

**Washington State Auditor's Office**  
**Financial Statements Audit Report**

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**Kennewick Irrigation District**  
**Benton County**

Audit Period  
**January 1, 2011 through December 31, 2012**

**Report No. 1011351**

Issue Date  
**March 3, 2014**



WASHINGTON  
**TROY KELLEY**  
STATE AUDITOR



**Washington State Auditor  
Troy Kelley**

March 3, 2014

Board of Directors  
Kennewick Irrigation District  
Kennewick, Washington

***Report on Financial Statements***

Please find attached our report on the Kennewick Irrigation District's financial statements.

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

Sincerely,

**TROY KELLEY**  
STATE AUDITOR

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Benton County  
January 1, 2011 through December 31, 2012**

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# Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

**Kennewick Irrigation District  
Benton County  
January 1, 2011 through December 31, 2012**

Board of Directors  
Kennewick Irrigation District  
Kennewick, 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 Kennewick Irrigation District, Benton County, Washington, as of and for the years ended December 31, 2012 and 2011, and the related notes to the financial statements, which collectively comprise the District's financial statements, and have issued our report thereon dated February 20, 2014.

## ***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.

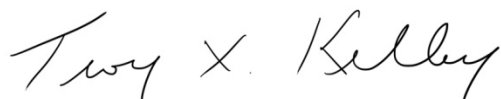
## **COMPLIANCE AND OTHER MATTERS**

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.



**TROY KELLEY**  
STATE AUDITOR

February 20, 2014

# Independent Auditor's Report on Financial Statements

## **Kennewick Irrigation District Benton County January 1, 2011 through December 31, 2012**

Board of Directors  
Kennewick Irrigation District  
Kennewick, Washington

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

We have audited the accompanying financial statements of the Kennewick Irrigation District, Benton County, Washington, for the years ended December 31, 2012 and 2011, and the related notes to the financial statements, which collectively comprise the District's financial statements, as listed on page 6.

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

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

#### ***Auditor's Responsibility***

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

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

significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position and results of operations of the Kennewick Irrigation District, for the years ended December 31, 2012 and 2011, on the basis of accounting described in Note 1.

### ***Basis of Accounting***

We draw attention to Note 1 of the financial statements, which describes the basis of accounting. As described in Note 1 to the financial statements, the financial statements are prepared in accordance with the basis of accounting that demonstrates compliance with Washington State statutes and the *Budgeting, Accounting and Reporting System* (BARS) manual prescribed by the State Auditor, which is a basis of accounting other than accounting principles generally accepted in the United State of America. Our opinion is not modified with respect to this matter.

### ***Other Matters***

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

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

### ***Purpose of this Report***

The report is intended for the information and use of management and the Board of Directors of the District. 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.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated February 20, 2014 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 black ink that reads "Troy X. Kelley". The signature is written in a cursive style with a large "X" in the middle.

**TROY KELLEY**  
STATE AUDITOR

February 20, 2014



# Financial Section

**Kennewick Irrigation District  
Benton County  
January 1, 2011 through December 31, 2012**

***FINANCIAL STATEMENTS***

Fund Resources and Uses Arising from Cash Transactions – 2012  
Fund Resources and Uses Arising from Cash Transactions – 2011  
Notes to Financial Statements – 2012  
Notes to Financial Statements – 2011

***SUPPLEMENTARY AND OTHER INFORMATION***

Schedule of Liabilities – 2012  
Schedule of Liabilities – 2011

**KENNEWICK IRRIGATION DISTRICT**  
**FUND RESOURCES AND USES ARISING FROM CASH TRANSACTIONS**  
**For the Year Ended December 31, 2012**

<b>BARS CODE</b>		<b>Total for All Funds Total Amount</b>	<b>All 401 Types Irrigation Funds Actual Amount</b>
<b>Beginning Cash and Investments:</b>			
308.10	Reserved	\$7,495,488	\$7,495,488
308.80	Unreserved	\$5,284,073	\$5,284,073
388.80 or 588.80	Prior Period Adjustments	\$0	\$0
<b>Revenues and Other Sources:</b>			
310	Taxes	\$0	
320	Licenses and Permits	\$0	
330	Intergovernmental	\$0	0
340	Charges for Goods and Services	\$116,187	116,187
350	Fines and Penalties	(\$1,790)	(1,790)
360	Miscellaneous	\$9,169,536	9,169,536
370	Capital Contributions	\$3,495,135	3,495,135
390	Other Financing Sources	\$37,286	37,286
<b>Total Revenues and Other Financing Sources</b>		\$12,816,354	12,816,354
<b>Total Resources</b>		25,595,915	25,595,915
<b>Operating Expenditures:</b>			
510	General Government	\$0	\$0
520	Public Safety	\$0	
530	Physical Environment	\$7,317,622	7,317,622
540	Transportation	\$0	
550	Economic Environment	\$0	
560	Mental and Physical Health	\$0	
570	Culture and Recreational	\$0	
<b>Total Operating Expenditures</b>		\$7,317,622	7,317,622
591-593	Debt Service	\$1,911	1,911
594-595	Capital Outlay	\$2,832,170	2,832,170
598	Other Expenditures	\$0	0
<b>Total Expenditures</b>		\$10,151,702	10,151,702
596-599	Other Financing Uses		
<b>Total Expenditures and Other Financing Uses</b>		10,151,702	10,151,702
<b>Excess (Deficit) of Resources Over Uses</b>		15,444,213	15,444,213
380	Nonrevenues (Except 384)	\$36,643	36,643
580	Nonexpenditures (Except 584)	\$166,513	166,513
<b>Ending Cash and Investments:</b>			
508.10	Reserved	\$10,052,895	10,052,895
508.80	Unreserved	\$5,261,449	\$5,261,449

1/ This column summarizes ALL reported funds, not just funds listed on this page

*The Accompanying Notes Are An Integral Part Of This Statement.*

## FUND RESOURCES AND USES ARISING FROM CASH TRANSACTIONS

For the Year Ended December 31, 2011

BARS Code		401 General
<b>Beginning Cash and Investments</b>		
30810	Beg Fund Bal-Reserved	4,754,975
30880	Beg Fund Bal-Unreserved	4,947,923
38880/58880	Prior Period Adjustments, net	0
<b>Operating Revenues</b>		
330	Intergovernmental Revenues	71,895
340	Charges for Goods and Services	119,509
350	Fines & Penalties	0
360	Miscellaneous Revenues	9,353,250
Total Operating Revenues:		9,544,654
<b>Operating Expenditures</b>		
530	Utilities And Environment	6,146,669
598	Intergovernmental Payments	0
Total Operating Expenditures:		6,146,669
Net Operating Increase (Decrease):		3,397,985
<b>Nonoperating Revenues</b>		
370, 380, 395, 398	Other Financing Sources	2,528,978
391-393	Debt Proceeds	0
Total Nonoperating Revenues:		2,528,978
<b>Nonoperating Expenditures</b>		
580, 596, 599	Other Financing Uses	92,385
591-593	Debt Service	2,123
594-595	Capital Expenditures	2,755,793
Total Nonoperating Expenditures:		2,850,301
Increase (Decrease) in Cash and Investments		3,076,662
<b>Ending Cash and Investments</b>		
50810	End Fund Bal-Reserved	7,495,488
50880	End Fund Balance-Unreserved	5,284,073

The accompanying notes are an integral part of this Statement.

**KENNEWICK IRRIGATION DISTRICT**  
**Notes to Financial Statements**  
**For Year Ended December 31, 2012**

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

The Kennewick Irrigation District (District) reports financial activity using the revenue and expenditure classifications, statements, and schedules contained in the *Cash Basis Budgeting, Accounting and Reporting System (BARS)* manual. This basis of accounting and reporting is another comprehensive basis of accounting (OCBOA) that is prescribed by the State Auditor's Office under the authority of Washington State law, Chapter 43.09 RCW. Cash basis is a departure from generally accepted accounting principles (GAAP).

The Kennewick Irrigation District was incorporated in 1917 and operates under the laws of the state of Washington applicable to an irrigation district. The District is a proprietary special purpose government and provides irrigation water services to approximately 20,201 acres and 23,000 customers, as well as potable water services to 166 residences.

**A. Fund Accounting**

The accounts of the District are organized on the basis of funds, each of which is considered a separate accounting entity for internal managerial accounting purposes. As a proprietary special purpose government, the District has one legal fund and all internal managerial funds are rolled up to the single fund for external reporting. For purposes of budgeting and internal allocation of resources, each internal fund is accounted for with a separate set of accounts that comprises its cash, investments, revenues and expenditures, as appropriate. The District's resources are allocated to and accounted for in individual internal managerial funds depending on their intended purpose. The following are the fund types used by the District:

**GOVERNMENTAL FUND TYPES:** As a proprietary special purpose government, the District does not have Governmental Fund Types

**PROPRIETARY FUND TYPES:**

**Enterprise Funds**

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

**Enterprise Funds- Managerial Sub-Group Capital Projects Funds**

These internal managerial funds account for financial resources which are restricted, committed, or assigned or the acquisition or construction of capital facilities or other capital assets.

**Enterprise Funds- Managerial Sub-Group Internal Reserve Funds**

These internal managerial funds account for financial resources which are committed for future purposes as adopted by the District's Board.

**B. Basis of Accounting**

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Revenues are recognized only when cash is received and expenditures are recognized when paid, including those properly chargeable against the report year(s) budget appropriations as required by state law.

In accordance with state law the District also recognizes expenditures paid during twenty days after the close of the fiscal year for claims incurred during the previous period.

Purchases of capital assets are expensed during the year of acquisition. There is no capitalization of capital assets, nor allocation of depreciation expense. Inventory is expensed when purchased.

The basis of accounting described above represents a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

#### C. Budgets

The District adopts annual budgets for its enterprise funds. These budgets are appropriated at the internal managerial fund level, including transfer expenditures to fund internal reserve funds. The budget constitutes the legal authority for expenditures at that level. Annual appropriations for these funds lapse at the fiscal year end.

Annual appropriated budgets are adopted on the same basis of accounting as used for financial reporting.

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

Fund/Department	Final Appropriated Amounts	Actual Expenditures	Variance
<u>Enterprise Funds- Operating &amp; Capital:</u>			
Irrigation General	\$ 9,270,010	\$ 9,193,845	\$ 76,165
Elliot Lake Potable	\$ 44,370	\$ 42,646	\$ 1,724
Lorayne J Potable	\$ 64,330	\$ 52,771	\$ 11,559
Capital Upgrade Fund	\$ 1,459,204	\$ 586,537	\$ 872,667
Red Mountain Capital	\$ 1,031,100	\$ 1,097,068	\$ ( 65,968)
LID Capital Project Fund	\$ 12,653	\$ 12,653	\$ 0
General Capital Proj.Fund	\$ 230,500	\$ 199,636	\$ 30,864
Total Enterprise Funds- Operating & Capital:	\$12,112,167	\$11,185,156	\$ 972,011
<u>Enterprise Fund- Internal Reserve Funds:</u>			
Operating Reserve Funds	\$ 772,650	\$ 642,469	\$ 130,181
Non-Operating Restricted Reserves	\$ 0	\$ 0	\$ 0
Realty Restricted Reserve	\$ 900,520	\$ 679,646	\$ 220,874
Total Enterprise Fund- Reserve Funds	\$ 1,673,170	\$ 1,322,115	\$ 351,055

Budgeted amounts are authorized to be transferred between any unrestricted internal enterprise or capital funds; however, any revisions that alter the total expenditures of all internal unrestricted enterprise funds, or that affect the number of authorized employee positions, salary ranges, hours, or other conditions of employment must be approved by the District's legislative body.

#### D. Cash

It is the District's policy to invest all temporary cash surpluses. 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 prorated to the various restricted funds and to the general irrigation enterprise fund.

E. Deposits

The District's deposits and certificates of deposit are covered by the Federal Deposit Insurance Corporation and the Washington Public Deposit Protection Commission.

F. Investments See Note 3, *Investments*.

G. 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. The capital assets of the District are recorded as expenditures when purchased.

H. Compensated Absences

Vacation leave may be accumulated up to 240 hours and is payable upon separation or retirement.

Sick leave may be accumulated indefinitely. Upon separation or retirement employees may receive payment for 25% of their unused sick leave, with a maximum payout of \$1,800, if they provide adequate notice and are not terminated for just cause.

I. Long-Term Debt See Note 4, *Debt Service Requirements*.

J. Other Financing Sources or Uses

The District's *Other Financing Sources or Uses* consist of:

*Other Financing Sources*

Gains on sale of surplus real estate assets	\$ 2,557,069
Federal direct capital grants	248,012
State direct capital grants	676,432
Private capital contribution	13,622
Contractor temporary cash deposits	36,643
Proceeds- sale of personal property assets	37,286

*Other Financing Uses*

USBR Contract agency disbursements	905
Disburse cash bonds, completion	82,930
Payments on proprietary debt	82,678

K. Risk Management

The Kennewick Irrigation District is a member of the Cities Insurance Association of Washington. 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 September 1, 2012, there were 240 members in the program.

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

The program acquires liability insurance through their Administrator, Canfield, that is subject to a per-occurrence self-insured retention of \$100,000. Members are responsible for a \$1,000 deductible for each claim (in KID's case, we have increased it to \$10,000), 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 with an attachment point of \$2,815,000 to cap the total claims paid by the program in any one year.

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. Members are responsible for the deductible amount of each claim. There is no program self-insured retention on this coverage.

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

A board of ten members is selected by the membership from three geographic areas of the State on a staggered term basis and is responsible for conducting the business affairs of the program. The program has no employees. Claims are filed by members with Canfield, which has been contracted to perform program administration, claims adjustment and administration, and loss prevention for the program. Fees paid to the third party administrator under this arrangement for the year ended August 31, 2012, were \$1,099,472.

#### **L. Reserved Fund Balance**

The District has two classifications in the Reserved Fund Balance. The first is “Restricted” Fund Balance, which include resources that can be spent only for the specific purposes stipulated by external resource providers related to debt service covenants or contracts.

The second category is “Committed” Fund Balance, which includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the District’s Board of Directors.

The balances by classification are:

Reserved Fund Balance – Restricted	\$ 949,827
Reserved Fund Balance – Committed	\$ <u>9,103,068</u>
Total Reserved Fund Balance	\$ 10,052,895

#### **Note 2 – Compliance and Accountability**

There have been no material violations of finance-related legal or contractual provisions.

#### **Note 3 – Investments**

The Kennewick Irrigation District’s investments are held in the name of the District and were invested during 2012 in accounts entirely covered by the Federal Depository Insurance Corporation (FDIC) Act or Washington Public Depository Act.

Investments by type at December 31, 2012 were as follows:

<u>Type of Investment</u>	<u>Balance</u>
Certificates of Deposit	\$ 2,050,241
Local Government Investment Pool	\$ <u>7,309,034</u>
TOTAL	\$ 9,359,275

#### **Note 4 – Debt Service Requirements**

The accompanying Schedule of Long-Term Debt (09) provides a listing of the outstanding debt of the Kennewick Irrigation District and summarizes the debt transactions for 2012. The debt service requirements, including interest, are as follows:

	<b>Other</b>	<b>Total</b>
	<b><u>Debt</u></b>	<b><u>Debt</u></b>
<b>2013</b>	<b>\$ 81,889</b>	<b>\$ 81,889</b>
<b>2014</b>	<b>\$ 81,677</b>	<b>\$ 81,677</b>
<b>2015</b>	<b>\$ 181,465</b>	<b>\$ 181,465</b>
<b>2016</b>	<b>\$ 281,252</b>	<b>\$ 281,252</b>
<b>2017</b>	<b>\$ 281,040</b>	<b>\$ 281,040</b>
<b>2018-2022</b>	<b>\$ 1,385,246</b>	<b>\$ 1,385,246</b>
<b>2023-2027</b>	<b>\$ 1,143,399</b>	<b>\$ 1,143,399</b>
<b>2028-2032</b>	<b>\$ 1,000,000</b>	<b>\$ 1,000,000</b>
<b>2033-2037</b>	<b>\$ 1,000,000</b>	<b>\$ 1,000,000</b>
<b>2038-2040</b>	<b>\$ 500,000</b>	<b>\$ 500,000</b>
<b>TOTALS</b>	<b>\$ 5,935,969</b>	<b>\$ 5,935,969</b>

#### **Note 5 - Pension Plans**

Substantially all District's full-time and qualifying part-time employees participate in the Public Employees Retirement System (PERS) administered by the Washington State Department of Retirement Systems, under cost-sharing multiple-employer public employee defined benefit and defined contribution retirement plans. Actuarial information is on a system-wide basis and is not considered pertinent to the District's financial statements. Contributions to the systems by both employee and employer are based upon gross wages covered by plan benefits.

Historical trend or other information regarding each plan is presented in the Washington State Department of Retirement Systems annual financial report. A copy of this report may be obtained by writing to:

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

#### **Note 6 – Subsequent Events**

- A. Three separate claims have been filed against the Kennewick Irrigation District by previous employees, claiming various amounts of damages for alleged employment practice violations, two filing in 2011, and one in 2012. The outcome of these claims is not known as of the date of this statement; however it is possible that one or more claimants could prevail or settle their claim against the District. The CIAW Risk Management Pool has hired an attorney to represent the Pool with regards to these claims and it appears that any award on these claims would be paid by the Pool on behalf of the District, except for the District's deductible which was \$5,000 prior to 2011 and \$10,000 for 2011 and 2012. The District has received Notices of Claims for 2011 and 2012 property damage from five claimants, which have not been dismissed to date. These are all risks which are insured through the District's insurance program, subject to our deductible of \$10,000 where applicable. The outcome of these claims is not known as of the date of this statement; however, it is possible that one or more claimants could prevail or settle their claim



against the District. The CIAW Risk Management Pool has employed adjusters for simple claims, or hired attorneys on the complex issues, and it appears that any award on these claims would be paid by the Pool on behalf of the District, except for the applicable deductibles. The cost for any applicable deductible does not exceed the KID budget estimates.

- B. The District entered into a construction grant contract with the Washington State Department of Ecology, Office of Columbia River, in May of 2011 to provide a source of funds for the Red Mountain Local Improvement District (LID) project to be designed and built by 2014. The grant contract is for \$10,000,000. The latest total development estimate for the project is approximately \$20,200,000 with the balance to come from borrowings to be paid by the LID. This project will provide a pump station at the Yakima River with a delivery system to serve acreage in the wine grape production area of Red Mountain, which is part of the District through annexation. The cost of these improvements will be paid for by the system (LID) participants, including the District who owns approximately one third of the lands served, over a period of 25 years through the LID process.

The District has also accepted an obligation related to this project. This obligation is outlined in the Interagency Receivable Agreement with the Washington State Department of Ecology and provides that debt collections on the LID received from system participants will be in part repaid to the Department, and in part committed to a reserve for the District's future use for conservation and other beneficial projects. The anticipated amount and schedule for repayment have been included in Note 4.

On December 17, 2012 the District Board approved Resolution 2012-38 authorizing an interfund loan from its internal Realty Reserve Fund to its internal Red Mountain Construction Fund, to provide temporary construction financing for the project. The loan will accrue interest at the rate of 1.8% per annum, starting January 1, 2013, until paid in full by the permanent funding source.

**KENNEWICK IRRIGATION DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JANUARY 1, 2011 THROUGH DECEMBER 31, 2011**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

- a. Reporting Entity - The Kennewick Irrigation District (District) was formed in 1917 by property owners in Benton County, Washington. The District is a proprietary special purpose district, receiving its authority under RCW Title 87, that provides irrigation water services to the general public and is supported primarily through user fees and utility limited improvement assessments. The boundaries of the District encompass approximately 55,000 acres of irrigable and non-irrigable land. Approximately 20,201 acres are irrigated. Administrative oversight is performed by a five-member Board of Directors elected for alternating three-year terms. The District Manager/Board Secretary provides the day-to-day executive management of the organization.

The District is responsible for operation and maintenance of the existing irrigation systems, construction of system extensions, and payment of outstanding construction contracts to the United States Bureau of Reclamation (USBR) for the original construction of regional water delivery systems built in the mid-1950's. Since the original construction was paid with public funds, all properties originally identified as irrigable maintain their assessment obligation whether or not they benefit from the irrigation systems (except as transferred to subsequent properties that then assume the assessment obligation). Assessments are billed annually, with April and October due dates.

- b. Basis of Accounting and Presentation – The Kennewick Irrigation District records and reports its activity on a cash basis which records revenues only when cash is received and expenditures when cash is paid. Purchases of capital assets are expensed during the year of acquisition and there is no allocation of depreciation expenses. Inventory is expensed when purchased. The cash basis of accounting and reporting is “another comprehensive basis of accounting” (OCBOA) and it does not conform to generally accepted accounting principles (GAAP).

**NOTE 2 – COMPLIANCE AND ACCOUNTABILITY**

There have been no material violations of finance-related legal or contractual provisions.

**NOTE 3 – INVESTMENTS**

The Kennewick Irrigation District's investments are held in the name of the District and were invested during 2011 in accounts entirely covered by the Federal Depository Insurance Corporation (FDIC) Act or Washington Public Depository Act.

Investments by type at December 31, 2011 were as follows:

<u>Type of Investment</u>	<u>Balance</u>
Certificates of Deposit	\$ 2,035,271
Local Government Investment Pool	<u>\$ 7,294,778</u>
<b>TOTAL</b>	<b>\$ 9,330,049</b>

#### NOTE 4 – LONG-TERM DEBT

The accompanying Schedule of Long-Term Debt (09) provides a listing of the outstanding debt of the Kennewick Irrigation District and summarizes the debt transactions for 2011. The debt service requirements, including interest, are as follows:

<u>Year</u>	<u>Other Debt</u>		
2012	\$82,293		
2013	\$82,080		
2014	\$81,868		
2015	\$181,656 **		
2016	\$281,444		
Subtotal-		\$709,341	
2017	\$281,231		
2018	\$281,019		
2019	\$280,807		
2020	\$280,595		
2021	\$271,891		
Subtotal-		\$1,395,543	
2022	\$271,891		
2023	\$271,891		
2024	\$271,891		
2025	\$200,000		
2026	\$200,000		
Subtotal-		\$1,215,673	
2027	\$200,000		
2028	\$200,000		
2029	\$200,000		
2030	\$200,000		
2031	\$200,000		
Subtotal-		\$1,000,000	
2032	\$200,000		
2033	\$200,000		
2034	\$200,000		
2035	\$200,000		
2036	\$200,000		
Subtotal-		\$1,000,000	
2037	\$200,000		
2038	\$200,000		
2039	\$200,000		
2040	\$100,000		
		\$700,000	

\*\*Note 6(b) “Subsequent Events” discusses a new obligation agreement to Washington Department of Ecology. The first draws on the funds to be repaid occurred in February 2012, so the projected repayment of this debt in the amount of \$ 100,000 in 2015 and \$100,000 semi-annually for the subsequent 24 years has been included herein.

## NOTE 5 – RISK MANAGEMENT

The Kennewick Irrigation District is an associate member of the Cities Insurance Association of Washington. Chapter 48.62 RCW authorizes the governing body of any one or more governmental entities to form together into or join a pool or organization for the joint purchasing of insurance, and/or joint self-insuring, and/or joint hiring or contracting for risk management services to the same extent that they may individually purchase insurance, self-insure, or hire or contract for risk management services. An agreement to form a pooling arrangement was made pursuant to the provisions of Chapter 39.34 RCW, the Interlocal Cooperation Act. The pool was formed on September 1, 1988 when 34 cities in the State of Washington joined together by signing an Interlocal Governmental Agreement to pool their self-insured losses and jointly purchase insurance and administrative services. The pool provides the following forms of group-purchased insurance coverage for its members: property, general liability, law enforcement liability, automobile liability, employment practices liability, boiler and machinery, bonds of various types, and public officials' liability.

The pool acquires liability insurance to cover losses subject to a per-occurrence deductible of \$100,000. Kennewick Irrigation District is responsible for the first \$10,000 of the deductible amount of each claim, while the pool is responsible for the remaining amount of the deductible. The insurance carrier covers insured losses over \$100,000 to the limits of the policy. Since the pool is a cooperative program, there is a joint liability among the participating members towards the sharing of the pool paid deductible. The pool also purchases a Stop Loss Policy to cap the total claims paid by the pool in any one year.

## NOTE 6 – SUBSEQUENT EVENTS

- a. Four separate claims have been filed against the Kennewick Irrigation District by previous employees, claiming various amounts of damages for alleged employment practice violations, one filing in April of 2010, and three filings in 2011. The outcome of these claims is not known as of the date of this statement; however it is possible that one or more claimants could prevail or settle their claim against the District. The CIAW Risk Management Pool has hired an attorney to represent the Pool with regards to these claims and it appears that any award on these claims would be paid by the Pool on behalf of the District, except for the District's deductible which was \$5,000 prior to 2011 and \$10,000 for 2011 and 2012. The District has received Notices of Claims for 2011 and 2012 property damage from several claimants, and three claims related to decisions made by the District. These are all risks which are insured through the District's insurance pool, subject to our deductible of \$10,000 where applicable. The outcome of these claims is not known as of the date of this statement; however, it is possible that one or more claimants could prevail or settle their claim against the District. The CIAW Risk Management Pool has employed adjusters for simple claims, or hired attorneys on the complex issues, and it appears that any award on these claims would be paid by the Pool on behalf of the District, except for the applicable deductibles. The cost for any applicable deductibles does not exceed the KID budget estimates.

- b. The District entered into a construction grant contract with the Washington State Department of Ecology, Office of Columbia River, in May of 2011 to provide a source of funds for the Red Mountain Local Improvement District(LID) project to be designed and built by 2015. The grant contract is for \$10,000,000. The total development estimate for the project is approximately \$16,000,000 with the balance to come from borrowings to be paid by the LID. This project will provide a pump station at the Yakima River with a delivery system to serve acreage in the wine grape production area of Red Mountain, which is part of the District through annexation. The cost of these improvements will be paid for by the system (LID) participants, including the District who owns some of the lands served, over a period of up to 25 years through this LID.

The District has also accepted an obligation related to this funding. This obligation is outlined in the Interagency Receivable Agreement with the Washington State Department of Ecology and provides that debt collections on the LID received from system participants will be in part repaid to the Department, and in part committed to a reserve for the District's future use for conservation and other beneficial projects. The anticipated amount and schedule for repayment have been included in Note 4.

## Schedule of Liabilities

Entity: Kennewick Irrigation District  
Year: 2012

ID. No.	Description	Maturity/Payment Due Date	Beginning Balance 01/01/2012	Additions	Reductions	BARS Code for Redemption of Debt Only	Ending Balance 12/31/2012
263.82	Loan to Other Government	9/30/2020	76,422		8,491	582.31	67,931
259.12	Compensated Absence	Various	227,003	-	11,830		215,173
263.98	Misc. Assessment debt	12/1/2024	934,582		74,186	582.31	860,396
263.82	Dept of Ecology-Red Mtn. (1)	12/31/2039	-	338,216		582.31	338,216
263.12	Claims and judgments (2)	1/8/2013	-	50,000	-	582.31	50,000

Note (1): (ID NO: 263.82) Dept of Ecology Loan for Red Mountain- this is the 50% that will be repaid; an equal amount is considered grant

Note (2): (ID No: 263.12) This amount was an agreed-upon settlement to a claim paid in 2013

## Schedule of Liabilities

Entity: Kennewick Irrigation District  
Year: 2011

ID. No.	Description	Maturity/Payment Due Date __/__/20__	Beginning Balance 01/01/2011	Additions	Reductions	BARS Code for Redemption of Debt Only	Ending Balance 12/31/2011
236.82	Loan to Other Government	9/30/2020	84,913		8,491	58231	76,422
259.12	Compensated Absence	Various	201,494	25,509			227,003
263.98	Misc. Assessment debt	12/1/2024	1,016,995		82,412	58231	934,582

(Note: On ID Number 259.12 Compensating Absence - 2010 ending balance amount of \$187,175 did not include taxes;  
Current BARS guidance is to include taxes; 2010 balance adjusted to reflect update; increased beginning  
balance by \$14,319 representing taxes due on compensated absences.)



## **ABOUT THE STATE AUDITOR'S OFFICE**

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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 as an advocate for government accountability. 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.

The State Auditor's Office employees are located around the state to deliver services effectively and efficiently.

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 and fraud, whistleblower and citizen hotline investigations.

The results of our work are widely distributed through a variety of reports, which are available on our Web site and through our free, electronic subscription service.

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

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