



**Office of the Washington State Auditor**  
**Pat McCarthy**

**Financial Statements Audit Report**

**Birch Bay Water and Sewer District**

**Whatcom County**

**For the period January 1, 2016 through December 31, 2017**

**Published April 16, 2018**

**Report No. 1021119**





## Office of the Washington State Auditor

**Pat McCarthy**

April 16, 2018

Board of Commissioners  
Birch Bay Water and Sewer District  
Birch Bay, Washington

### **Report on Financial Statements**

Please find attached our report on the Birch Bay Water and Sewer District's financial statements.

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

Sincerely,

A handwritten signature in black ink that reads "Pat McCarthy". The signature is written in a cursive, flowing style.

Pat McCarthy  
State Auditor  
Olympia, WA

## TABLE OF CONTENTS

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.....	4
Independent Auditor's Report on Financial Statements.....	7
Financial Section.....	11
About the State Auditor's Office.....	30

**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**

**Birch Bay Water and Sewer District  
Whatcom County  
January 1, 2016 through December 31, 2017**

Board of Commissioners  
Birch Bay Water and Sewer District  
Birch Bay, 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 Birch Bay Water and Sewer District, Whatcom County, Washington, as of and for the years ended December 31, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the District's financial statements, and have issued our report thereon dated April 9, 2018.

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

## **INTERNAL CONTROL OVER FINANCIAL REPORTING**

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

internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

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

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

## COMPLIANCE AND OTHER MATTERS

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

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

## PURPOSE OF THIS REPORT

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

this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

A handwritten signature in black ink that reads "Pat McCarthy". The signature is written in a cursive, flowing style.

Pat McCarthy  
State Auditor  
Olympia, WA

April 9, 2018

# INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

## **Birch Bay Water and Sewer District Whatcom County January 1, 2016 through December 31, 2017**

Board of Commissioners  
Birch Bay Water and Sewer District  
Birch Bay, Washington

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

We have audited the accompanying financial statements of the Birch Bay Water and Sewer District, Whatcom County, Washington, for the years ended December 31, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the District's financial statements, as listed on page 11.

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

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

### **Auditor's Responsibility**

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

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

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

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position and results of operations of the Birch Bay Water and Sewer District, for the years ended December 31, 2017 and 2016, on the basis of accounting described in Note 1.

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

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

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

The financial statements referred to above were not intended to, and in our opinion they do not, present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Birch Bay Water and Sewer District, as of December 31, 2017 and 2016, or the changes in financial position or cash flows for the years then ended, due to the significance of the matter discussed in the above “Basis for Adverse Opinion on U.S. GAAP” paragraph.

## **Other Matters**

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

Our audits were performed for the purpose of forming opinions on the financial statements taken as a whole. The Schedules of Liabilities are presented for purposes of additional analysis, as required by the prescribed BARS manual. These schedules are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated April 9, 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.

A handwritten signature in cursive script that reads "Pat McCarthy".

Pat McCarthy

State Auditor

Olympia, WA

April 9, 2018

## **FINANCIAL SECTION**

**Birch Bay Water and Sewer District  
Whatcom County  
January 1, 2016 through December 31, 2017**

### **FINANCIAL STATEMENTS**

Fund Resources and Uses Arising from Cash Transactions – 2017  
Fund Resources and Uses Arising from Cash Transactions – 2016  
Notes to Financial Statements – 2017  
Notes to Financial Statements – 2016

### **SUPPLEMENTARY AND OTHER INFORMATION**

Schedule of Liabilities – 2017  
Schedule of Liabilities – 2016

**Birch Bay Water and Sewer District**  
**Fund Resources and Uses Arising from Cash Transactions**  
**For the Year Ended December 31, 2017**

**Beginning Cash and Investments**

30810	Reserved	-
30880	Unreserved	2,205,772
388 / 588	Prior Period Adjustments, Net	-

**Revenues**

310	Taxes	-
320	Licenses and Permits	-
330	Intergovernmental Revenues	506,325
340	Charges for Goods and Services	4,442,587
350	Fines and Penalties	514
360	Miscellaneous Revenues	563,911
Total Revenues:		5,513,337

**Expenditures**

530	Utilities	2,930,424
Total Expenditures:		2,930,424
Excess (Deficiency) Revenues over Expenditures:		2,582,912

**Other Increases in Fund Resources**

391-393, 596	Debt Proceeds	631,918
397	Transfers-In	-
385	Special or Extraordinary Items	-
386 / 389	Custodial Activities	174,249
381, 395, 398	Other Resources	-
Total Other Increases in Fund Resources:		806,166

**Other Decreases in Fund Resources**

594-595	Capital Expenditures	1,708,201
591-593, 599	Debt Service	513,248
597	Transfers-Out	-
585	Special or Extraordinary Items	-
586 / 589	Custodial Activities	211,789
Total Other Decreases in Fund Resources:		2,433,238

**Increase (Decrease) in Cash and Investments:** **955,840**

**Ending Cash and Investments**

5081000	Reserved	-
5088000	Unreserved	3,161,613
<b>Total Ending Cash and Investments</b>		<b>3,161,613</b>

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

**Birch Bay Water and Sewer District**  
**Fund Resources and Uses Arising from Cash Transactions**  
**For the Year Ended December 31, 2016**

**Beginning Cash and Investments**

30810	Reserved	-
30880	Unreserved	2,472,904
388 / 588	Prior Period Adjustments, Net	-

**Revenues**

310	Taxes	-
320	Licenses and Permits	-
330	Intergovernmental Revenues	68,110
340	Charges for Goods and Services	4,261,572
350	Fines and Penalties	4,863
360	Miscellaneous Revenues	431,391
Total Revenues:		4,765,936

**Expenditures**

530	Utilities	2,967,594
Total Expenditures:		2,967,594
Excess (Deficiency) Revenues over Expenditures:		1,798,342

**Other Increases in Fund Resources**

391-393, 596	Debt Proceeds	504,026
397	Transfers-In	-
385	Special or Extraordinary Items	-
386 / 389	Custodial Activities	131,590
381, 395, 398	Other Resources	-
Total Other Increases in Fund Resources:		635,616

**Other Decreases in Fund Resources**

594-595	Capital Expenditures	2,154,125
591-593, 599	Debt Service	434,186
597	Transfers-Out	-
585	Special or Extraordinary Items	-
586 / 589	Custodial Activities	112,780
Total Other Decreases in Fund Resources:		2,701,091

**Increase (Decrease) in Cash and Investments:** **(267,133)**

**Ending Cash and Investments**

5081000	Reserved	-
5088000	Unreserved	2,205,772
<b>Total Ending Cash and Investments</b>		<b>2,205,772</b>

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

**Birch Bay Water & Sewer District**  
**Notes to the Financial Statements**  
**For the Year Ended December 31, 2017**

**Note 1 - Summary of Significant Accounting Policies**

The Birch Bay Water & Sewer District was incorporated on May 2, 1968 and operates under Title 57 of the Revised Code of Washington (RCW) the laws of the state of Washington applicable to a Water and Sewer district. The District is a proprietary special purpose local government and provides water and sewer services to the general public and is supported primarily through service fees and utility local improvement assessments.

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

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

**A. Fund Accounting**

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

**PROPRIETARY FUND TYPE:**

**Enterprise Funds**

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

**B. Basis of Accounting and Measurement Focus**

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

**C. Budgets**

Budgets are not required by statute for Water-Sewer Districts. It has been the policy of the Board of

Commissioners that they adopt a Budget and Capital Improvement Plan (CIP) to direct District spending each calendar year. The District adopts annual appropriated budgets for the water & sewer fund on the same basis of accounting as used for financial reporting. The budget represents the authority for expenditures at that level. Annual appropriations for the District lapse at the fiscal year end.

The appropriated and actual expenditures for the districts adopted budgets were as follow:

Fund/Department	Final Appropriated	Actual Expenditures	Variance
Water & Sewer Fund			
Operations	\$3,387,551	\$2,930,424	\$ 457,127
Capital	2,491,361	1,708,201	783,160
Debt	514,845	513,248	1,597
Total Water and Sewer Fund	\$6,393,757	\$5,151,873	\$1,241,884

All CIP projects will be included in the Annual Budget document and budget expenditures managed during the year on a CIP level.

D. Cash and Investments

See Note 2, *Deposits and Investments*.

E. Capital Assets

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

F. Compensated Absences

Vacation leave may be accumulated up to 15 days and is payable upon separation or retirement. Sick leave may be accumulated up to 180 days for District employees in the Employees Contract and 75 days for District employees in the Management Group. District employees in the Employee Contract are eligible to receive 50% sick leave payout in excess of 480 hours. Upon separation, or retirement, employees receive a percentage of unused sick leave paid into a Voluntary Employee Beneficiary Association (VEBA) account. Payments are recognized as expenditures when paid. If the District employee in the Employee Contract worked twenty years or more, the rate is 67.5% payable into a VEBA account. Employees in the Management Group are eligible to receive 45% of sick leave payout into a VEBA account.

G. Long-Term Debt

See Note 3, *Debt Service Requirements*.

## **Note 2 – Deposits and Investments**

### **Deposits and Investments**

It is the District's policy to invest all reserves and temporary cash surpluses. The District will invest its funds in a manner that preserves capital and ensures the protection of investment principal, allows for its liquidity needs, and achieves the highest investment return consistent with the primary objectives of safety and liquidity. The amount is included in the cash and investments shown on the statements of fund resources and uses arising from cash transactions. The interest on these investments is recorded in the Enterprise Fund.

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

Investments are presented at cost. Investments by type at December 31, 2017 are as follows:

Type of Investment	District's Own Investments	Investments held by the District as an agent for other local governments, individuals or private organizations	Total
LGIP	\$3,011,942.61	\$ -	\$3,011,942.61
Total	\$3,011,942.61	\$ -	\$3,011,942.61

## **3 – Debt Service Requirements**

The accompanying Schedule of Liabilities (09) provides more details of the outstanding debt and liabilities of the District and summarizes the District's debt transactions for year ended December 31, 2017.

The debt service requirements for revenue bonds and Public Works Trust Fund loans, including both principal and interest, are as follows:

<u>Years</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Debt</u>
2018	480,400.36	42,480.48	522,880.84
2019	480,400.40	38,985.85	519,386.25
2020	480,400.36	35,451.17	515,851.53
2021	480,400.39	31,936.55	512,336.94
2022	480,400.37	28,421.90	508,822.27
2023-27	\$ 1,710,755	\$ 91,999	\$ 1,802,754
2028-32	\$ 745,618	\$ 35,369	\$ 780,986
2033-36	\$ 299,789	\$ 3,747	\$ 303,536
	\$ 5,158,164	\$ 308,391	\$ 5,466,555

#### **Note 4 - Pension Plans**

##### **A. State Sponsored Pension Plans**

Substantially all District full-time and qualifying part-time employees participate in the following statewide retirement systems administered by the Washington State Department of Retirement Systems (DRS), under cost-sharing, multiple-employer public employee defined benefit and defined contribution retirement plans (PERS 1, 2 and 3).

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

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

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

Also, the DRS CAFR may be downloaded from the DRS website at [www.drs.wa.gov](http://www.drs.wa.gov)

At June 30, 2017 the District's proportionate share of the collective net pension liabilities, as reported on the Schedule 09, was as follows:

	Employer's Contribution	Allocation %	Liability
PERS1and PERS1 UAAL	\$ 50,852	.008454	\$ 401,149
PERS 2 and 3	\$ 66,417	.010874	\$ 377,820
Total	\$117,269		\$ 778,968

#### **Note 5 – Risk Management**

##### **A. Property, Liability and Fidelity Risk Pool**

The Birch Bay Water & Sewer District is a member of the Water and Sewer Risk Management Pool (Pool). Chapter 48.62 RCW authorizes the governing body of any one or more governmental entities to form together into or join a pool or organization for the joint purchasing of insurance, and/or joint self-insuring, and/or joint hiring or contracting for risk management services to the same extent that they may individually purchase insurance, self-insurance, or hire or contract for risk management services. An agreement to form a pooling arrangement was made pursuant to the provisions of Chapter 39.34 RCW, the Interlocal Cooperation Act. The Pool was formed in November 1987 when water and sewer districts in the State of Washington joined together by signing an Interlocal Governmental Agreement to pool their self-insured

losses and jointly purchase insurance and administrative services. The Pool currently has 62 members. The Pool's fiscal year is November 1st through October 31st.

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

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

TYPE OF COVERAGE	MEMBER DEDUCTIBLE	SELF-INSURED RETENTION/GROUP	EXCESS LIMITS
Property Loss:			
Buildings and Contents	\$1,000 - \$25,000 and See (C) below	\$25,000	\$1,000,000,000
Flood	See (A) below	See (A) below	\$50,000,000
Earthquake	See (B) below	See (B) below	\$110,000,000 (\$75,000,000 shared by all members, \$25,000,000 dedicated to Alderwood, \$5,000,000 dedicated to Sammamish Plateau, and \$5,000,000 dedicated to Cascade Water Alliance)
Terrorism	\$1,000 - \$25,000	\$25,000 Primary layer	\$100,000,000 Primary layer
Boiler & Machinery	\$1,000 - \$350,000 depending on object	\$25,000 - \$350,000 depending on object	\$100,000,000
Auto - Physical Damage	\$1,000-\$25,000	\$25,000	\$10,000,000
Liability:			
Commercial General Liability	\$1,000 - \$25,000	\$200,000	\$10,000,000
Auto Liability	\$1,000 - \$25,000	\$200,000	\$10,000,000
Public Officials Errors and Omissions	\$1,000 - \$25,000	\$200,000	\$10,000,000
Employment Practices	\$1,000 - \$25,000	\$200,000	\$10,000,000
Other:			
Public Officials Bonds	Various	N/A	Various
Crime	\$1,000 - \$25,000	\$25,000	\$2,000,000

Identity Fraud	\$0	\$0	\$25,000
A. \$100,000 member deductibles, per occurrence, in Flood zones except Zones A&V; \$250,000 member deductible per occurrence, in Flood Zones A&V.			
B. Member deductible for earthquakes is 5% subject to \$100,000 minimum Earthquake Shock. The deductible will apply per occurrence on a per unit basis, as defined in the policy form, subject to the stated minimum.			
C. Member deductible for Cyber liability is \$100,000 and where applicable the dollar amount of the business interruption loss during the policy's required 8 hour waiting period			

Pool members are responsible for a deductible on each coverage and the Pool is responsible for the remainder of the self-insured retention listed in the table above except where noted as follows. The insurance carriers then cover the loss to the maximum limit of the policy. Each member is responsible for the full deductible applicable to the perils of earthquake and flood (the Pool is not responsible for any deductible or self-insured retention for earthquake and flood claims). Each member is also responsible for the full deductible applicable to the Cyber Liability, and that part of a Boiler & Machinery deductible, which exceeds \$25,000.

Upon joining, the members contract to remain in the Pool for one full policy period. Following completion of one full policy period, members must give six month notice before terminating participation (e.g. to withdraw from the Pool on November 1, 2017, written notice must be in possession of the Pool by April 30, 2017). The Interlocal Governmental Agreement is renewed automatically each year. Even after termination of relationship with the Pool, a member is still responsible for contributions to the Pool for any unresolved, unreported, and in process claims, for the period that the District was a signatory to the Interlocal Governmental Agreement.

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

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

The Financial Statements for the Pool can be found at:  
<http://www.wsrmp.org/members/reports.php>

#### B. Unemployment Compensation

The District self insures unemployment compensation for employees. Actual claims for former employee benefits are paid through the State of Washington Employment Security Department and then the District is billed for reimbursement. This self-insurance program, for 2017, cost the District nothing in benefit claim reimbursements.

## **Note 6 – Other Disclosures**

### **Construction Commitment**

The District has active construction projects as of December 31, 2017. During 2016 the District began work on the Department of Ecology grant (WRPIFA-1517-BiBWSD-00048) for a Feasibility Study and Initial Construction of the North Whatcom Regional Source Project. The well drilling work that was completed by a contractor in 2017 is expected to finalize with a retainage payment in 2018. At year-end the district's commitments with contractors are as follows:

Project	Spent to Date	Remaining Commitment
North Whatcom Regional Source Project	\$ 208,705	\$10,082

### **Note 7– Subsequent Events**

The District was awarded a \$700,000 grant by the Department of Ecology (WRPIFA-1517-BiBWSD-00048) for a Feasibility Study and Initial Construction of the North Whatcom Regional Source Project. The purpose of the Project is to explore, monitor and ultimately withdraw groundwater from a deep water aquifer generally located east of the City of Blaine. The scope of work includes the City of Blaine and the District jointly investigating how to enhance flows in the Nooksack basin by: (1) delivery of potable groundwater from the Blaine Groundwater Management Area to the Dakota basin and/or Nooksack basin and the Cherry Point Industrial Area; (2) delivery of potable and/or reclaimed water from the Blaine water reclamation and BBWSD wastewater treatment facilities to the Cherry Point Industrial Area. The grant tasks will also include drilling up to 4 monitoring/exploration/production wells in the Blaine Groundwater Management Area and a feasibility study to review models for establishing a regional governance model in the lower Nooksack region. Administration of a water bank or mitigation exchange activities will be an element of the eventual governance structure established to manage the regional system. Reimbursement on this grant was received by the District in 2018 for expenditures recognized in 2017. The expenditures are reflected in Schedule 15.

In 2017 the District was notified that it was on the approved final list for the Public Works Board, Department of Commerce, loans. The State of Washington delay in approval of a Capital Budget has caused the funding of that loan to occur in 2018. The District had incurred expenses in 2017 for the local match portion of the loan.

## **Birch Bay Water & Sewer District**

**For the Year Ended December 31, 2016**

### **Note 1 - Summary of Significant Accounting Policies**

The Birch Bay Water & Sewer District was incorporated on May 2, 1968 and operates under Title 57 of the Revised Code of Washington (RCW) the laws of the state of Washington applicable to a Water and Sewer district. The District is a proprietary special purpose local government and provides water and sewer services to the general public and is supported primarily through service fees and utility local improvement assessments.

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

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

#### **A. Fund Accounting**

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

##### **PROPRIETARY FUND TYPE:**

##### **Enterprise Funds**

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

#### **B. Basis of Accounting and Measurement Focus**

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

C. Budgets

Budgets are not required by statute for Water-Sewer Districts. It has been the policy of the Board of Commissioners that they adopt a Budget and Capital Improvement Plan (CIP) to direct District spending each calendar year. The District adopts annual appropriated budgets for the water & sewer fund on the same basis of accounting as used for financial reporting. The budget represents the Board's authority for expenditures at that level. Annual appropriations for the district lapse at the fiscal year end.

The appropriated and actual expenditures for the districts adopted budgets were as follow:

Fund/Department	Final Appropriated	Actual Expenditures	Variance
Water & Sewer Fund			
Operations	\$3,228,721	\$2,967,593	\$ 261,128
Capital	4,254,328	2,154,125	2,100,203
Debt	434,187	434,186	1
Total Water and Sewer Fund	\$7,917,236	\$5,555,904	\$ 2,361,332

All CIP projects will be included in the Annual Budget document and budget expenditures managed during the year on a CIP level.

D. Cash and Investments

See Note 2, *Deposits and Investments*.

E. Capital Assets

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

F. Compensated Absences

Vacation leave may be accumulated up to 15 days and is payable upon separation or retirement. Sick leave may be accumulated up to 180 days for District employees in the Employees Contract and 75 days for District employees in the Management Group. District employees in the Employee Contract are eligible to receive 50% sick leave payout in excess of 480 hours. Upon separation, or retirement, employees receive a percentage of unused sick leave paid into a Voluntary Employee Beneficiary Association (VEBA) account. Payments are recognized as expenditures when paid. If the District employee in the Employee Contract worked twenty years or more, the rate is 67.5% payable into a VEBA account. Employees in the Management Group are eligible to receive 45% of sick leave payout into a VEBA account.

G. Long-Term Debt

See Note 3, *Debt Service Requirements*.

#### H. Risk Management

The Birch Bay Water & Sewer District is a member of the Water and Sewer Risk Management Pool (Pool). Chapter 48.62 RCW authorizes the governing body of any one or more governmental entities to form together into or join a pool or organization for the joint purchasing of insurance, and/or joint self-insuring, and/or joint hiring or contracting for risk management services to the same extent that they may individually purchase insurance, self-insurance, or hire or contract for risk management services. An agreement to form a pooling arrangement was made pursuant to the provisions of Chapter 39.34 RCW, the Interlocal Cooperation Act. The Pool was formed in November 1987 when water and sewer districts in the State of Washington joined together by signing an Interlocal Governmental Agreement to pool their self-insured losses and jointly purchase insurance and administrative services. The Pool currently has 62 members. The Pool's fiscal year is November 1st through October 31st.

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

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

TYPE OF COVERAGE	MEMBER DEDUCTIBLE	SELF-INSURED RETENTION/GROUP	EXCESS LIMITS
Property Loss:			
Buildings and Contents	\$1,000 - \$25,000 and See (C) below	\$25,000	\$1,000,000,000
Flood	See (A) below	See (A) below	\$50,000,000
Earthquake	See (B) below	See (B) below	\$110,000,000 (\$75,000,000 shared by all members, \$25,000,000 dedicated to Alderwood, \$5,000,000 dedicated to Sammamish Plateau, and \$5,000,000 dedicated to Cascade Water Alliance)
Terrorism	\$1,000 - \$25,000	\$25,000 Primary layer	\$100,000,000 Primary layer
Boiler & Machinery	\$1,000 - \$350,000 depending on object	\$25,000 - \$350,000 depending on object	\$100,000,000
Auto - Physical Damage	\$1,000-\$25,000	\$25,000	\$10,000,000

Liability:			
Commercial General Liability	\$1,000 - \$25,000	\$200,000	\$10,000,000
Auto Liability	\$1,000 - \$25,000	\$200,000	\$10,000,000
Public Officials Errors and Omissions	\$1,000 - \$25,000	\$200,000	\$10,000,000
Employment Practices	\$1,000 - \$25,000	\$200,000	\$10,000,000
Other:			
Public Officials Bonds	Various	N/A	Various
Crime	\$1,000 - \$25,000	\$25,000	\$2,000,000
Identity Fraud	\$0	\$0	\$25,000
A. \$100,000 member deductibles, per occurrence, in Flood zones except Zones A&V; \$250,000 member deductible per occurrence, in Flood Zones A&V.			
B. Member deductible for earthquakes is 5% subject to \$100,000 minimum Earthquake Shock. The deductible will apply per occurrence on a per unit basis, as defined in the policy form, subject to the stated minimum.			
C. Member deductible for Cyber liability is \$100,000 and where applicable the dollar amount of the business interruption loss during the policy's required 8 hour waiting period			

Pool members are responsible for a deductible on each coverage and the Pool is responsible for the remainder of the self-insured retention listed in the table above except where noted as follows. The insurance carriers then cover the loss to the maximum limit of the policy. Each member is responsible for the full deductible applicable to the perils of earthquake and flood (the Pool is not responsible for any deductible or self-insured retention for earthquake and flood claims). Each member is also responsible for the full deductible applicable to the Cyber Liability, and that part of a Boiler & Machinery deductible, which exceeds \$25,000.

Upon joining, the members contract to remain in the Pool for one full policy period. Following completion of one full policy period, members must give six months notice before terminating participation (e.g. to withdraw from the Pool on November 1, 2017, written notice must be in possession of the Pool by April 30, 2017). The Interlocal Governmental Agreement is renewed automatically each year. Even after termination of relationship with the Pool, a member is still responsible for contributions to the Pool for any unresolved, unreported, and in process claims, for the period that the District was a signatory to the Interlocal Governmental Agreement.

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

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

The Financial Statements for the Pool can be found at:

<http://www.wsrmp.org/members/reports.php>

The District self insures unemployment compensation for employees. Actual claims for former employee benefits are paid through the State of Washington Employment Security Department and then the District is billed for reimbursement. This self-insurance program, for 2016, cost the District nothing in benefit claim reimbursements.

## **Note 2 – Deposits and Investments**

### **Deposits and Investments**

It is the District's policy to invest all reserves and temporary cash surpluses. The District will invest its funds in a manner that preserves capital and ensures the protection of investment principal, allows for its liquidity needs, and achieves the highest investment return consistent with the primary objectives of safety and liquidity. The amount is included in the cash and investments shown on the statements of fund resources and uses arising from cash transactions. The interest on these investments is recorded in the Enterprise Fund.

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

Investments are presented at cost. Investments by type at December 31, 2016 are as follows:

Type of Investment	District's Own Investments	Investments held by the District as an agent for other local governments, individuals or private organizations	Total
LGIP	\$2,096,630.52	\$ -	\$2,096,630.52
Total	\$2,096,630.52		\$2,096,630.52

## **Note 3 – Debt Service Requirements**

The accompanying Schedule of Liabilities (09) provides more details of the outstanding debt and liabilities of the District and summarizes the District's debt transactions for year ended December 31, 2016.

The debt service requirements for revenue bonds and Public Works Trust Fund loans, including both principal and interest, are as follows:

Years	Principal	Interest	Total Debt
2017	\$ 477,529	\$ 32,771	\$ 510,300
2018	\$ 477,529	\$ 41,619	\$ 519,148
2019	\$ 477,529	\$ 38,182	\$ 515,711
2020	\$ 477,529	\$ 34,705	\$ 512,234
2021	\$ 477,529	\$ 31,247	\$ 508,777

2022-2026	\$ 2,027,676	\$ 105,188	\$ 2,132,864
2027-2031	\$ 731,261	\$ 43,511	\$ 774,773
2032-2036	<u>\$ 446,041</u>	<u>\$ 7,047</u>	<u>\$ 453,088</u>
Total Debt	\$ 5,592,624	\$ 334,270	\$ 5,926,894

The District is currently in the middle of a large water mainline replacement project on the Blaine Road and the debt service for that new loan is estimated. Upon completion of the project that amortization schedule will be updated.

#### **Note 4 - Pension Plans**

##### **A. State Sponsored Pension Plans**

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

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

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

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

Also, the DRS CAFR may be downloaded from the DRS website at [www.drs.wa.gov](http://www.drs.wa.gov)

At June 30, 2016 the District's proportionate share of the collective net pension liabilities, as reported on the Schedule 09, was as follows:

	Allocation %	Liability
PERS1 and PERS1 UAAL	.008973	\$ 481,892
PERS 2 and 3	.011512	\$ 579,620
Total		\$1,061,512

#### **Note 5 – Other Disclosures**

##### **Construction Commitment**

The district has active construction projects as of December 31, 2016. The projects include:

During 2015 the District began work on a water main line replacement project on the Blaine Road. This project was necessary because of the age of the waterline. Two sections of waterline are contained within this project, the first is from Double R Ranch to Bay Road and the second is the section of Sunday Harbor to Birch Bay Lynden. The work on this Blaine Road water main line replacement is expected to continue into 2017.

During 2016 the District began work to upgrade its Wastewater Treatment plant Aeration Basin existing floating surface aerators with fine bubble diffusers. The work on that upgrade is expected to continue into 2017.

During 2016 the District began work on the Department of Ecology grant (WRPIFA-1517-BiBWSD-00048) for a Feasibility Study and Initial Construction of the North Whatcom Regional Source Project. The well drilling work that was begun by a contractor in 2016 is expected to continue into 2017.

At year-end the district's commitments with contractors are as follows:

Project	Spent to Date	Remaining Commitment
Blaine Road Watermain Replacement	\$1,077,973	\$818,087
Aeration Basin Upgrade	\$ 130,689	\$390,031
North Whatcom Regional Source Project	\$ 178,805	\$153,475

#### **Note 6 – Subsequent Events**

The District was awarded a \$700,000 grant by the Department of Ecology (WRPIFA-1517-BiBWSD-00048) for a Feasibility Study and Initial Construction of the North Whatcom Regional Source Project. The purpose of the Project is to explore, monitor and ultimately withdraw groundwater from a deep water aquifer generally located east of the City of Blaine. The scope of work includes the City of Blaine and the District jointly investigating how to enhance flows in the Nooksack basin by: (1) delivery of potable groundwater from the Blaine Groundwater Management Area to the Dakota basin and/or Nooksack basin and the Cherry Point Industrial Area; (2) delivery of potable and/or reclaimed water from the Blaine water reclamation and BBWSD wastewater treatment facilities to the Cherry Point Industrial Area. The grant tasks will also include drilling up to 4 monitoring/exploration/production wells in the Blaine Groundwater Management Area and a feasibility study to review models for establishing a regional governance model in the lower Nooksack region. Administration of a water bank or mitigation exchange activities will be an element of the eventual governance structure established to manage the regional system. The first reimbursement on this grant was received by the District in 2017 for expenditures recognized in 2016.

In 2017 the District received a Puget Sound Energy Conservation Grant (C-15786-102-0561) for replacing the Wastewater Treatment plant existing floating surface aerators with Fine Bubble Diffusers and energy conserving hybrid rotary lobe compressors/blowers. The grant reimbursement was received in 2017 for expenditures recognized in 2016.

**Birch Bay Water and Sewer District  
Schedule of Liabilities  
For the Year Ended December 31, 2017**

<b>ID. No.</b>	<b>Description</b>	<b>Due Date</b>	<b>Beginning Balance</b>	<b>Additions</b>	<b>Reductions</b>	<b>Ending Balance</b>
<b>Revenue and Other (non G.O.) Debt/Liabilities</b>						
259.12	Compensated Absences		83,774	156,228	159,110	80,892
264.30	Pension Liability		1,061,512	-	282,544	778,968
263.88	PW-04-691-005	7/1/2024	983,975	-	122,997	860,978
263.88	PW-03-691-PRE-126	7/1/2024	42,952	-	5,369	37,583
263.88	PW-04-691-004	7/1/2024	268,165	-	33,521	234,644
263.88	PW-05-691-004	7/1/2025	325,771	-	36,197	289,574
263.88	PW-06-962-008	7/1/2026	1,331,936	-	133,194	1,198,742
263.88	PC12-951-076	6/1/2031	1,498,946	-	74,947	1,423,999
263.88	PC13-961-015	6/1/2032	554,903	631,918	74,176	1,112,644
<b>Total Revenue and Other (non G.O.) Debt/Liabilities:</b>			<b>6,151,933</b>	<b>788,145</b>	<b>922,054</b>	<b>6,018,024</b>
<b>Total Liabilities:</b>			<b>6,151,933</b>	<b>788,145</b>	<b>922,054</b>	<b>6,018,024</b>

**Birch Bay Water and Sewer District  
Schedule of Liabilities  
For the Year Ended December 31, 2016**

<b>ID. No.</b>	<b>Description</b>	<b>Due Date</b>	<b>Beginning Balance</b>	<b>Additions</b>	<b>Reductions</b>	<b>Ending Balance</b>
<b>Revenue and Other (non G.O.) Debt/Liabilities</b>						
259.12	Compensated absences		93,659	154,755	164,639	83,774
264.30	Pension Liability		1,032,219	29,293	-	1,061,512
263.88	PW-04-691-005	7/1/2024	1,106,972	-	122,997	983,975
263.88	PW-03-691-PRE-126	7/1/2024	48,321	-	5,369	42,952
263.88	PW-04-691-004	7/1/2024	301,685	-	33,521	268,165
263.88	PW-05-691-004	7/1/2025	361,967	-	36,197	325,771
263.88	PW-06-962-008	7/1/2026	1,465,129	-	133,194	1,331,936
263.88	PC-12-951-076	6/1/2031	1,573,893	-	74,947	1,498,946
263.88	PC-13-961-015	6/1/2032	54,056	504,026	3,180	554,903
<b>Total Revenue and Other (non G.O.) Debt/Liabilities:</b>			<b>6,037,902</b>	<b>688,074</b>	<b>574,043</b>	<b>6,151,933</b>
<b>Total Liabilities:</b>			<b>6,037,902</b>	<b>688,074</b>	<b>574,043</b>	<b>6,151,933</b>

## 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	<a href="mailto:PublicRecords@sao.wa.gov">PublicRecords@sao.wa.gov</a>
Main telephone	(360) 902-0370
Toll-free Citizen Hotline	(866) 902-3900
Website	<a href="http://www.sao.wa.gov">www.sao.wa.gov</a>