



Washington State Auditor's Office

Government that works for citizens

Financial Statements Audit Report

East Wenatchee Water District

Douglas County

For the period January 1, 2013 through December 31, 2014

Published March 28, 2016

Report No. 1016350





Washington State Auditor's Office

March 28, 2016

Board of Commissioners
East Wenatchee Water District
East Wenatchee, Washington

Report on Financial Statements

Please find attached our report on the East Wenatchee Water District's financial statements.

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

Sincerely,

JAN M. JUTTE, CPA, CGFM
DEPUTY STATE AUDITOR
OLYMPIA, WA

TABLE OF CONTENTS

Status Of Prior Audit Findings	4
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	6
Independent Auditor’s Report On Financial Statements	9
Financial Section.....	12
About The State Auditor’s Office.....	63

STATUS OF PRIOR AUDIT FINDINGS

East Wenatchee Water District Douglas County January 1, 2013 through December 31, 2014

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

Audit Period: January 1, 2010 through December 31, 2012	Report Ref. No: 1012324	Finding Ref. No: 1
Finding Caption: The District's internal controls over financial accounting and reporting are inadequate to ensure accurate and complete reporting.		
Background: We identified several deficiencies in internal controls over financial reporting that, when taken together, represent a material weakness. These included not following current Generally Accepted Accounting Principle reporting requirements as presented in the <i>Budgeting, Accounting and Report System (BARS) Manual</i> . The District also lacked an independent review of the financial statements to ensure accuracy and completeness.		
Status of Corrective Action: <div style="display: flex; justify-content: space-between;"> <div> <input checked="" type="checkbox"/> Fully Corrected </div> <div> <input type="checkbox"/> Partially Corrected </div> <div> <input type="checkbox"/> No Corrective Action Taken </div> <div> <input type="checkbox"/> Finding is considered no longer valid </div> </div>		
Corrective Action Taken: <i>In February 2015 the District underwent a re-structure of its employees. Management's first goal was to address the inadequate internal controls that the District had in place. A complete and immediate re-structure of the District financial needs was implemented.</i> <ul style="list-style-type: none"> • <i>The District has implemented the recommendations of the 2010-2012 audit findings as follows:</i> • <i>The District is following GAAP Standards and has hired the services of a CPA to ensure proper presentation of our cash flow statement.</i> • <i>The District has downloaded the current BARS manual and implemented corrections to reflect the 2013-2014 financial statements.</i> 		

- *The District reconciles the treasurer's reports and bank accounts on a monthly basis to include corrections to cash balances in a timely and appropriate manner.*
- *The District has implemented an annual assessment process and independent review of District financials by contracting with a CPA at a local CPA firm to independently review all of the financial statements.*
- *The District is currently working with the CPA to produce accounting standards and internal control Policies. District employees are receiving the appropriate training to follow GAAP Standards related to our accounting procedures and compliance with the BARS manual in the reporting of our financial statements.*

Changes in District staff and re-distribution of office duties developed accuracy. Implementation of GAAP and GASB updates as well as reporting using the current BARS manual were addressed. Procedures allowed employees to prepare accurate and supported financial statements. Changes in our accounting process promoted employees to account for system errors on a monthly basis. Because of the re-structuring of District personnel and implementation of new financial procedures, the District is now able to provide accurate and comprehensive information on its financial statements.

**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**

**East Wenatchee Water District
Douglas County
January 1, 2013 through December 31, 2014**

Board of Commissioners
East Wenatchee Water District
East Wenatchee, 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 East Wenatchee Water District, Douglas County, Washington, as of and for the years ended December 31, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated March 15, 2016. As discussed in Note 9 to the 2013 financial statements, during the year ended December 31, 2013, the District implemented Governmental Accounting Standards Board Statement No. 65, *Items Previously Reported as Assets and Liabilities*.

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.



JAN M. JUTTE, CPA, CGFM
DEPUTY STATE AUDITOR
OLYMPIA, WA

March 15, 2016

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

East Wenatchee Water District Douglas County January 1, 2013 through December 31, 2014

Board of Commissioners
East Wenatchee Water District
East Wenatchee, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the East Wenatchee Water District, Douglas County, Washington, as of and for the years ended December 31, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed on page 12.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor

considers internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the East Wenatchee Water District, as of December 31, 2014 and 2013, and the changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Matters of Emphasis

As discussed in Note 9 to the 2013 financial statements, in 2013, the District adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 13 through 25 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any

assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated March 15, 2016 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.



JAN M. JUTTE, CPA, CGFM
DEPUTY STATE AUDITOR
OLYMPIA, WA

March 15, 2016

FINANCIAL SECTION

**East Wenatchee Water District
Douglas County
January 1, 2013 through December 31, 2014**

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2014
Management's Discussion and Analysis – 2013

BASIC FINANCIAL STATEMENTS

Statement of Net Position – 2014
Statement of Net Position – 2013
Statement of Revenues, Expenses, and Changes in Net Position – 2014
Statement of Revenues, Expenses, and Changes in Net Position – 2013
Statement of Cash Flows – 2014
Statement of Cash Flows – 2013
Notes to Financial Statements – 2014
Notes to Financial Statements – 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS

The mission of the Board of Commissioners and the Employees of the East Wenatchee Water District is to provide high quality safe reliable drinking water and excellent customer service while effectively managing the Districts infrastructure to provide a cost effective, reliable water system for today and for future generations.

The following section of management's discussion and analysis presents our review of the District's financial position as of December 31, 2014, and our financial performance for the year then ended.

The following statements report the net position of the District, and changes to them. The Districts net position – the difference between assets and liabilities – as a way to measure financial health or financial position. Over time, increases or decreases in the Districts net position are one indicator of whether financial health is improving or deteriorating. However you will need to also consider other non-financial factors such as changes in economic conditions, customer growth, and legislative mandates.

DISCUSSION OF FINANCIAL STATEMENT

The District's basic financial statements consist of the following:

1. Management's Discussion and Analysis.
2. Financial Statements
3. Notes to Financial Statements

The financial statements include a statement of net position; statement of revenues, expenses and changes in net position; statement of cash flows; and notes to the financial statements.

The statement of net position provides a record, or snap shot, of the assets and liabilities of the District at the close of the year. It provides information about the nature and amounts invested in resources (assets) and the obligations to District creditors (liabilities). It provides the basis for evaluating the capital structure of the District and assessing the liquidity and financial flexibility of the District.

The statement of revenues, expenses and changes in net position presents the results of business activities over the course of the year. The information is used to determine whether the District has successfully recovered all of the costs through its user fees and charges, profitability and credit worthiness.

The cash flow statement reports cash receipts, cash payments and net changes in cash resulting from operating, financing and investing activities over the course of the year. It presents information regarding where cash was generated and what it was used for.

The notes to the financial statements provide useful information regarding the Districts significant accounting policies, explain significant account balances and activities, certain material risks, estimates, obligations, commitments, contingencies and subsequent events.

CONDENSED STATEMENT OF NET POSITION AT DECEMBER 31

	2014	2013
CAPITAL ASSETS	33,276,492	33,527,475
CURRENT, OTHER ASSETS, DEFERRED OUTFLOWS	9,065,387	8,749,592
TOTAL ASSETS	42,272,252	42,277,067
LONG-TERM LIABILITIES	11,107,655	11,399,753
CURRENT LIABILITIES	1,066,482	1,041,198
TOTAL LIABILITIES	12,174,137	12,440,951
NET INVESTMENT IN CAPITAL ASSETS	22,143,708	21,751,014
RESTRICTED	1,225,217	1,225,217
UNRESTRICTED	6,798,816	6,859,884
TOTAL NET POSITION	30,167,741	29,836,115

CONDENSED STATEMENTS OF REVENUES, EXPENSES
AND CHANGES IN NET POSITION FOR THE YEAR ENDED

	2014	2013
OPERATING REVENUES	4,386,646	4,219,187
NONOPERATING REVENUE	147,442	107,632
TOTAL REVENUES	4,534,089	4,326,820
WATER PURCHASED FOR RESALE	508,601	409,430
MAINTENANCE & OPERATIONS	624,126	609,835
GENERAL ADMINISTRATION	1,592,934	1,674,579
DEPRECIATION / AMORTIZATION	1,407,153	1,417,049
INTEREST EXPENSES	266,539	365,927
OTHER OPERATING EXPENSES	316,213	269,711
BOND EXPENSE	11,800	
TOTAL EXPENSES	4,727,365	4,746,531
INCOME BEFORE CAPITAL GRANTS	(193,277)	(419,711)
CAPITAL GRANTS	524,903	302,509
CHANGE IN NET POSITION	331,626	(117,202)
APPLICATION OF NEW ACCOUNTING-GASB		(149,787)
PRIOR PERIOD ADJUSTMENT		(32,594)
BEGINNING NET POSITION	29,836,115	30,135,698
ENDING NET POSITION	30,167,741	29,836,115

OVERALL ANALYSIS OF FINANCIAL POSITION AND RESULT OF OPERATIONS

The Districts financial position continues to be strong and stable for the months ending December 31 2014. Total assets and deferred outflows of resources increased by \$64,812 or 0.15% (\$42,341,879 million in 2014 vs. \$42,277,067 million in 2013). This was due to refunding of a municipal bond. Economic activity within the District increased in 2014.

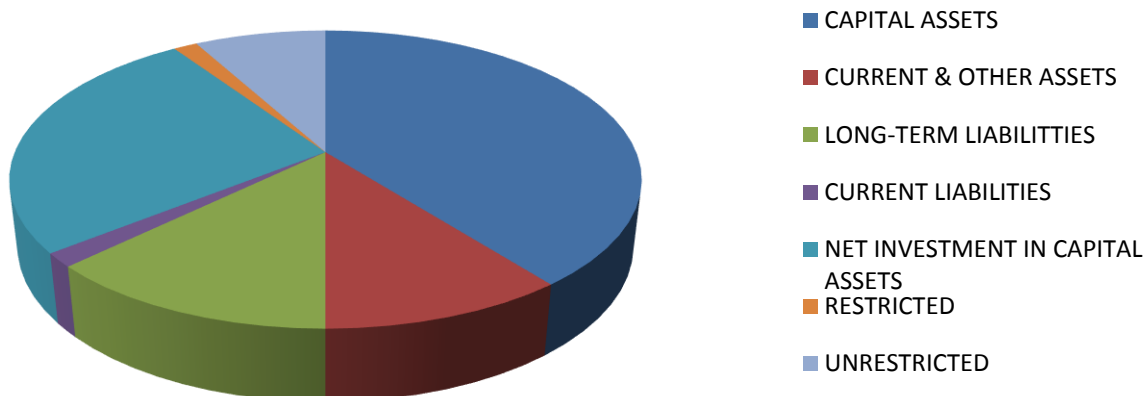
Total liabilities decreased by \$266,814 or -2.14% (\$12,174,137 million in 2014 vs. \$12,440,951 million in 2013). This was due to less long term debt. The District paid off debt by paying down the principal amount owed in Public Works Trust Fund loans and included a municipal bond sale in 2014 that paid down the existing 2004 municipal bond principal and secured a lower rate.

The District has continued to have an aggressive capital improvement program to insure that infrastructure is dependable and has sufficient capacity to accommodate future growth.

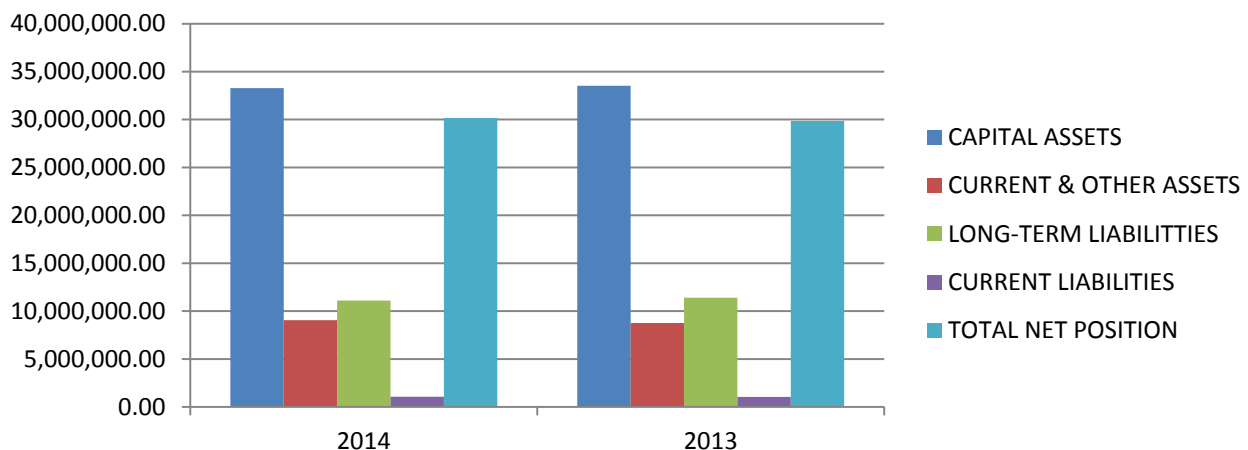
Total net position increased by \$331,626 or 1.11% (\$30,167,741 million in 2014 vs. \$29,836,115 million in 2013). The change in total net position is largely attributed to the District receiving more revenue in 2014.

Capital Grants were added to the value of the plant and Bond debt was paid down allowing more cash to be freed up with a lesser debt coverage factor.

2014 STATEMENT OF NET POSITION



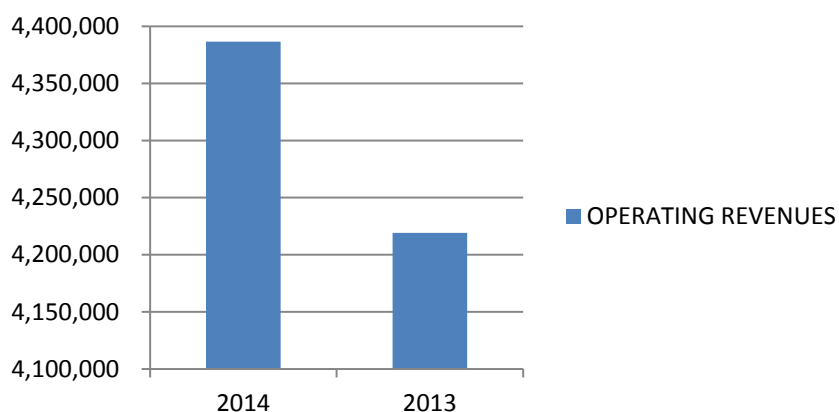
COMPARATIVE STATEMENT OF NET POSITION



Operating revenue increased by \$167,459 or 3.97% (\$4,386,646 for 2014 vs. \$4,219,187 million in 2013). This was due to a combination of factors. Water rate schedule and structure increased for all customers to include additional multi-family units. Base rate increased \$1.00 from \$46.00 to \$47.00 for all 5/8" meters, and additional Multi-family Units increased \$1.00 from 37.50 to 38.50.

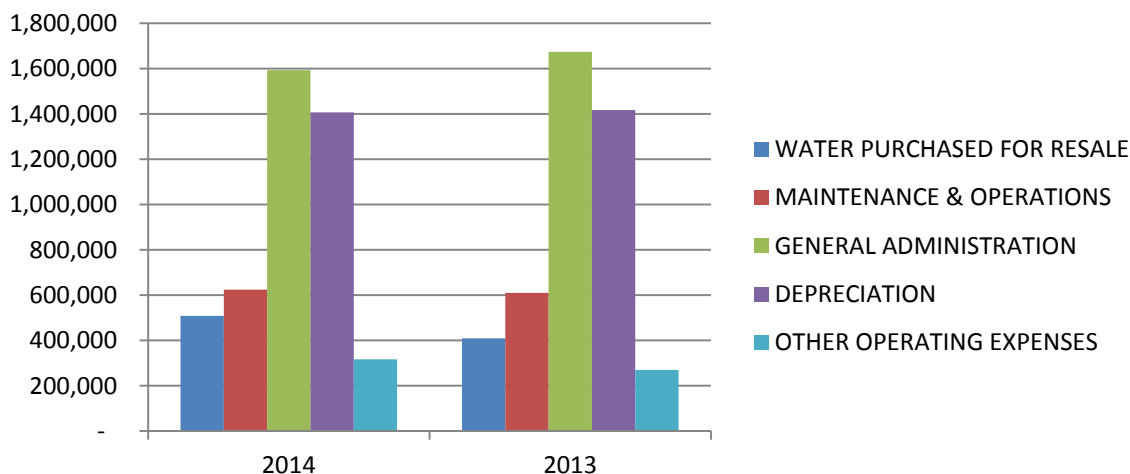
Metered consumption followed a warmer summer trend. Total Consumption increased by 149,454,273 million gallons or 13.87% (1,227,295,662 billion gallons for 2014 vs. 1,077,841,389 billion gallons in 2013)

OPERATING REVENUES

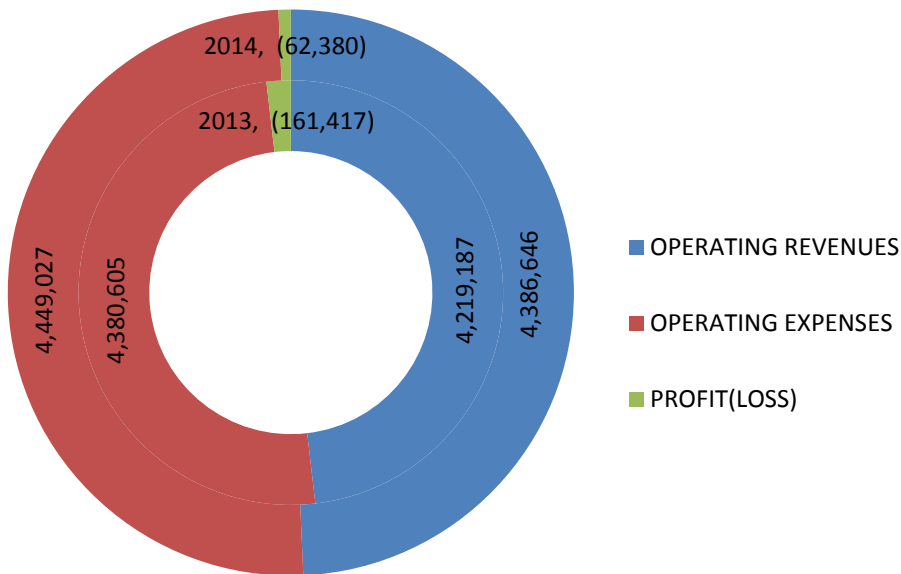


Total operating expenses increased \$68,422 or 1.56% (\$4,449,027 million in 2014 vs. \$4,380,605 million in 2013). Water purchased for re-sale increased \$99,171 or 24.22%. Maintenance and operations increased \$14,291 or 2.34%. A warm summer and increased leaks contributed to the additional purchased water and maintenance of the system. "Other operating expenses" increased \$46,502 or 17.24%. These factors can be attributed to utility costs, schools, training, mandatory audit expense, and services provided by others. General Administration decreased \$81,645 thousand or -4.88% (\$1,592,934 million in 2014 vs. 1,674,579 million in 2013). The District was able to capitalize additional payroll and received a refund from the State L&I pool.

OPERATING EXPENSES

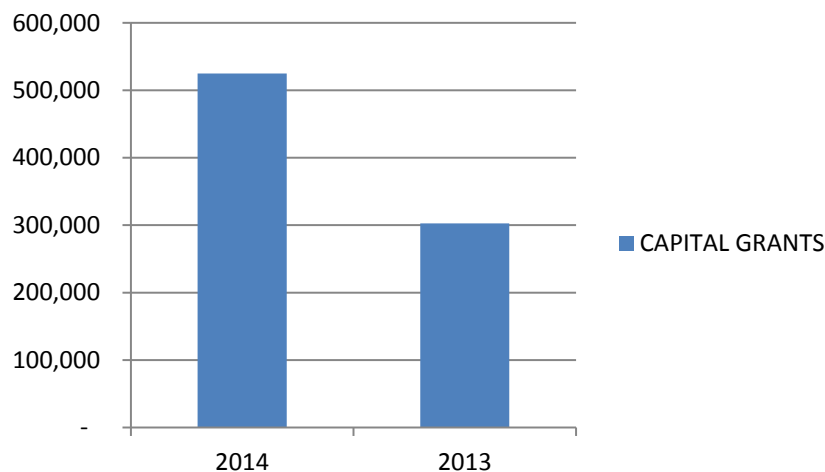


COMPARATIVE OPERATING REVENUE/EXPENSE



Capital grants include Developer Contributed Systems, a non cash transaction and other capital grants, which include customer payments of connection charges. Capital grants increased by \$222,393 thousand or 73.52% (\$524,903 thousand in 2014 vs. \$302,509 thousand in 2013). The improved economic environment has contributed to developer contributed systems. Empire Crest Subdivision, Western Cascade Subdivision in the amount of \$184,610, plant investment fees in the amount of \$273,600 and associated meter costs to include connection fees in the amount of \$66,693 total the \$524,903 thousand in capital grants the District received in 2014.

CAPITAL GRANTS



CAPITAL ASSETS AND LONG-TERM DEBT

The overall increase in capital assets of the District in 2014 is due to capital additions being greater than depreciation.

The following table summarizes the District's capital assets, net of accumulated depreciation for the year ended.

CAPITAL ASSETS, NET OF ACCUMULATED DEPRECIATION

	2014	2013
NET UTILITY PLANT:		
LAND	642,719	568,766
TRANSMISSION AND DISTRIBUTION	30,145,835	30,716,762
BUILDINGS	1,431,382	1,473,219
EQUIPMENT	695,958	766,445
INTANGIBLES	69,872	
CONSTRUCTION WORK IN PROGRESS	290,727	2,286
TOTAL NET UTILITY PLANT	33,276,493	33,527,477

This year's major additions include:

District Funded Main Line Upgrades	\$356,073
Developer Mains and Hydrants	\$184,610 (Empire Crest & Western Sunset)
Telemetry & Meter Reading Equipment	\$56,344 (upgrades at Daniels Dr. and 5 th & Grover)
Vehicles	\$58,232 (2 Toyota trucks)

Since many of the projects rehabilitate deteriorating mains within the District, the impact on operating and maintenance is expected to be favorable. Revenue from growth will continue to play a favorable role in the strength of the District.

The District's FY 2015 capital budget plans for investing \$4,064,000 in capital projects include:

• District-wide Small Main Replacements	\$ 150,000.00 (EWWD)
• District Meter Replacements	\$ 50,000.00 (EWWD)
• French Street	\$ 207,000.00 (EWWD)
• Baker Ave. Reconstruction	\$ 180,000.00 (EWWD)
• Valley Mall Parkway	\$ 53,000.00 (EWWD)
• Pipe Reliability and Capacity	\$ 105,000.00 (PWTF)
• 10 th Street Reservoir project	\$3,319,000.00 (PWTF)

The overall decrease in long-term debt in 2014 is due to principal payments made by the District in excess of new borrowing.

Standard and Poor's rated the 2010 bond with an AA rating and views this rating as being stable for years to come.

As of December 31, 2014, the District has:

Outstanding revenue bonds in the amount of	\$7,410,000
Outstanding PWTF Loans in the amount of	\$3,883,708
Outstanding Regional Well Note in the amount of	\$11,401

Refer to the **Notes to Financial Statements** for more detail.

OTHER POTENTIALLY SIGNIFICANT MATTERS

The trend continues to show that revenue and expense is a balance. The change in assets is due to the capital additions to the system. The District has experienced lower connection fee income in the past few years as the construction industry has slowed with the economy. The resulting loss of income has been a contributing factor for the trend in District revenue. Aging infrastructure facilitates the need for the District to consider system upgrades and replacement options. The City of East Wenatchee as well as the Douglas County Land and Transportation Department have applied for federal Grant money above and beyond their planned 6 year Transportation Improvement Plan (TIP). The result of a successful grant will result in unplanned additions to District infrastructure within these improvement areas. All of these factors combined may force the District to look at increasing its long term debt through future bond sales and/or meter rate and structure changes.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the District's ratepayers and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the District's Controller at the East Wenatchee Water District, 692 Eastmont Ave, East Wenatchee, WA 98802.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The mission of the Board of Commissioners and the Employees of the East Wenatchee Water District is to provide high quality safe reliable drinking water and excellent customer service while effectively managing the Districts infrastructure to provide a reliable water system for today and for future generations.

The following section of management's discussion and analysis presents our review of the District's financial position as of December 31, 2013, and our financial performance for the two years ended.

The following statements report the net position of the District, and changes to them. The Districts net position – the difference between assets and liabilities – as a way to measure financial health or financial position. Over time, increases or decreases in the Districts net position is one indicator of whether financial health is improving or deteriorating. However you will need to also consider other non-financial factors such as changes in economic conditions, customer growth, and legislative mandates.

DISCUSSION OF FINANCIAL STATEMENT

The District's basic financial statements consist of the following:

1. Management's Discussion and Analysis.
2. Financial Statements
3. Notes to Financial Statements

The financial statements include a statement of net position; statement of revenues, expenses and changes in net position; statement of cash flows; and notes to the financial statements.

The statement of net position provides a record, or snap shot, of the assets and liabilities of the District at the close of the year. It provides information about the nature and amounts invested in resources (assets) and the obligations to District creditors (liabilities). It provides the basis for evaluating the capital structure of the District and assessing the liquidity and financial flexibility of the District.

The statement of revenues, expenses and changes in net position presents the results of business activities over the course of the year. The information is used to determine whether the District has successfully recovered all of the costs through its user fees and charges, profitability and credit worthiness.

The cash flow statement reports cash receipts, cash payments and net changes in cash resulting from operating, financing and investing activities over the course of the year. It presents information regarding where cash was generated and what it was used for.

The notes to the financial statements provide useful information regarding the Districts significant accounting policies, explain significant account balances and activities, certain material risks, estimates, obligations, commitments, contingencies and subsequent events.

CONDENSED STATEMENT OF NET POSITION AT DECEMBER 31

	2013	2012
CAPITAL ASSETS	33,527,475	33,483,090
CURRENT & OTHER ASSETS	8,749,592	9,050,918
TOTAL ASSETS	42,277,067	42,534,008
LONG-TERM LIABILITIES	11,399,753	11,609,609
CURRENT LIABILITIES	1,041,198	788,700
TOTAL LIABILITIES	12,440,951	12,398,309
NET INVESTMENT IN CAPITAL ASSETS	21,751,014	29,454,359
RESTRICTED	1,225,217	2,153,798
UNRESTRICTED	6,859,884	(1,472,428)
TOTAL NET POSITION	29,836,116	30,135,729

CONDENSED STATEMENTS OF REVENUES, EXPENSES
AND CHANGES IN NET POSITION FOR THE YEAR ENDED

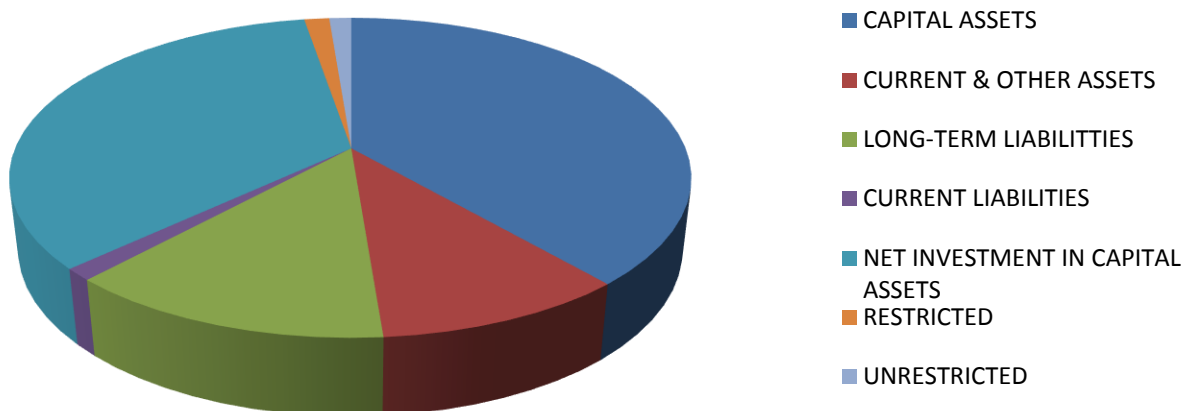
	2013	2012
OPERATING REVENUES	4,219,187	4,138,773
NONOPERATING REVENUE	107,632	452,628
TOTAL REVENUES	4,326,820	4,591,401
WATER PURCHASED FOR RESALE	409,430	451,165
MAINTENANCE & OPERATIONS	609,835	627,740
GENERAL ADMINISTRATION	1,674,579	1,483,657
DEPRECIATION	1,417,049	1,466,003
INTEREST EXPENSE	365,927	354,575
OTHER OPERATING EXPENSES	269,711	272,552
TOTAL EXPENSES	4,746,531	4,655,692
INCOME BEFORE CAPITAL GRANTS	(419,711)	(64,291)
CAPITAL GRANTS	302,509	363,584
CHANGE IN NET POSITION	(117,202)	299,293
APPLICATION OF NEW ACCOUNTING-GASB	(149,787)	
PRIOR PERIOD ADJUSTMENT	(32,594)	
BEGINNING NET POSITION	30,135,698	29,836,405
ENDING NET POSITION	29,836,116	30,135,698

OVERALL ANALYSIS OF FINANCIAL POSITION AND RESULT OF OPERATIONS

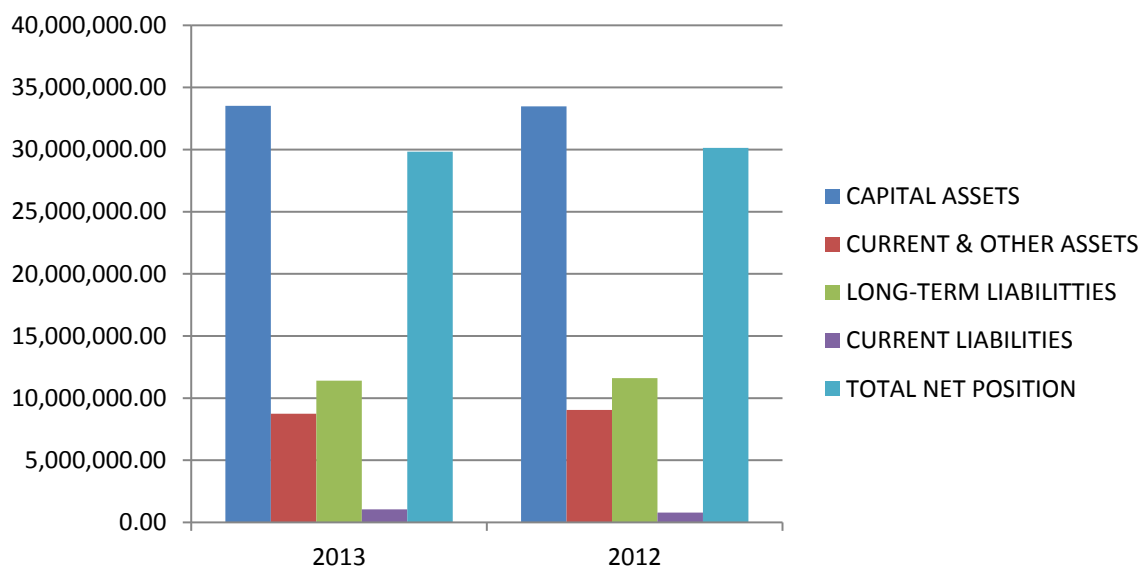
The Districts financial position continues to be strong and stable for the months ending December 31, 2013. Total assets decreased by \$256,941 or -0.60% (\$42,534,008 million for 2012 vs. \$42,277,067 million in 2013). This was due to: ULID receivables being paid down, and early ULID Payoffs. Bond Premiums/Discount expensed due to GASB 65 and economic activity within the District was less than anticipated in 2013. Total liabilities increased by \$42,642 or 0.34% (\$12,398,309 million for 2012 vs. \$12,440,951 million in 2013). This was due to infrastructure improvements and upgrades to the existing system. The District has continued to have an aggressive capital improvement program to insure that infrastructure is dependable and has sufficient capacity to accommodate future growth.

Total net position decreased by \$299,614 or -0.99% (\$30,135,729 million for 2012 vs. \$29,836,116 million in 2013). These changes in net position are largely the result of a less conducive economic environment, a change in GASB Statement No. 65 and a prior period adjustments, that combined reduced our net position.

2013 STATEMENT OF NET POSITION



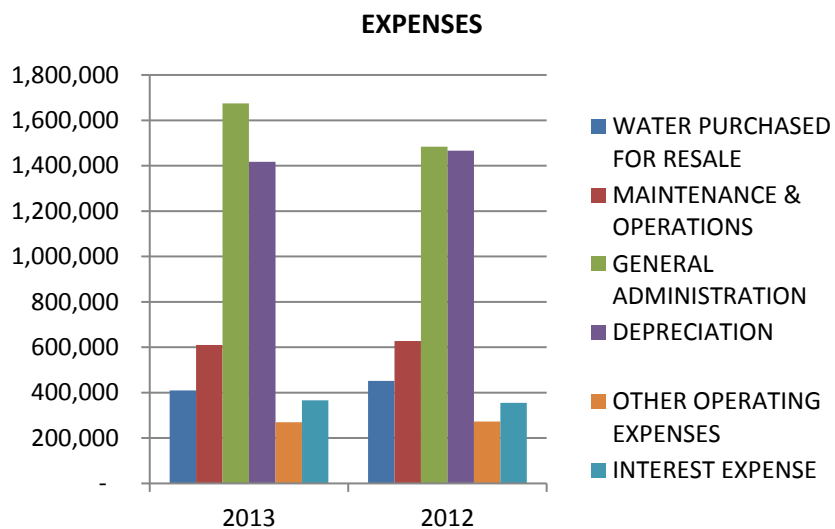
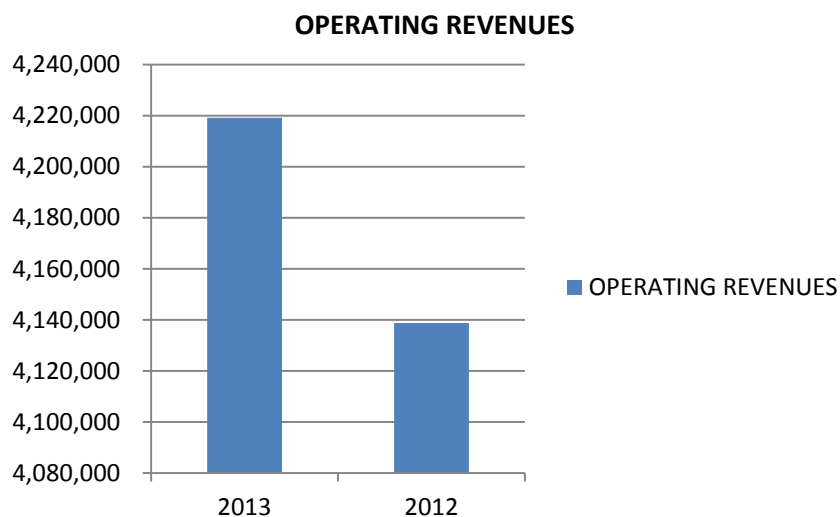
COMPARATIVE STATEMENT OF NET POSITION



Total revenues decreased by \$264,581 or -5.76% (\$4,591,401 million for 2012 vs. \$4,326,820 million in 2013).

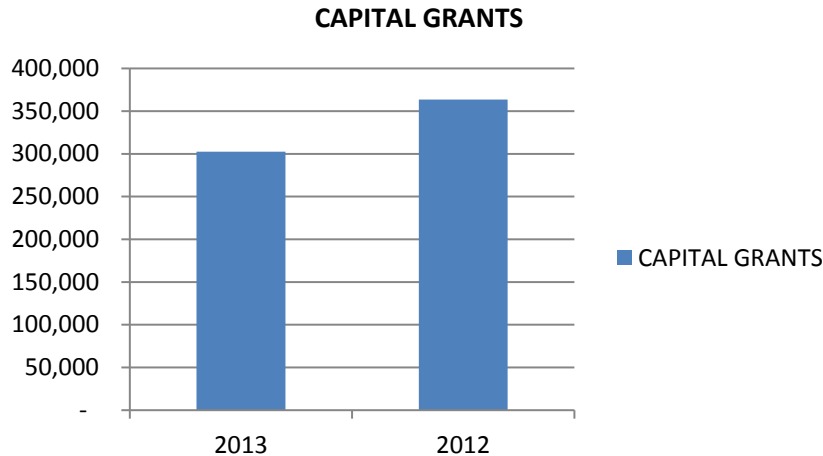
This was due to unseasonably cooler temperatures that impacted water sales as well as ongoing conservation efforts.

Due to employee wages and benefits the total expenses increased by \$90,839 or 1.95% (\$4,655,692 million for 2012 vs. \$4,746,531 million in 2013).



Capital grants include Developer Contributed Systems, a non cash transaction and other capital grants, which include customer payments of connection charges, a cash capital contribution.

Capital grants decreased by \$61,075 or -16.80% (\$363,584 for 2012 vs. \$302,509 in 2013). A less than average economic environment as well as a downturn in new construction decreased capital grants.



CAPITAL ASSETS AND LONG-TERM DEBT

The overall decrease in capital assets of the District in 2013 is due to the depreciation being greater than capital additions.

The following table summarizes the District's capital assets, net of accumulated depreciation for the year ended.

CAPITAL ASSETS, NET OF ACCUMULATED DEPRECIATION

	2013	2012
NET UTILITY PLANT:		
LAND	568,766	568,766
TRANSMISSION AND DISTRIBUTION	30,716,762	30,641,673
BUILDINGS	1,473,219	1,572,770
EQUIPMENT	766,445	718,894
CONSTRUCTION WORK IN PROGRESS	2,286	28,652
TOTAL NET UTILITY PLANT	33,527,477	33,530,756

This year's major additions include:

Main/Service/Valve Replacement	1,241,277
Developer Mains and Hydrants	41,804
Telemetry & Meter Reading Equipment	91,710
Vehicles	55,934

Since many of the projects rehabilitate deteriorating mains and increase the flow within the District, the impact on operating and maintenance is expected to be favorable. New revenue from growth will continue to play a favorable role in the strength of the District.

The District's FY 2014 capital budget plans for investing \$1,500,000 in capital projects include:

- District-wide Small Main Replacements \$ 150,000
- Pipe Reliability and Capacity \$ 1,350,000

The District's plan includes an additional \$1.5 million for main replacements, but will proceed with those only if PWTF loans from the State are received.

The overall decrease in long-term debt in 2013 is due to principal payments made by the District in excess of new borrowing.

Standard and Poors rated the 2010 bond with an AA rating and views this rating as being stable for years to come.

As of December 31, 2013, the District has:

Outstanding revenue bonds in the amount of	\$7,580,000
Outstanding PWTF Loans in the amount of	\$4,187,730
Outstanding Regional Well Note in the amount of	\$16,439

Refer to the **Notes to Financial Statements** for more detail.

OTHER POTENTIALLY SIGNIFICANT MATTERS

The District has experienced lower connection fee income in the past few years as the construction industry stalled with the economic downturn. A cooler than average summer has directly impacted water sales with lower than average water consumed. The resulting loss of income has been the main reason for the downward trend in Districts revenue. The City of East Wenatchee as well as the Douglas County Land and Transportation Department have applied for federal Grant money above and beyond their planned 6 year Transportation Improvement plan (TIP). The results of a successful grant may impact and force the District to make unplanned additions to its infrastructure within these areas. All of these factors combined may force the District to look at increasing its long term debt through future bond sales and/or meter rates.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the District's ratepayers and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the District's Controller at the East Wenatchee Water District, 692 Eastmont Ave, East Wenatchee, WA 98802.

East Wenatchee Water District
Statement of Net Position
December 31, 2014

ASSETS

Current Assets:

Cash and Cash Equivalents	\$ 782,591
Temporary Investments	4,219,617
Receivables (Net):	
Water A/R	266,077
Other A/R	53,026
ULID #1 A/R	14,213
ULID #2 A/R	124,500
Restricted Assets:	
2010 Bond Reserve	190,000
2004 Bond Reserve Fund	460,217
Rate Stabilization Fund	575,000
Inventories	212,100
Prepaid Expenses	67,484
TOTAL CURRENT ASSETS	6,964,825

Non-current Assets:

ULID #1 A/R	71,064
ULID #2 A/R	1,959,708
Unamortized Bond Discount	163
Capital Assets Not Being Depreciated	
Land	642,719
Construction in Progress	290,727
Capital Assets Being Depreciated	
Plant	48,904,203
Buildings	3,048,147
Equipment	3,476,028
Intangibles	69,872
Less Accumulated Depreciation	(23,155,204)
Total Capital Assets (Net)	33,276,492
TOTAL NONCURRENT ASSETS	35,307,428
TOTAL ASSETS	\$ 42,272,252

DEFERRED OUTFLOWS

Deferred Loss on Refunding	69,627
TOTAL DEFERRED OUTFLOWS	\$ 69,627

NOTES TO THIS FINANCIAL STATEMENT ARE AN INTREGAL PART OF THE STATEMENT

East Wenatchee Water District
Statement of Net Position
December 31, 2014

LIABILITIES

Current Liabilities:

Accounts/Vouchers Payable	\$ 19,603
Construction Deposits	51,338
Current Portion LTD Regional Well Note	11,401
Current Portion LTD PWTF Notes	304,022
Current Portion LTD 2010 Bond Note	130,000
Current Portion LTD 2014 Bond Note	435,000
Accrued Interest	115,118
TOTAL CURRENT LIABILITIES	\$ 1,066,482

Noncurrent Liabilities:

Compensated Absences	440,852
PWTF Loans	3,579,687
04 Revenue Bond	580,000
10 Revenue Bond	2,110,000
14 Revenue Bond	4,155,000
Unamortized Bond Premium	242,116
TOTAL NONCURRENT LIABILITIES	11,107,655
TOTAL LIABILITIES	12,174,137

DEFERRED INFLOWS

TOTAL DEFERRED INFLOWS	0
-------------------------------	----------

NET POSITION

Net Investment in Capital Assets	22,143,708
Restricted	1,225,217
Unrestricted	6,798,816
TOTAL NET POSITION	30,167,741

NOTES TO THIS FINANCIAL STATEMENT ARE AN INTREGAL PART OF THE STATEMENT

East Wenatchee Water District
Statement of Net Position
December 31, 2013

ASSETS

Current Assets:

Cash and Cash Equivalents	\$ 99,223
Temporary Investments	4,565,344
Accounts Receivables (Net):	
Water A/R	269,489
Other A/R	17,388
ULID #1 A/R	14,213
ULID #2 A/R	124,500
Restricted Assets	
2010 Bond Reserve	190,000
2004 Bond Reserve Fund	460,217
Rate Stabilization Fund	575,000
Inventories	197,852
Prepaid Expenses	40,545
TOTAL CURRENT ASSETS	<u>6,553,771</u>

Non-current Assets:

Accounts Receivables (Net):	
ULID #1 A/R	85,277
ULID #2 A/R	2,109,033
2004Unamortized Bond Discount	1,511
Capital Assets Not Being Depreciated	
Land	568,767
Construction in Progress	2,286
Capital Assets Being Depreciated	
Plant	52,425,057
Machinery & Equipment	2,365,860
Less Accumulated Depreciation	<u>(21,834,494)</u>
Total Capital Assets (Net)	<u>33,527,475</u>
TOTAL NONCURRENT ASSETS	<u>35,723,296</u>
TOTAL ASSETS	<u><u>\$42,277,067</u></u>

DEFERRED OUTFLOWS

TOTAL DEFERRED OUTFLOWS	<u><u>\$0</u></u>
-------------------------	-------------------

NOTES TO THIS FINANCIAL STATEMENT ARE AN INTREGAL PART OF THE STATEMENT

East Wenatchee Water District
Statement of Net Position
December 31, 2013

LIABILITIES

Current Liabilities:

Accounts Payable	\$ 15,286
Construction Deposits	53,198
Current Portion LTD Regional Well Note	16,439
Current Portion LTD PWTF Notes	304,022
Current Portion LTD 2004 Bond	385,000
Current Portion LTD 2010 Bond	125,000
Accrued Interest	142,253
TOTAL CURRENT LIABILITIES	1,041,198

Non-current Liabilities:

Compensated Absences	436,824
PWTF Loans	3,883,709
2004 Revenue Bond	4,830,000
2010 Revenue Bond	2,240,000
2010 Unamortized Bond Premium	9,220
TOTAL NONCURRENT LIABILITIES	11,399,753
TOTAL LIABILITIES	\$ 12,440,951

DEFERRED INFLOWS

TOTAL DEFERRED INFLOWS	\$0
-------------------------------	------------

NET POSITION

Net Investment in Capital Assets	21,751,014
Restricted	1,225,217
Unrestricted	6,859,884
TOTAL NET POSITION	\$ 29,836,115

NOTES TO THIS FINANCIAL STATEMENT ARE AN INTREGAL PART OF THE STATEMENT

East Wenatchee Water District
Statement of Revenues, Expenses, and Changes in Net Position
For the Year Ended December 31, 2014

OPERATING REVENUES:

Sales of Merchandise	
Utility Sales and Service Fees	\$ 4,386,646
Total Operating Revenue	<u>4,386,646</u>

OPERATING EXPENSES:

Operations:	
General Operations	134,963
Water Purchased for Resale	508,601
Cost of Power	75,603
Maintenance	189,654
Administration:	
General Administration	1,592,934
Depreciation	1,407,153
Property, Excise and B&O Taxes	223,906
Other Operating Expenses	<u>316,213</u>
Total Operating Expenses	<u>4,449,027</u>
OPERATING INCOME (LOSS)	(62,380)

NOTES TO THIS FINANCIAL STATEMENT ARE AN INTREGAL PART OF THE STATEMENT

East Wenatchee Water District
Statement of Revenues, Expenses, and Changes in Net Position
For the Year Ended December 31, 2014

NONOPERATING REVENUES (EXPENSES):	
Interest Income	98,156
Interest Expense	(266,539)
Gains (Losses) on Capital Asset Disposition	12,400
Other Non-operating Revenues	36,886
(Other Non-operating Expenses)	<u>(11,800)</u>
Total Non-operating Revenues (Expenses)	<u>(130,896)</u>
INCOME BEFORE CAPITAL GRANTS	(193,277)
Capital grants	<u>524,903</u>
CHANGE IN NET POSITION:	331,626
TOTAL NET POSITION, January 1	<u>29,836,115</u>
TOTAL NET POSITION, December 31	<u>30,167,741</u>

NOTES TO THIS FINANCIAL STATEMENT ARE AN INTREGAL PART OF THE STATEMENT

East Wenatchee Water District
Statement of Revenues, Expenses, and Changes in Net Position
For the Year Ended December 31, 2013

OPERATING REVENUES:

Sales of Merchandise	
Utility Sales and Service Fees	<u>\$ 4,219,187</u>
Total Operating Revenue	4,219,187

OPERATING EXPENSES:

Operations:	
General Operations	165,081
Water Purchased for Resale	409,430
Cost of Power	68,619
Maintenance	180,422
Administration:	
General Administration	1,674,579
Depreciation	1,417,049
Property, Excise and B&O Taxes	195,713
Other Operating Expenses	<u>269,711</u>
Total Operating Expenses	<u>4,380,604</u>
OPERATING INCOME (LOSS)	(161,417)

NOTES TO THIS FINANCIAL STATEMENT ARE AN INTREGAL PART OF THE STATEMENT

East Wenatchee Water District
Statement of Revenues, Expenses, and Changes in Net Position
For the Year Ended December 31, 2013

NONOPERATING REVENUES (EXPENSES):	
Interest Income	99,981
Interest Expense	(365,927)
Other Non-operating Revenues	7,651
Total Non-operating Revenues (Expenses)	<u>(258,295)</u>
INCOME BEFORE CAPITAL GRANTS	
	(419,712)
Capital grants	<u>302,509</u>
CHANGE IN NET POSITION:	
	(117,202)
ADJUSTMENT FOR RETROSPECTIVE	
APPLICATION OF NEW ACCOUNTING-GASB	(149,787)
PRIOR PERIOD ADJUSTMENTS	(32,594)
TOTAL NET POSITION, January 1	<u>30,135,698</u>
TOTAL NET POSITION, December 31	<u><u>29,836,116</u></u>

NOTES TO THIS FINANCIAL STATEMENT ARE AN INTREGAL PART OF THE STATEMEN

East Wenatchee Water District
Statement of Cash Flows
For the Year Ended December 31, 2014

CASH FLOWS FROM OPERATING ACTIVITIES

Cash received from customers	\$ 4,554,844
Other operating cash receipts	
Cash paid to suppliers	(1,018,656)
Cash paid to employees	(2,057,920)
Net cash provided by operating activities	<u>1,478,268</u>

CASH FLOWS FROM CAPITAL AND RELATED
FINANCING ACTIVITIES

Capital Grants	524,903
Proceeds from bonds issued	4,750,772
Payments on bonds issued	(4,760,000)
Payments on long-term debt	(309,060)
Interest paid	(301,630)
Proceeds from sale of property	26,400
Acquisition of land, facilities and equipment	(1,029,302)
Capitalized wages paid	(140,868)
Net cash used by capital and related financing activities	<u>(1,238,784)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Interest received	98,156
Investments in state pooled funds	(4,708,408)
Proceeds from state pooled funds	<u>5,242,307</u>
	632,056

INCREASE IN CASH 871,540

CASH - BEGINNING 99,223

CASH - ENDING \$ 970,763

NOTES TO THIS FINANCIAL STATEMENT ARE AN INTREGAL PART OF THE STATEMENT

East Wenatchee Water District
Statement of Cash Flows
For the Year Ended December 31, 2014

RECONCILIATION OF NET OPERATING LOSS TO NET
CASH PROVIDED BY OPERATING ACTIVITIES

Net operating income	\$ (62,380)
Non-cash and non-operating income:	
Revenue from construction inspection	36,886
Noncash and nonoperating expenses	
Depreciation	1,407,153
Decrease (increase) in operating assets	
Accounts receivable	131,312
Prepaid expenses	(26,939)
Inventory	(14,248)
Increase (decrease) in operating liabilities	
Accounts payable	<u>6,485</u>
Net cash provided by operating activities	<u><u>\$ 1,478,268</u></u>

NOTES TO THIS FINANCIAL STATEMENT ARE AN INTREGAL PART OF THE STATEMENT

East Wenatchee Water District
Statement of Cash Flows
For the Year Ended December 31, 2013

CASH FLOWS FROM OPERATING ACTIVITIES

Cash received from customers	\$ 4,482,970
Other operating cash receipts	
Cash paid to suppliers	(770,559)
Cash paid to employees	(2,216,929)
Net cash provided by operating activities	<u>1,495,481</u>

CASH FLOWS FROM CAPITAL AND RELATED
FINANCING ACTIVITIES

Capital Grants	302,509
Proceeds from bonds issued	-
Payments on bonds issued	(500,000)
Borrowings from long-term debt	848,055
Payments on long-term debt	(275,818)
Interest paid	(352,885)
Proceeds from sale of property	-
Acquisition of land, facilities and equipment	(1,240,788)
Capitalized wages paid	(172,985)
Net cash used by capital and related financing activities	<u>(1,391,911)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Interest received	101,287
Investments in state pooled funds	(6,112,056)
Proceeds from state pooled funds	5,939,006
	<u>(71,763)</u>

INCREASE IN CASH 31,808

CASH - BEGINNING (As Adjusted) 67,415

CASH - ENDING \$ 99,223

NOTES TO THIS FINANCIAL STATEMENT ARE AN INTREGAL PART OF THE STATEMENT

East Wenatchee Water District
Statement of Cash Flows
For the Year Ended December 31, 2013

RECONCILIATION OF NET OPERATING LOSS TO NET
CASH PROVIDED BY OPERATING ACTIVITIES

Net Operating Income	\$ (182,282)
Non-Cash and Non-Operating Income:	
Revenue from Construction Inspection	6,345
Noncash and Nonoperating Expenses	
Depreciation and Amortization	1,437,915
Decrease (increase) in Operating Assets	
Accounts Receivable	257,438
Prepaid Expenses	(12,850)
Inventory	19,905
Increase (decrease) in Operating Liabilities	
Accounts/Vouchers Payable	<u>30,989</u>
Net cash Provided by Operating Activities	<u><u>1,495,481</u></u>

NOTES TO THIS FINANCIAL STATEMENT ARE AN INTREGAL PART OF THE STATEMENT

**EAST WENATCHEE WATER DISTRICT
OF DOUGLAS COUNTY**

**NOTES TO FINANCIAL STATEMENTS
JANUARY 1, 2014 THRU DECEMBER 31, 2014**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNT POLICIES:

The accounting policies of the East Wenatchee Water District (hereafter noted as district) conform to generally accepted accounting principles (GAAP) as applicable to proprietary funds of governments. The following is a summary of the most significant policies including identification of those policies which result in material departures from generally accepted accounting principles:

A. Reporting Entity:

The district is a municipal corporation governed by an elected three member board. As required by generally accepted accounting principles, management has considered all potential component units in defining the reporting entity. The district has no component units.

B. Basis of Accounting and Presentation:

The accounting records of the district are maintained in accordance with methods prescribed by the State Auditor under the authority of Chapter 43.09 RCW. The district uses the Uniform System of Account for Class A & B Water Utilities.

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

The district distinguishes between operating revenues and expenses from non-operating ones. Operating revenues and expenses result from providing services and producing and delivering goods in connection with a district's principal ongoing operations. The principal operating revenues of the district are charges to customers for meter and water sales. Operating expenses for the district include administrative, cost of water, and maintenance. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Unbilled utility service receivables are not recorded at year end, which is a departure from generally accepted accounting principles.

C. Cash and Cash Equivalents:

For purposes of the statement of cash flows, the district considers all highly liquid investments (excluding restricted and reserve accounts) with a maturity of three month or less when purchased to be cash equivalents.

D. Utility Plant and Depreciation:

Utility plant in service is recorded at cost. Donations by contractors are recorded at contractors cost. When contractor cost is not obtainable, the district estimates the cost based on its own construction costs. The original cost of operating property retired or otherwise disposed of, or the sale of a significant operating

unit or system is handled as follows: the original cost is removed from the utility plant accounts, accumulated depreciation is charged with the accumulated depreciation related to the property sold, and the net gain or loss on disposition is credited or charged to income.

Water mains and service lines are recorded in total dollars in the year they are placed into service. When these assets are abandoned, the plant value is not reduced in that the actual value is not known. It is assumed that the cost of abandoned water line is fully depreciated and that the accumulated depreciation account offsets the abandoned asset and thus decreases the value of the plant.

Depreciation is computed on the straight-line method with useful lives of 5 to 50 years. Initial depreciation on utility plant is not recorded until the following year.

<u>Description</u>	<u>Useful Life</u>
Buildings	30 yrs
Pumps	20 yrs
Reservoirs	50 yrs
Pipe	40 yrs
Meters	7 yrs
Hydrants	50 yrs

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

E. Restricted and Reserved Funds:

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

DEBT SERVICE FUNDS:

2010 Bond Reserve	\$ 190,000
2004 Bond Reserve	\$ 460,217
Rate Stabilization Fund	<u>\$ 575,000</u>
TOTAL	\$ 1,225,217

RESERVED FUNDS:

The District "ear marks" funds as reserved for budget purposes. The current reserved funds are:

Construction Fund	\$ 3,098,518
-------------------	--------------

F. Receivables:

The "Other Accounts Receivable" account is credited when a developer or customer pays a down payment on a requested construction or miscellaneous service. When the construction or service has been completed, the account is debited as earned. The year-end deposits totaled \$51,338 (credit) and the completed projects balance totaled \$53,026(debit).

Uncollectible accounts are expensed as they are determined to be uncollectible. No accounts listed on the statement of net position are considered uncollectible; therefore an allowance has not been established.

The 1999 Bond funded a Utility Local Improvement District (ULID). Resolution No. 471 created this ULID No. 1, as approved and confirmed by Resolution No. 496. There are 20 years of equal installments of principal. The assessment interest rate is fixed at 5.25% per annum. The first installment with interest was due August 6, 2001. There were 19 customers with a total ULID amount of \$876,377.74.

At year end the receivable balance due on the ULID No. 1 was \$85,277. The amount of \$19,436 was paid within the first 30 days of the notice.

The 2010 Bond and PWTF loans, plus other funds, funded a Utility Local Improvement District (ULID). Resolution No. 594 created this ULID No. 2 as approved and confirmed by Resolution No. 613. There are 20 years of equal installments of principal. The assessment interest rate is fixed at 2.9% per annum. The first installment with interest was due October 20, 2011. There were 94 customers with a total ULID amount of \$3,194,771.

At year end the receivable balance due on the ULID No. 2 was \$2,084,208. The amount of \$194,952 was paid within the first 30 days of the notice.

G. Inventories:

Inventories are valued at cost, on a first-in first-out basis. The year-end book to actual inventory adjustment is capitalized to the plant asset accounts based on the years installation percentage mix. The meter inventory adjustment is expensed to meter maintenance. Expected temporary differences are held in an inventory adjustment account until the end of the following year to determine accuracy. A credit balance of \$20,106 was left to clear in 2015.

H. Investments:

All investments of the District funds are in the form of TCD's or passbook accounts with bank and savings and loan associations, or direct obligations of the U.S. Government pursuant to the requirements of Chapter 39.58 R.C.W. Interest income has been accrued for year-end reports. The State of Washington's investment pool is also used at the discretion of the Douglas County Treasurer. Investments are valued at fair value.

I. Compensated Absences:

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

Vacation pay, which may be accumulated up to 300 hours, is payable upon resignation, retirement, or death.

Sick leave may accumulate up to 1,000 hours. For those employees that max out, the District will deposit the monthly overage at the employee's hourly rate into an IRS approved Medical Savings Account (MSA-VEBA). In 2014, there were three employees that qualified at a total cost of \$8,365.

Historically, the District has bought back 25% of an employee's accrued sick leave (250 hour maximum) upon retirement or separation of service. In 2008, this policy was modified so that in the case of a retiree, the balances of the employee's sick leave (remaining 75%, 750 hour maximum) would be deposited into the employee's MSA-VEBA account. This continues to be the case for employees under the age of 65. Beginning in 2012, the balance of an employee's sick leave (remaining 75%, 750 hour maximum), for an employee age 65 or over, will be paid to the employee as a lump sum. It is projected that the cost of the District over the next 15 years will be as follows for each five year block:

Years 2014 - 2018	\$36,000
Years 2019 - 2023	\$11,700
Years 2024 - 2028	\$17,300

The plan has already seen a decrease in the use of sick leave as anticipated.

The District retiree sick leave buy back has an accrual schedule for earning the potential 75% balance. It is as follows:

Years of Service	Percentage
5-10	15%
11-15	25%
16-20	50%
21-25	75%
26-99	100%

On-call/standby compensation is given in the form of comp time. When an employee takes a 7-day on-call/standby shift, he/she is given one day (10 hours) off the week following the on-call/standby week. At the employee's option, the employee can be compensated with 8 hours to "bank" and use as time off at a later date instead of taking 10 hours currently.

J. Deferred Compensation:

The District offers a 3% matching deferred compensation plan to its full time employees. In 2014, 18 of 21 employees participated at a total cost to the District of \$32,450

K. Purchase Commitments:

In the year 2000, an agreement was reached between the City of Wenatchee, Chelan County PUD, and the District to share on a 1/3 basis, the wells being operated as the Regional Water System. The District's buy-in was \$246,485 at 0% interest, over a 15-year contract. This shifted the District's water supply from its existing wells to the water supplied by the Regional system. As of December 31, 2014 the note balance was \$11,401.

NOTE 2 - LONG TERM DEBT:

General Obligation and Revenue Obligation at December 31, 2014 was as follows:

Debt Type	ID. No.	Description	Due Date	Beginning Balance	Additions	Reductions	Ending Balance
General Obligation							
	263.53	Chlorination Equipment Note	07/01/2016	29,368	-	9,789	19,579
	263.53	Regional Well Note	01/01/2015	16,433	-	5,031	11,401
	263.53	CBD/15 th Main Note	07/01/2024	259,407	-	23,582	235,825
	263.53	15 th Booster Pump	07/01/2025	296,051	-	26,914	269,137
	263.53	Grant Rd Main Note	07/01/2025	195,467	-	16,289	179,178
	263.53	Baker Flats Pre Cons	07/01/2027	447,570	-	31,969	415,601
	263.53	Baker Flats ULID	07/01/2027	2,111,811	-	150,844	1,960,968
	263.53	Pipe Reliability	07/01/2032	848,055	-	44,634	803,420
		Total General Obligation:		4,204,162	-	309,052	3,895,109
Revenue Obligation							
	252.11	Revenue Bond 2004	02/01/2024	5,215,000	-	4,635,000	580,000
	252.11	Revenue Bond 2010	01/01/2030	2,365,000	-	125,000	2,240,000
	252.11	Revenue Bond 2014	02/01/2029		4,590,000		4,590,000
		Total Revenue Obligations:		7,580,000	4,590,000	4,760,000	7,410,000
		Total Liabilities:		11,784,162	4,590,000	5,069,052	11,305,109

The annual requirements to amortize all debts as of December 31, 2014 including interest are as follows:

Years Ending December 31			
<i>Year</i>	<i>Interest</i>	<i>Principal</i>	<i>Total</i>
2015	265,824	880,423	1,146,247
2016	250,633	884,022	1,134,655
2017	234,643	874,232	1,108,876
2018	216,593	899,232	1,115,825
2019	194,992	904,232	1,099,224
2020-2024	631,744	4,846,162	5,477,906
2025-2029	169,446	1,722,900	1,892,346
2030-2032	8,539	293,903	302,442

The District's Bond Reserve has been met with a reserve account that will be equal to reserve requirements. There are a number of other limitations and restrictions contained in the various bond indentures. The District is in compliance with all significant limitations and restrictions.

NOTE 3 - DEPOSITS AND INVESTMENTS:

DEPOSITS

The district's deposits and certificates of deposit are covered by the Federal Depository Insurance Corporation (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (PDPC). The district's treasurer is the Douglas County Treasurer and all cash funds are controlled and invested by that office.

INVESTMENTS

As of December 31, 2014 the District had the following investments:

<u>Investments</u>	<u>Value</u>
State investment pool	4,031,792
U.S. Treasuries	<u>1,199,141</u>
Total	5,230,933

NOTE 4 - UTILITY PLANT AND DEPRECIATION:

Major expenses for capital assets, including capital leases and major repairs that increase useful lives, are capitalized. Maintenance, repairs, and minor renewals are accounted for as expenses when incurred. The capitalization threshold amount determining expense or capitalization is \$500.

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

	Beg. Balance	Increase	Decrease	End Balance
UTILITY PLANT NOT BEING DEPRECIATED:				
LAND	568,766	73,953		642,719
CONSTRUCTION IN PROGRESS	2,286	288,441		290,727
TOTAL PLANT NOT BEING DEPRECIATED	571,052	362,394		933,446
UTILITY PLANT BEING DEPRECIATED:				
INTANGIBLES		69,872		69,872
BUILDINGS	3,048,147			3,048,147
EQUIPMENT	3,450,409	126,064	(100,445)	3,476,028
PLANT	48,292,363	611,841		48,904,203
TOTAL PLANT BEING DEPRECIATED	54,790,919	807,777	(100,445)	55,498,250
LESS ACCUMULATED DEPRECIATION FOR:				
BUILDINGS	1,574,928	41,837		1,616,765
EQUIPMENT	2,683,965	182,548	(86,443)	2,780,070
PLANT	17,575,601	1,182,767		18,758,368
TOTAL ACCUMULATED DEPRECIATION	21,834,494	1,407,152	(86,443)	23,155,203
TOTAL UTILITY PLANT BEING DEPRECIATED, NET	32,956,425			32,343,047
TOTAL UTILITY PLANT, NET	33,527,477			33,276,493

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

An allowance for funds used during construction is capitalized as part of the cost of utility plant. While cash is not received currently from such allowance, it is realized under the rate-making process over the service life of the related property through increased revenue resulting from a higher rate base and higher depreciation expense. The procedure is intended to remove the cost of financing construction activity from the income statement and to treat such cost in the same manner as construction labor and material costs.

Depreciation is computed on the straight line method with useful lives of 5 to 50 years. Initial depreciation on utility plant is recorded in the year it is placed in service and charged for one half year of service.

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

The district expenses include impairment losses that may arise. There were no impairment losses to report for 2014.

NOTE 5 - CONSTRUCTION IN PROGRESS:

The district completed over \$194,936 worth of construction in progress, leaving \$290,727 in progress. The following projects were in progress but not under contract at year end.

- 10th Street Reservoir
- Pipe Reliability

NOTE 6 - PENSION PLANS:

Substantially all District full-time and qualifying part-time employees participate in one of the following statewide retirement systems administered by the Washington State Department of Retirement Systems, under cost-sharing multiple-employer public employee defined benefit retirement plans. The Department of Retirement Systems (DRS), a department within the primary government of the State of Washington, issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for each plan. The DRS CAFR may be obtained by writing to: Department of Retirement Systems, Communications Unit, P.O. Box 48380, Olympia, WA 98504-8380; or it may be downloaded from the DRS website at www.drs.wa.gov.

Public Employees' Retirement System (PERS) Plans 1, 2 and 3

Plan Description

The Legislature established PERS in 1947. Membership in the system includes: elected officials; state employees; employees of the Supreme, Appeals, and Superior courts; employees of legislative committees; employees of district and municipal courts; and employees of local governments. Membership also includes higher education employees not participating in higher education retirement programs. Approximately 49 percent of PERS salaries are accounted for by state employment. PERS retirement benefit provisions are established in Chapters 41.34 and 41.40 RCW and may be amended only by the State Legislature.

PERS is a cost-sharing multiple-employer retirement system comprised of three separate plans for membership purposes: Plans 1 and 2 are defined benefit plans and Plan 3 is a defined benefit plan with a defined contribution component.

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

PERS is comprised of and reported as three separate plans for accounting purposes: Plan 1, Plan 2/3, and Plan 3. Plan 1 accounts for the defined benefits of Plan 1 members. Plan 2/3 accounts for the defined benefits of Plan 2 members, and the defined benefit portion of benefits for Plan 3 members. Plan 3 accounts for the defined contribution portion of benefits for Plan 3 members. Although members can only be a member of either Plan 2 or Plan 3, the defined benefit portions of Plan 2 and Plan 3 are accounted for in the same pension trust fund. All assets of this Plan 2/3 may legally be used to pay the defined benefits of any of the Plan 2 or Plan 3 members or beneficiaries, as defined by the terms of the plan. Therefore, Plan 2/3 is considered to be a single plan for accounting purposes.

PERS Plan 1 and Plan 2 retirement benefits are financed from a combination of investment earnings and employer and employee contributions. Employee contributions to the PERS Plan 1 and Plan 2 defined benefit plans accrue interest at a rate specified by the Director of DRS. During DRS' Fiscal Year 2013, the rate was five and one-half percent compounded quarterly. Members in PERS Plan 1 and Plan 2 can elect to withdraw total employee contributions and interest thereon, in lieu of any retirement benefit, upon separation from PERS-covered employment.

PERS Plan 1 members are vested after the completion of five years of eligible service.

PERS Plan 1 members are eligible for retirement from active status at any age with at least 30 years of service, at age 55 with 25 years of service, or at age 60 with at least 5 years of service. Plan 1 members retiring from inactive status prior to the age of 65 may receive actuarially reduced benefits.

The monthly benefit is 2 percent of the average final compensation (AFC) per year of service, but the benefit may not exceed 60 percent of the AFC. The AFC is the monthly average of the 24 consecutive highest-paid service credit months.

PERS Plan 1 retirement benefits are actuarially reduced to reflect the choice, if made, of a survivor option.

Plan 1 members may elect to receive an optional COLA that provides an automatic annual adjustment based on the Consumer Price Index. The adjustment is capped at 3 percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

PERS Plan 1 provides duty and non-duty disability benefits. Duty disability retirement benefits for disablement prior to the age of 60 consist of a temporary life annuity. The benefit amount is \$350 a month, or two-thirds of the monthly AFC, whichever is less. The benefit is reduced by any workers' compensation benefit and is payable as long as the member remains disabled or until the member attains the age of 60, at which time the benefit is converted to the member's service retirement amount.

A member with five years of covered employment is eligible for non-duty disability retirement. Prior to the age of 55, the benefit amount is 2 percent of the AFC for each year of service reduced by 2 percent for each year that the member's age is less than 55. The total benefit is limited to 60 percent of the AFC and is actuarially reduced to reflect the choice of a survivor option. Plan 1 members may elect to receive an optional COLA amount (based on the Consumer Price Index), capped at 3 percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

PERS Plan 2 members are vested after the completion of five years of eligible service. Plan 2 members are eligible for normal retirement at the age of 65 with five years of service. The monthly benefit is 2 percent of the AFC per year of service. The AFC is the monthly average of the 60 consecutive highest-paid service months. There is no cap on years of service credit; and a cost-of-living allowance is granted (based on the Consumer Price Index), capped at 3 percent annually.

PERS Plan 2 members who have at least 20 years of service credit, and are 55 years of age or older, are eligible for early retirement with a reduced benefit. The benefit is reduced by an early retirement factor (ERF) that varies according to age, for each year before age 65.

PERS Plan 2 members who have 30 or more years of service credit and are at least 55 years old can retire under one of two provisions, if hired prior to May 1, 2013:

- With a benefit that is reduced by 3 percent for each year before age 65; or
- With a benefit that has a smaller (or no) reduction (depending on age) that imposes stricter return-to-work rules.

PERS Plan 2 members hired on or after May 1, 2013 have the option to retire early by accepting a reduction of 5 percent for each year of retirement before age 65. This option is available only to those who are age 55 or older and have at least 30 years of service.

PERS Plan 2 retirement benefits are actuarially reduced to reflect the choice, if made, of a survivor option.

PERS Plan 3 has a dual benefit structure. Employer contributions finance a defined benefit component and member contributions finance a defined contribution component. As established by Chapter 41.34 RCW, employee contribution rates to the defined contribution component range from 5 percent to 15 percent of salaries, based on member choice. Members who do not choose a contribution rate default to a 5 percent rate. There are currently no requirements for employer contributions to the defined contribution component of PERS Plan 3.

PERS Plan 3 defined contribution retirement benefits are dependent upon the results of investment activities. Members may elect to self-direct the investment of their contributions. Any expenses incurred in conjunction with self-directed investments are paid by members. Absent a member's self-direction, PERS Plan 3 contributions are invested in the Retirement Strategy Fund that assumes the member will retire at age 65.

For DRS' Fiscal Year 2013, PERS Plan 3 employee contributions were \$99.0 million, and plan refunds paid out were \$69.4 million.

The defined benefit portion of PERS Plan 3 provides members a monthly benefit that is 1 percent of the AFC per year of service. The AFC is the monthly average of the 60 consecutive highest-paid service months. There is no cap on years of service credit, and Plan 3 provides the same cost-of-living allowance as Plan 2.

Effective June 7, 2006, PERS Plan 3 members are vested in the defined benefit portion of their plan after ten years of service; or after five years of service, if twelve months of that service are earned after age 44; or after five service credit years earned in PERS Plan 2 by June 1, 2003. Plan 3 members are immediately vested in the defined contribution portion of their plan.

Vested Plan 3 members are eligible for normal retirement at age 65, or they may retire early with the following conditions and benefits:

- If they have at least ten service credit years and are 55 years old, the benefit is reduced by an ERF that varies with age, for each year before age 65.
- If they have 30 service credit years and are at least 55 years old, and were hired before May 1, 2013, they have the choice of a benefit that is reduced by 3 percent for each year before age 65; or a benefit with a smaller (or no) reduction factor (depending on age) that imposes stricter return-to-work rules.
- If they have 30 service credit years, are at least 55 years old, and were hired after May 1, 2013, they have the option to retire early by accepting a reduction of 5 percent for each year before age 65.

PERS Plan 3 benefits are actuarially reduced to reflect the choice, if made, of a survivor option.

PERS Plan 2 and Plan 3 provide disability benefits. There is no minimum amount of service credit required for eligibility. The Plan 2 monthly benefit amount is 2 percent of the AFC per year of service. For Plan 3, the monthly benefit amount is 1 percent of the AFC per year of service. These disability benefit amounts are actuarially reduced for each year that the member's age is less than 65, and to reflect the choice of a survivor option. There is no cap on years of service credit, and a cost-of-living allowance is granted (based on the Consumer Price Index) capped at 3 percent annually.

PERS members meeting specific eligibility requirements have options available to enhance their retirement benefits. Some of these options are available to their survivors.

A one-time duty-related death benefit is provided to the beneficiary or the estate of a PERS member who dies as a result of injuries sustained in the course of employment, or if the death resulted from an occupational disease or infection that arose naturally and proximately out of the member's covered employment, if found eligible by the Department of Labor and Industries.

From January 1, 2007 through December 31, 2007, judicial members of PERS were given the choice to elect participation in the Judicial Benefit Multiplier (JBM) Program enacted in 2006. Justices and judges in PERS Plan 1 and Plan 2 were able to make an irrevocable election to pay increased contributions that would fund a retirement benefit with a 3.5 percent multiplier. The benefit would be capped at 75 percent of AFC. Judges in PERS Plan 3 could elect a 1.6 percent of pay per year of service benefit, capped at 37.5 percent of AFC.

Newly elected or appointed justices and judges who chose to become PERS members on or after January 1, 2007, or who had not previously opted into PERS membership, were required to participate in the JBM Program.

There are 1,176 participating employers in PERS. Membership in PERS consisted of the following as of the latest actuarial valuation date for the plans of June 30, 2013:

Retirees and beneficiaries receiving benefits	85,328
Terminated plan members entitled to but not yet receiving benefits	31,047
Active plan members vested	150,706
Active plan members nonvested	<u>101,191</u>
Total	368,272

Funding Policy

Each biennium, the state Pension Funding Council adopts PERS Plan 1 employer contribution rates, PERS Plan 2 employer and employee contribution rates, and PERS Plan 3 employer contribution rates. Employee contribution rates for Plan 1 are established by statute at 6 percent for state agencies and local government unit employees, and at 7.5 percent for state government elected officials. The employer and employee contribution rates for Plan 2 and the employer contribution rate for Plan 3 are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. Under PERS Plan 3, employer contributions finance the defined benefit portion of the plan and member contributions finance the defined contribution portion. The Plan 3 employee contribution rates range from 5 percent to 15 percent.

As a result of the implementation of the Judicial Benefit Multiplier Program in January 2007, a second tier of employer and employee rates was developed to fund, along with investment earnings, the increased retirement benefits of those justices and judges that participate in the program.

The methods used to determine the contribution requirements are established under state statute in accordance with Chapters 41.40 and 41.45 RCW.

The required contribution rates expressed as a percentage of current-year covered payroll, as of December 31, 2014, are as follows:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
Employer*	9.21%**	9.21%**	9.21%***
Employee	6.00%****	4.92%****	****

** The employer rates include the employer administrative expense fee currently set at 0.18%.

** The employer rate for state elected officials is 13.73% for Plan 1 and 9.21% for Plan 2 and Plan 3.

*** Plan 3 defined benefit portion only.

*** The employee rate for state elected officials is 7.50% for Plan 1 and 4.92% for Plan 2.

**** Variable from 5.0% minimum to 15.0% maximum based on rate selected by the PERS 3 member.

Both the district and the employees made the required contributions. The District's required contributions for the years ended December 31 were as follows:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
2014	12,924	102,552	0
2013	11,312	95,834	0
2012	9,732	80,578	0

NOTE 7 – UNAMORTIZED DEBTS:

In accordance with generally accepted accounting principles for regulated businesses, the district unamortized bond premiums and discounts and are being amortized over a 20-year life with the total expensed in 2014 of \$7,956

NOTE 8 – RISK MANAGEMENT:

The District is a member of Enduris. Chapter 48.62 RCW provides the exclusive source of local government entity authority to individually or jointly self-insure risks, jointly purchase insurance or reinsurance, and to contract for risk management, claims, and administrative services. Enduris was formed July 10, 1987 pursuant to the provisions of Chapter 48.62 RCW, Chapter 200-100 WAC, and Chapter 39.34 RCW. Two (2) counties

and two (2) cities in the State of Washington joined together by signing an Interlocal Governmental Agreement to fund their self-insured losses and jointly purchase insurance and administrative services. As of August 31, 2014, there are 491 Enduris members representing a broad array of special purpose districts throughout the state.

Enduris members share in the self-insured retention, jointly purchase excess and/or reinsurance coverage and provide risk management services and other related administrative services. Enduris provides “per occurrence” based policies for all lines of liability coverage including Public Official’s Liability. The Property coverage is written on an “all risk”, blanket basis using current Statement of Values. The Property coverage includes but is not limited to mobile equipment, electronic data processing equipment, business interruption, course of construction and additions, property in transit, fine arts, and automobile physical damage to insured vehicles. Boiler and machinery coverage is included on a blanket limit of \$100 million for all members. Enduris offers crime coverage up to a liability limit of \$1,000,000 per occurrence.

Members make an annual contribution to fund Enduris. Enduris acquires reinsurance from unrelated insurance companies on a “per occurrence” basis:

- \$1,000,000 deductible on liability loss - the member is responsible for the first \$1,000 of the deductible amount of each claim, while Enduris is responsible for the remaining \$999,000 on liability loss;
- \$250,000 deductible on property loss - the member is responsible for the first \$5,000 of the deductible amount of each claim, while Enduris is responsible for the remaining \$245,000 on property loss.

Insurance carriers cover all losses over the deductibles as shown on the policy maximum limits. Since Enduris is a cooperative program, there is a joint liability among the participating members.

The contract requires members to continue membership for a period of not less than one (1) year and must give notice 60 days before terminating participation. The Master Agreement (Intergovernmental Contract) is automatically renewed after the initial one (1) full fiscal year commitment. Even after termination, a member is still responsible for contribution to Enduris for any unresolved, unreported and in-process claims for the period they were a signatory to the Master Agreement.

Enduris is fully funded by its member participants. Claims are filed by members with Enduris and are administered in house.

A Board of Directors consisting of seven (7) board members governs Enduris. Its members elect the Board and the positions are filled on a rotating basis. The Board meets quarterly and is responsible for conducting the business affairs of Enduris.

Settlement claims have not exceeded insurance coverage for any of the past three years.

**EAST WENATCHEE WATER DISTRICT
OF DOUGLAS COUNTY**

**NOTES TO FINANCIAL STATEMENTS
JANUARY 1, 2013 THRU DECEMBER 31, 2013**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNT POLICIES:

The accounting policies of the East Wenatchee Water District (hereafter noted as district) conform to generally accepted accounting principles (GAAP) as applicable to proprietary funds of governments. The following is a summary of the most significant policies including identification of those policies which result in material departures from generally accepted accounting principles:

A. Reporting Entity:

The district is a municipal corporation governed by an elected three member board. As required by generally accepted accounting principles, management has considered all potential component units in defining the reporting entity. The district has no component units.

B. Basis of Accounting and Presentation:

The accounting records of the district are maintained in accordance with methods prescribed by the State Auditor under the authority of Chapter 43.09 RCW. The district uses the Uniform System of Account for Class A & B Water Utilities.

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

The district distinguishes between operating revenues and expenses from non-operating ones. Operating revenues and expenses result from providing services and producing and delivering goods in connection with a district's principal ongoing operations. The principal operating revenues of the district are charges to customers for meter and water sales. Operating expenses for the district include administrative, cost of water, and maintenance. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Unbilled utility service receivables are not recorded at year end, which is a departure from generally accepted accounting principles.

C. Cash and Cash Equivalents:

For purposes of the statement of cash flows, the district considers all highly liquid investments (excluding restricted and reserve accounts) with a maturity of three month or less when purchased to be cash equivalents.

D. Utility Plant and Depreciation:

Utility plant in service is recorded at cost. Donations by contractors are recorded at contractors cost. When contractor cost is not obtainable, the district estimates the cost based on its own construction costs.

The original cost of operating property retired or otherwise disposed of, or the sale of a significant operating unit or system is handled as follows: the original cost is removed from the utility plant accounts, accumulated depreciation is charged with the accumulated depreciation related to the property sold, and the net gain or loss on disposition is credited or charged to income.

Water mains and service lines are recorded in total dollars in the year they are placed into service. When these assets are abandoned, the plant value is not reduced in that the actual value is not known. It is assumed that the cost of abandoned water line is fully depreciated and that the accumulated depreciation account offsets the abandoned asset and thus decreases the value of the plant.

Depreciation is computed on the straight-line method with useful lives of 5 to 50 years. Initial depreciation on utility plant is recorded as if it has been in use for one half of the year.

<u>Description</u>	<u>Useful Life</u>
Buildings	30 yrs
Pumps	20 yrs
Reservoirs	50 yrs
Pipe	40 yrs
Meters	7 yrs
Hydrants	50 yrs

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

E. Restricted and Reserved Funds:

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

DEBT SERVICE FUNDS:

2010 Bond Reserve	\$ 190,000
2004 Bond Reserve	\$ 460,217
Rate Stabilization Fund	<u>\$ 575,000</u>
TOTAL	\$ 1,225,217

RESERVED FUNDS:

The District "ear marks" funds as reserved for budget purposes. The current reserved funds are:

Construction Fund	\$ 3,098,518
-------------------	--------------

F. Receivables:

The "Other Accounts Receivable" account is credited when a developer or customer pays a down payment on a requested construction or miscellaneous service. When the construction or service has been completed, the account is debited as earned. The year-end deposits totaled \$53,198 (credit) and the completed projects balance totaled \$17,388 (debit).

Uncollectible accounts are expensed as they are determined to be uncollectible. No accounts listed on the statement of net position are considered uncollectible; therefore an allowance has not been established.

The 1999 Bond funded a Utility Local Improvement District (ULID). Resolution No. 471 created this ULID No. 1, as approved and confirmed by Resolution No. 496. There are 20 years of equal installments of principal. The assessment interest rate is fixed at 5.25% per annum. The first installment with interest was due August 6, 2001. There were 19 customers with a total ULID amount of \$876,377.74.

At year end the receivable balance due on the ULID No. 1 was \$99,509. The amount of \$19,161 was paid within the first 30 days of the notice.

The 2010 Bond and PWTF loans, plus other funds, funded a Utility Local Improvement District (ULID). Resolution No. 594 created this ULID No. 2 as approved and confirmed by Resolution No. 613. There are 20 years of equal installments of principal. The assessment interest rate is fixed at 2.9% per annum. The first installment with interest was due October 20, 2011. There were 94 customers with a total ULID amount of \$3,194,771.

At year end the receivable balance due on the ULID No. 2 was \$2,233,533. The amount of \$156,735 was paid within the first 30 days of the notice.

G. Inventories:

Inventories are valued at cost, on a first-in first-out basis. The year-end book to actual inventory adjustment is capitalized to the plant asset accounts based on the years installation percentage mix. The meter inventory adjustment is expensed to meter maintenance. Expected temporary differences are held in an inventory adjustment account until the end of the following year to determine accuracy. A credit balance of \$19,391 was left to clear in 2014.

H. Investments:

All investments of the District funds are in the form of TCD's or passbook accounts with bank and savings and loan associations, or direct obligations of the U.S. Government pursuant to the requirements of Chapter 39.58 R.C.W. Interest income has been accrued for year-end reports. The State of Washington's investment pool is also used at the discretion of the Douglas County Treasurer. Investments are valued at fair value.

I. Compensated Absences:

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

Vacation pay, which may be accumulated up to 300 hours, is payable upon resignation, retirement, or death.

Sick leave may accumulate up to 1,000 hours. For those employees that max out, the District will deposit the monthly overage at the employee's hourly rate into an IRS approved Medical Savings Account (MSA-VEBA). In 2013, there were four employees that qualified at a total cost of \$10,410.

Historically, the District has bought back 25% of an employee's accrued sick leave (250 hour maximum) upon retirement or separation of service. In 2008, this policy was modified so that in the case of a retiree,

the balances of the employee's sick leave (remaining 75%, 750 hour maximum) would be deposited into the employee's MSA-VEBA account. This continues to be the case for employees under the age of 65. Beginning in 2012, the balance of an employee's sick leave (remaining 75%, 750 hour maximum), for an employee age 65 or over, will be paid to the employee as a lump sum. It is projected that the cost of the District over the next 15 years will be as follows for each five year block:

Years 2014 - 2018	\$36,000
Years 2019 - 2023	\$11,700
Years 2024 - 2028	\$17,300

The plan has already seen a decrease in the use of sick leave as anticipated.

The District retiree sick leave buy back has an accrual schedule for earning the potential 75% balance. It is as follows:

Years of Service	Percentage
5-10	15%
11-15	25%
16-20	50%
21-25	75%
26-99	100%

On-call/standby compensation is given in the form of comp time. When an employee takes a 7-day on-call/standby shift, he/she is given one day (10 hours) off the week following the on-call/standby week. At the employee's option, the employee can be compensated with 8 hours to "bank" and use as time off at a later date instead of taking 10 hours currently.

J. Deferred Compensation:

The District offers a 3% matching deferred compensation plan to its full time employees. In 2013, 18 of 19 employees participated at a total cost to the District of \$36,036

K. Purchase Commitments:

In the year 2000, an agreement was reached between the City of Wenatchee, Chelan County PUD, and the District to share on a 1/3 basis, the wells being operated as the Regional Water System. The District's buy-in was \$246,485 at 0% interest, over a 15-year contract. This shifted the District's water supply from its existing wells to the water supplied by the Regional system. As of December 31, 2013 the note balance was \$16,439.

NOTE 2 - LONG TERM DEBT:

General Obligation and Revenue Obligation at December 31, 2013 was as follows:

Debt Type	ID. No.	Description	Due Date	Beginning Balance	Additions	Reductions	Ending Balance
General Obligation							
	263.53	Chlorination Equipment Note	07/01/2016	39,158	-	9,789	29,368
	263.53	Regional Well Note	01/01/2015	32,864	-	16,432	16,433
	263.53	CBD/15 th Main Note	07/01/2024	282,989	-	23,582	259,407
	263.53	15 th Booster Pump	07/01/2025	322,965	-	26,914	296,051
	263.53	Grant Rd Main Note	07/01/2025	211,756	-	16,289	195,467
	263.53	Baker Flats Pre Cons	07/01/2027	479,539	-	31,969	447,570
	263.53	Baker Flats ULID	07/01/2027	2,262,655	-	150,844	2,111,811
	263.53	Pipe Reliability	07/01/2032		848,055		848,055
		Total General Obligation:		3,631,926	848,055	275,819	4,204,162
Revenue Obligation							
	252.11	Revenue Bond 2004	02/01/2024	5,590,000	-	375,000	5,215,000
	252.11	Revenue Bond 2010	01/01/2030	2,490,000	-	125,000	2,365,000
		Total Revenue Obligations:		8,080,000	-	500,000	7,580,000
		Total Liabilities:		11,711,926	848,055	775,819	11,784,162

The annual requirements to amortize all debts as of December 31, 2013 including interest are as follows:

Years Ending December 31			
<i>Year</i>	<i>Interest</i>	<i>Principal</i>	<i>Total</i>
2014	328,681	830,454	1,159,135
2015	309,954	839,022	1,148,976
2016	288,542	849,022	1,137,564
2017	265,171	854,232	1,119,404
2018	241,070	879,232	1,120,303
2019-2023	794,991	4,691,162	5,486,153
2024-2028	204,269	2,347,498	2,551,767
2029-2033	23,607	493,538	517,145

The District's Bond Reserve has been met with a reserve account that will be equal to reserve requirements. There are a number of other limitations and restrictions contained in the various bond indentures. The District is in compliance with all significant limitations and restrictions.

NOTE 3 - DEPOSITS AND INVESTMENTS:

DEPOSITS

The district's deposits and certificates of deposit are covered by the Federal Depository Insurance Corporation (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (PDPC). The district's treasurer is the Douglas County Treasurer and all cash funds are controlled and invested by that office.

INVESTMENTS

As of December 31, 2013 the District had the following investments:

<u>Investments</u>	<u>Value</u>
State investment pool	2,350,524
U.S. Treasuries	<u>3,288,518</u>
Total	5,639,042

NOTE 4 - UTILITY PLANT AND DEPRECIATION:

Major expenses for capital assets, including capital leases and major repairs that increase useful lives, are capitalized. Maintenance, repairs, and minor renewals are accounted for as expenses when incurred. The capitalization threshold amount determining expense or capitalization is \$500.

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

	Beg. Balance	Increase	Decrease	End Balance
UTILITY PLANT NOT BEING DEPRECIATED:				
LAND	568,766	-		568,766
CONSTRUCTION IN PROGRESS	28,652	1,017,246	1,043,612	2,286
TOTAL PLANT NOT BEING DEPRECIATED	597,418	1,017,246	1,043,612	571,052
UTILITY PLANT BEING DEPRECIATED:				
BUILDINGS	3,048,147	-	-	3,048,147
EQUIPMENT	3,294,289	156,121		3,450,409
PLANT	47,008,346	1,284,016		48,292,363
TOTAL PLANT BEING DEPRECIATED	53,350,782	1,440,137		54,790,919
LESS ACCUMULATED DEPRECIATION FOR:				
BUILDINGS	1,475,377	99,551		1,574,928
EQUIPMENT	2,575,395	108,570		2,683,965
PLANT	16,366,673	1,208,928		17,575,601
TOTAL ACCUMULATED DEPRECIATION	20,417,445	1,417,049		21,834,494
TOTAL UTILITY PLANT BEING DEPRECIATED, NET	32,933,337			32,956,425
TOTAL UTILITY PLANT, NET	33,530,755			33,527,477

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

An allowance for funds used during construction is capitalized as part of the cost of utility plant. While cash is not received currently from such allowance, it is realized under the rate-making process over the service life of the related property through increased revenue resulting from a higher rate base and higher depreciation expense. The procedure is intended to remove the cost of financing construction activity from the income

statement and to treat such cost in the same manner as construction labor and material costs.

Depreciation is computed on the straight line method with useful lives of 5 to 50 years. Initial depreciation on utility plant is recorded in the year it is placed in service and charged for one half year of service.

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

The district expenses include impairment losses that may arise. There were no impairment losses to report for 2013.

NOTE 5 - CONSTRUCTION IN PROGRESS:

The district completed over \$1,043,600 worth of construction in progress, leaving \$2,286 in progress. The following projects were in progress but not under contract at year end.

10th Street Reservoir

NOTE 6 - PENSION PLANS:

Substantially all district full-time and qualifying part-time employees participate in one of the following statewide retirement systems administered by the Washington State Department of Retirement Systems, under cost-sharing multiple-employer public employee defined benefit retirement plans. The Department of Retirement Systems (DRS), a department within the primary government of the State of Washington, issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for each plan. The DRS CAFR may be obtained by writing to: Department of Retirement Systems, Communications Unit, P.O. Box 48380, Olympia, WA 98504-8380; or it may be downloaded from the DRS website at www.drs.wa.gov. The following disclosures are made pursuant to the GASB Statement 27, Accounting for Pensions by State and Local Government Employers and 50, Pension Disclosures, an Amendment of GASB Statements 25 and 27.

Public Employees' Retirement System (PERS) Plans 1, 2 and 3

Plan Description

The Legislature established PERS in 1947. Membership in the system includes: elected officials; state employees; employees of the Supreme, Appeals, and Superior courts; employees of legislative committees; employees of district and municipal courts; and employees of local governments. Membership also includes higher education employees not participating in higher education retirement programs. Approximately 49 percent of PERS salaries are accounted for by state employment. PERS retirement benefit provisions are established in Chapters 41.34 and 41.40 RCW and may be amended only by the State Legislature.

PERS is a cost-sharing multiple-employer retirement system comprised of three separate plans for membership purposes: Plans 1 and 2 are defined benefit plans and Plan 3 is a defined benefit plan with a defined contribution component.

PERS members who joined the system by September 30, 1977 are Plan 1 members. Those who joined on or after October 1, 1977 and by either, February 28, 2002 for state and higher education employees, or August 31, 2002 for local government employees, are Plan 2 members unless they exercised an option to transfer their membership to Plan 3. PERS members joining the system on or after March 1, 2002 for state and higher education employees, or September 1, 2002 for local government employees have the irrevocable option of

choosing membership in either PERS Plan 2 or Plan 3. The option must be exercised within 90 days of employment. Employees who fail to choose within 90 days default to Plan 3.

PERS is comprised of and reported as three separate plans for accounting purposes: Plan 1, Plan 2/3, and Plan 3. Plan 1 accounts for the defined benefits of Plan 1 members. Plan 2/3 accounts for the defined benefits of Plan 2 members, and the defined benefit portion of benefits for Plan 3 members. Plan 3 accounts for the defined contribution portion of benefits for Plan 3 members. Although members can only be a member of either Plan 2 or Plan 3, the defined benefit portions of Plan 2 and Plan 3 are accounted for in the same pension trust fund. All assets of this Plan 2/3 may legally be used to pay the defined benefits of any of the Plan 2 or Plan 3 members or beneficiaries, as defined by the terms of the plan. Therefore, Plan 2/3 is considered to be a single plan for accounting purposes.

PERS Plan 1 and Plan 2 retirement benefits are financed from a combination of investment earnings and employer and employee contributions. Employee contributions to the PERS Plan 1 and Plan 2 defined benefit plans accrue interest at a rate specified by the Director of DRS. During DRS' Fiscal Year 2013, the rate was five and one-half percent compounded quarterly. Members in PERS Plan 1 and Plan 2 can elect to withdraw total employee contributions and interest thereon, in lieu of any retirement benefit, upon separation from PERS-covered employment.

PERS Plan 1 members are vested after the completion of five years of eligible service.

PERS Plan 1 members are eligible for retirement from active status at any age with at least 30 years of service, at age 55 with 25 years of service, or at age 60 with at least 5 years of service. Plan 1 members retiring from inactive status prior to the age of 65 may receive actuarially reduced benefits.

The monthly benefit is 2 percent of the average final compensation (AFC) per year of service, but the benefit may not exceed 60 percent of the AFC. The AFC is the monthly average of the 24 consecutive highest-paid service credit months.

PERS Plan 1 retirement benefits are actuarially reduced to reflect the choice, if made, of a survivor option.

Plan 1 members may elect to receive an optional COLA that provides an automatic annual adjustment based on the Consumer Price Index. The adjustment is capped at 3 percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

PERS Plan 1 provides duty and non-duty disability benefits. Duty disability retirement benefits for disablement prior to the age of 60 consist of a temporary life annuity. The benefit amount is \$350 a month, or two-thirds of the monthly AFC, whichever is less. The benefit is reduced by any workers' compensation benefit and is payable as long as the member remains disabled or until the member attains the age of 60, at which time the benefit is converted to the member's service retirement amount.

A member with five years of covered employment is eligible for non-duty disability retirement. Prior to the age of 55, the benefit amount is 2 percent of the AFC for each year of service reduced by 2 percent for each year that the member's age is less than 55. The total benefit is limited to 60 percent of the AFC and is actuarially reduced to reflect the choice of a survivor option. Plan 1 members may elect to receive an optional COLA amount (based on the Consumer Price Index), capped at 3 percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

PERS Plan 2 members are vested after the completion of five years of eligible service. Plan 2 members are eligible for normal retirement at the age of 65 with five years of service. The monthly benefit is 2 percent of the AFC per year of service. The AFC is the monthly average of the 60 consecutive highest-paid service months.

There is no cap on years of service credit; and a cost-of-living allowance is granted (based on the Consumer Price Index), capped at 3 percent annually.

PERS Plan 2 members who have at least 20 years of service credit, and are 55 years of age or older, are eligible for early retirement with a reduced benefit. The benefit is reduced by an early retirement factor (ERF) that varies according to age, for each year before age 65.

PERS Plan 2 members who have 30 or more years of service credit and are at least 55 years old can retire under one of two provisions, if hired prior to May 1, 2013:

- With a benefit that is reduced by 3 percent for each year before age 65; or
- With a benefit that has a smaller (or no) reduction (depending on age) that imposes stricter return-to-work rules.

PERS Plan 2 members hired on or after May 1, 2013 have the option to retire early by accepting a reduction of 5 percent for each year of retirement before age 65. This option is available only to those who are age 55 or older and have at least 30 years of service.

PERS Plan 2 retirement benefits are actuarially reduced to reflect the choice, if made, of a survivor option.

PERS Plan 3 has a dual benefit structure. Employer contributions finance a defined benefit component and member contributions finance a defined contribution component. As established by Chapter 41.34 RCW, employee contribution rates to the defined contribution component range from 5 percent to 15 percent of salaries, based on member choice. Members who do not choose a contribution rate default to a 5 percent rate. There are currently no requirements for employer contributions to the defined contribution component of PERS Plan 3.

PERS Plan 3 defined contribution retirement benefits are dependent upon the results of investment activities. Members may elect to self-direct the investment of their contributions. Any expenses incurred in conjunction with self-directed investments are paid by members. Absent a member's self-direction, PERS Plan 3 contributions are invested in the Retirement Strategy Fund that assumes the member will retire at age 65.

For DRS' Fiscal Year 2013, PERS Plan 3 employee contributions were \$99.0 million, and plan refunds paid out were \$69.4 million.

NOTE 6 - PENSION PLANS: - continued

The defined benefit portion of PERS Plan 3 provides members a monthly benefit that is 1 percent of the AFC per year of service. The AFC is the monthly average of the 60 consecutive highest-paid service months. There is no cap on years of service credit, and Plan 3 provides the same cost-of-living allowance as Plan 2.

Effective June 7, 2006, PERS Plan 3 members are vested in the defined benefit portion of their plan after ten years of service; or after five years of service, if twelve months of that service are earned after age 44; or after five service credit years earned in PERS Plan 2 by June 1, 2003. Plan 3 members are immediately vested in the defined contribution portion of their plan.

Vested Plan 3 members are eligible for normal retirement at age 65, or they may retire early with the following conditions and benefits:

- If they have at least ten service credit years and are 55 years old, the benefit is reduced by an ERF that varies with age, for each year before age 65.
- If they have 30 service credit years and are at least 55 years old, and were hired before May 1, 2013, they have the choice of a benefit that is reduced by 3 percent for each year before age 65; or a benefit with a smaller (or no) reduction factor (depending on age) that imposes stricter return-to-work rules.
- If they have 30 service credit years, are at least 55 years old, and were hired after May 1, 2013, they have the option to retire early by accepting a reduction of 5 percent for each year before age 65.

PERS Plan 3 benefits are actuarially reduced to reflect the choice, if made, of a survivor option.

PERS Plan 2 and Plan 3 provide disability benefits. There is no minimum amount of service credit required for eligibility. The Plan 2 monthly benefit amount is 2 percent of the AFC per year of service. For Plan 3, the monthly benefit amount is 1 percent of the AFC per year of service. These disability benefit amounts are actuarially reduced for each year that the member's age is less than 65, and to reflect the choice of a survivor option. There is no cap on years of service credit, and a cost-of-living allowance is granted (based on the Consumer Price Index) capped at 3 percent annually.

PERS members meeting specific eligibility requirements have options available to enhance their retirement benefits. Some of these options are available to their survivors.

A one-time duty-related death benefit is provided to the beneficiary or the estate of a PERS member who dies as a result of injuries sustained in the course of employment, or if the death resulted from an occupational disease or infection that arose naturally and proximately out of the member's covered employment, if found eligible by the Department of Labor and Industries.

From January 1, 2007 through December 31, 2007, judicial members of PERS were given the choice to elect participation in the Judicial Benefit Multiplier (JBM) Program enacted in 2006. Justices and judges in PERS Plan 1 and Plan 2 were able to make an irrevocable election to pay increased contributions that would fund a retirement benefit with a 3.5 percent multiplier. The benefit would be capped at 75 percent of AFC. Judges in PERS Plan 3 could elect a 1.6 percent of pay per year of service benefit, capped at 37.5 percent of AFC.

Newly elected or appointed justices and judges who chose to become PERS members on or after January 1, 2007, or who had not previously opted into PERS membership, were required to participate in the JBM Program.

There are 1,176 participating employers in PERS. Membership in PERS consisted of the following as of the latest actuarial valuation date for the plans of June 30, 2012:

Retirees and beneficiaries receiving benefits	82,242
Terminated plan members entitled to but not yet receiving benefits	30,515
Active plan members vested	106,317
Active plan members not vested	44,273
Total	<u>263,347</u>

Funding Policy

Each biennium, the state Pension Funding Council adopts PERS Plan 1 employer contribution rates, PERS Plan 2 employer and employee contribution rates, and PERS Plan 3 employer contribution rates. Employee contribution rates for Plan 1 are established by statute at 6 percent for state agencies and local government unit employees, and at 7.5 percent for state government elected officials. The employer and employee contribution rates for Plan 2 and the employer contribution rate for Plan 3 are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. Under PERS Plan 3, employer contributions finance the defined benefit portion of the plan and member contributions finance the defined contribution portion. The Plan 3 employee contribution rates range from 5 percent to 15 percent.

As a result of the implementation of the Judicial Benefit Multiplier Program in January 2007, a second tier of employer and employee rates was developed to fund, along with investment earnings, the increased retirement benefits of those justices and judges that participate in the program

The methods used to determine the contribution requirements are established under state statute in accordance with Chapters 41.40 and 41.45 RCW.

The required contribution rates expressed as a percentage of current-year covered payroll, as of December 31, 2013, were as follows:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
Employer*	9.21%**	9.21%**	9.21%***
Employee	6.00%****	4.92%****	****

** The employer rates include the employer administrative expense fee currently set at 0.18%.

** The employer rate for state elected officials is 13.73% for Plan 1 and 9.21% for Plan 2 and Plan 3.

*** Plan 3 defined benefit portion only.

*** The employee rate for state elected officials is 7.50% for Plan 1 and 4.92% for Plan 2.

**** Variable from 5.0% minimum to 15.0% maximum based on rate selected by the PERS 3 member.

Both the district and the employees made the required contributions. The District's required contributions for the years ended December 31 were as follows:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
2013	11,312	95,834	0
2012	9,732	80,578	0
2011	8,305	67,930	0

NOTE 7 – UNAMORTIZED DEBTS:

In accordance with generally accepted accounting principles for regulated businesses, the district unamortized bond premiums and discounts and are being amortized over a 20-year life with the total expensed in 2013 of \$20,866.

NOTE 8 – RISK MANAGEMENT:

The district is a member of Enduris. Chapter 48.62 RCW provides the exclusive source of local governmental entity authority to individually or jointly self-insure risks, jointly purchase insurance or reinsurance, and to contract for risk management, claims, and administrative services. Enduris was formed July 10, 1987 pursuant to the provisions of Chapter 48.62 RCW, Chapter 200-100 WAC, and Chapter 39.34 RCW. Two (2) counties and two (2) cities in the State of Washington joined together by signing an Interlocal Governmental Agreement

to fund their self-insured losses and jointly purchase insurance and administrative services. As of August 31, 2013, there are 486 Enduris members representing a broad array of special purpose districts throughout the state.

Enduris members share in the self-insured retention, jointly purchase excess and/or reinsurance coverage and provide risk management services and other related administrative services. Enduris provides “per occurrence” based policies for all lines of liability coverage including Public Official’s Liability. The Property coverage is written on an “all risk”, blanket basis using current Statement of Values. The Property coverage includes but is not limited to mobile equipment, electronic data processing equipment, business interruption, course of construction and additions, property in transit, fine arts, and automobile physical damage to insured vehicles. Boiler and machinery coverage is included on a blanket limit of \$100 million for all members. Enduris offers employee dishonesty coverage up to a liability limit of \$1,000,000.

Members make an annual contribution to fund Enduris. Enduris acquires reinsurance from unrelated insurance companies on a “per occurrence” basis:

- \$1,000,000 deductible on liability loss - the member is responsible for the first \$1,000 of the deductible amount of each claim, while Enduris is responsible for the remaining \$999,000 on liability loss;
 - \$250,000 deductible on property loss - the member is responsible for the first \$5,000 of the deductible amount of each claim, while Enduris is responsible for the remaining \$245,000 on property loss.
- Enduris is responsible for \$0 deductible on boiler and machinery loss.

Insurance carriers cover all losses over the deductibles as shown to the policy maximum limits. Since Enduris is a cooperative program, there is a joint liability among the participating members.

The contract requires members to continue membership for a period of not less than one (1) year and must give notice 60 days before terminating participation. The Master Agreement (Intergovernmental Contract) is automatically renewed after the initial one (1) full fiscal year commitment. Even after termination, a member is still responsible for contribution to Enduris for any unresolved, unreported and in-process claims for the period they were a signatory to the Master Agreement.

Enduris is fully funded by its member participants. Claims are filed by members with Enduris and are administered in house.

A Board of Directors consisting of seven (7) board members governs Enduris. Its members elect the Board and the positions are filled on a rotating basis. The Board meets quarterly and is responsible for conducting the business affairs of Enduris.

Settlement claims have not exceeded insurance coverage for any of the past three years.

NOTE 9 – RETROSPECTIVE APPLICATION OF NEW ACCOUNTING PRINCIPLE:

In 2013, the District adopted GASB Statement No. 65, Items Previously Reported as Assets and Liabilities, which requires debt issue costs to be recognized as expense in the period incurred. The financial statements have been retroactively restated for the change, which resulted in a decrease in the change of net position of \$149,787. Net position at the beginning of the year has been adjusted for the retroactive application of the new standard.

NOTE 10 – PRIOR PERIOD ADJUSTMENTS:

During preparation of financial statements for the year ending December 31, 2013, it was discovered that there were several errors that have accumulated from past presentations.

Accumulated depreciation, as reported in prior years, does not agree to the depreciation schedule. It appears that upon disposal of one or more assets, the accumulated depreciation was not reduced appropriately. This results in a reduction to accumulated depreciation and an increase in net assets in the amount of \$47,661

In 2010, a bond which financed Baker Flats Water main and Reservoir was refunded in order to obtain more beneficial interest rates. The debt issue costs related to the initial bond were not expensed at the time of refunding. This resulted in a reduction to bond fees as well as a reduction to net assets in the amount of \$42,642

Over several previous years, the reconciliation of bank accounts has not been balanced to outside records. Both an external bank and the Douglas County Treasurers office hold funds for the District, and provide monthly activity reports. The activity for these accounts was grouped together in the District accounting records, with an unreconciled allowance for items outstanding or not recorded. At the end of 2013, these accounts were separated and reconciled completely, resulting in \$37,614 in past expenses being identified as not posted accurately. This results in a reduction of cash and a reduction in net assets of the above amount.

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	
Deputy Director for Communications	Adam Wilson Adam.Wilson@sao.wa.gov (360) 902-0367
Public Records requests	PublicRecords@sao.wa.gov
Main telephone	(360) 902-0370
Toll-free Citizen Hotline	(866) 902-3900
Website	www.sao.wa.gov