered employee payroll	%	5.36%	6.07%

South Columbia Basin Irrigation District
Schedule of Employer Contributions
PERS 2/3
As of December 31, 2016
Last 10 Fiscal Years*

		2015	2016
Statutorily or contractually required contributions	$	332,997	383,729
Contributions in relation to the statutorily or contractually required contributions	$	(332,997)	(383,729)
Contribution deficiency (excess)	$	0	0
Covered employer payroll	$	5,927,322	6,111,237
Contributions as a percentage of covered employee payroll	%	5.62%	6.28%

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
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Toll-free Citizen Hotline	(866) 902-3900
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