



Washington State Auditor's Office

Government that works for citizens

Financial Statements Audit Report

Birch Bay Water and Sewer District

Whatcom County

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

Published May 19, 2016

Report No. 1016730





Washington State Auditor's Office

May 19, 2016

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

Report on Financial Statements

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

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

Sincerely,

A handwritten signature in black ink that reads "Troy X. Kelley". The signature is written in a cursive style.

TROY KELLEY
STATE AUDITOR
OLYMPIA, WA

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

**Birch Bay Water and Sewer District
Whatcom County
January 1, 2014 through December 31, 2015**

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the Birch Bay Water and Sewer District, Whatcom County, Washington, as of and for the years ended December 31, 2014 and 2015, and the related notes to the financial statements, which collectively comprise the District's financial statements, and have issued our report thereon dated May 12, 2016.

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

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

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

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

COMPLIANCE AND OTHER MATTERS

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

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

PURPOSE OF THIS REPORT

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

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

A handwritten signature in black ink that reads "Troy X. Kelley". The signature is written in a cursive, flowing style.

TROY KELLEY
STATE AUDITOR
OLYMPIA, WA

May 12, 2016

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Birch Bay Water and Sewer District Whatcom County January 1, 2014 through December 31, 2015

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

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the Birch Bay Water and Sewer District, Whatcom County, Washington, for the years ended December 31, 2014 and 2015, and the related notes to the financial statements, which collectively comprise the District's financial statements, as listed on page 11.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express 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 opinions.

Unmodified Opinion on Regulatory Basis of Accounting (BARS Manual)

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position and results of operations of the Birch Bay Water and Sewer District, for the years ended December 31, 2014 and 2015, on the basis of accounting described in Note 1.

Basis for Adverse Opinion on U.S. GAAP

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

Adverse Opinion on U.S. GAAP

The financial statements referred to above were not intended to, and in our opinion they do not, present fairly, in accordance with accounting principles generally accepted in the United States

of America, the financial position of the Birch Bay Water and Sewer District, as of December 31, 2014 and 2015, or the changes in financial position or cash flows for the years then ended, due to the significance of the matter discussed in the above “Basis for Adverse Opinion on U.S. GAAP” paragraph.

Other Matters

Supplementary and Other Information

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

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated May 12, 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.

A handwritten signature in cursive script that reads "Troy X. Kelley". The signature is written in dark ink and is positioned above the printed name.

TROY KELLEY
STATE AUDITOR
OLYMPIA, WA

May 12, 2016

FINANCIAL SECTION

**Birch Bay Water and Sewer District
Whatcom County
January 1, 2014 through December 31, 2015**

FINANCIAL STATEMENTS

Fund Resources and Uses Arising from Cash Transactions – 2015
Fund Resources and Uses Arising from Cash Transactions – 2014
Notes to Financial Statements – 2015
Notes to Financial Statements – 2014

SUPPLEMENTARY AND OTHER INFORMATION

Schedule of Liabilities – 2015
Schedule of Liabilities – 2014

**Birch Bay Water and Sewer District
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2015**

Beginning Cash and Investments

30810	Reserved	-
30880	Unreserved	1,828,037
388 & 588	Prior Period Adjustments, Net	-

Operating Revenues

310	Taxes	-
320	Licenses and Permits	-
330	Intergovernmental Revenues	18,898
340	Charges for Goods and Services	4,123,622
350	Fines and Penalties	4,059
360	Miscellaneous Revenues	67,950
Total Operating Revenues:		4,214,530

Operating Expenditures

530	Utilities	2,976,921
598	Miscellaneous Expenses	-
Total Operating Expenditures:		2,976,921
Net Operating Increase (Decrease):		1,237,609

Nonoperating Revenues

370-380, 395 & 398	Other Financing Sources	298,644
391-393	Debt Proceeds	54,056
397	Transfers-In	-
Total Nonoperating Revenues:		352,700

Nonoperating Expenditures

580, 596 & 599	Other Financing Uses	618
591-593	Debt Service	443,003
594-595	Capital Expenditures	501,821
597	Transfers-Out	-
Total Nonoperating Expenditures:		945,442

Net Increase (Decrease) in Cash and Investments: **644,867**

Ending Cash and Investments

5081000	Reserved	-
5088000	Unreserved	2,472,904
Total Ending Cash and Investments		2,472,904

The accompanying notes are an integral part of this statement.

Birch Bay Water and Sewer District
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2014

Beginning Cash and Investments

30810	Reserved	-
30880	Unreserved	2,229,110
388 & 588	Prior Period Adjustments, Net	-

Operating Revenues

310	Taxes	-
320	Licenses and Permits	-
330	Intergovernmental Revenues	5,000
340	Charges for Goods and Services	3,720,905
350	Fines and Penalties	1,832
360	Miscellaneous Revenues	106,168
Total Operating Revenues:		3,833,904

Operating Expenditures

530	Utilities	2,918,422
Total Operating Expenditures:		2,918,422
Net Operating Increase (Decrease):		915,482

Nonoperating Revenues

370-380, 395 & 398	Other Financing Sources	149,772
391-393	Debt Proceeds	1,456,348
397	Transfers-In	-
Total Nonoperating Revenues:		1,606,120

Nonoperating Expenditures

580, 596 & 599	Other Financing Uses	79,839
591-593	Debt Service	415,945
594-595	Capital Expenditures	2,426,892
597	Transfers-Out	-
Total Nonoperating Expenditures:		2,922,677

Net Increase (Decrease) in Cash and Investments: **(401,074)**

Ending Cash and Investments

5081000	Reserved	-
5088000	Unreserved	1,828,037
Total Ending Cash and Investments		1,828,037

The accompanying notes are an integral part of this statement.

Birch Bay Water & Sewer District

For the Year Ended December 31, 2015

Note 1 - Summary of Significant Accounting Policies

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

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

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

A. Fund Accounting

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

PROPRIETARY FUND TYPE:

Enterprise Funds

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

B. Basis of Accounting and Measurement Focus

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

C. Budgets

It has been the policy of the Board of Commissioners that the Board adopt a Budget and Capital Improvement Plan (CIP) to direct District spending each calendar year. The District adopts annual appropriated budgets for the water & sewer fund on the same basis of accounting as used for financial reporting. The budget is appropriated at the fund level. The budget constitutes the legal authority for expenditures at that level. Annual appropriations for this fund lapses at the fiscal year end.

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

Fund/Department	Final Appropriated	Actual Expenditures	Variance
Water & Sewer Fund			
Operations	\$3,267,349	\$2,976,921	\$ 290,428
Capital	\$2,499,708	\$ 501,821	\$1,997,887
Debt	\$ 443,016	\$ 443,003	\$ 13
Total Water and Sewer Fund	\$6,210,063	\$3,921,745	\$2,288,318

Budgeted amounts are authorized to be transferred between departments within the fund and object classes within departments; however, any revisions that alter the total expenditures of a fund, or that affect the number of authorized employee positions, salary ranges, hours, or other conditions of employment must be approved by the District's legislative body. All CIP projects will be included in the Annual Budget document and budget expenditures managed during the year on a CIP level.

D. Cash and Investments

See Note 2, *Deposits and Investments*.

E. Capital Assets

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

F. Compensated Absences

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

G. Long-Term Debt

See Note 3, *Debt Service Requirements*.

H. Other Financing Sources or Uses

The government's *Other Financing Sources* or *Uses* consist of debt proceeds and service, and contractual agreements.

I. Risk Management

The Birch Bay Water and Sewer District is a member of the Water and Sewer Risk Management Pool (Pool). Chapter 48.62 RCW authorizes the governing body of any one or more governmental entities to form together into or join a pool or organization for the joint purchasing of insurance, and/or joint self-insuring, and/or joint hiring or contracting for risk management services to the same extent that they may individually purchase insurance, self-insurance, or hire or contract for risk management services. An agreement to form a pooling arrangement was made pursuant to the provisions of Chapter 39.34 RCW, the Interlocal Cooperation Act. The Pool was formed in November 1987 when water and sewer districts in the State of Washington joined together by signing an Interlocal Governmental Agreement to pool their self-insured losses and jointly purchase insurance and administrative services. The Pool currently has 68 members. The Pool's fiscal year is November 1st through October 31st.

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

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

TYPE OF COVERAGE	MEMBER DEDUCTIBLE	SELF-INSURED RETENTION	EXCESS LIMITS
Property Loss:			
Buildings and Contents	\$1,000 - \$25,000 and See (C) below	\$25,000	\$1,000,000,000
Flood	See (A) below	See (A) below	\$50,000,000
Earthquake	See (B) below	See (B) below	\$75,000,000 (\$25,000,000 dedicated to Alderwood and \$50,000,000 shared by all members)
Terrorism	\$1,000 - \$25,000	\$25,000 Primary layer	\$100,000,000 Primary layer
Boiler & Machinery	\$1,000 - \$350,000 depending on object	\$25,000 - \$350,000 depending on object	\$100,000,000
Auto - Physical Damage	\$1,000-\$25,000	\$25,000	\$10,000,000
Liability:			
Commercial General Liability	\$1,000 - \$25,000	\$200,000	\$10,000,000
Auto Liability	\$1,000 - \$25,000	\$200,000	\$10,000,000
Public Officials Errors and Omissions	\$1,000 - \$25,000	\$200,000	\$10,000,000
Employment Practices	\$1,000 - \$25,000	\$200,000	\$10,000,000
Other:			
Public Officials Bonds	Various	N/A	Various
Crime	\$1,000 - \$25,000	\$25,000	\$2,000,000
Identity Fraud	\$0	\$25,000	\$0
A. \$100,000 member deductibles, per occurrence, in Flood zones except Zones A&V; \$250,000 member deductible per occurrence, in Flood Zones A&V.			
B. Member deductible for earthquakes is 5% subject to \$100,000 minimum Earthquake Shock. If the stated deductible is on a percentage basis, the deductible will apply per occurrence on a per unit basis, as defined in the policy form, subject to the stated minimum.			
C. Member deductible for Cyber liability is \$100,000 and where applicable the dollar amount of the business interruption loss during the policy's required 8 hour waiting period			

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

Upon joining, the members contract to remain in the Pool for one full policy period. Following completion of one full policy period, members must give six months notice before terminating participation (e.g. to withdraw from the Pool on November 1, 2016, written notice must be in possession of the Pool by April 30, 2016). The Interlocal Governmental Agreement is renewed automatically each year. Even after termination of relationship with the Pool, a member is still responsible for contributions to the Pool for any unresolved, unreported, and in process claims, for the period that the District was a signatory to the Interlocal Governmental Agreement.

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

The Pool is governed by a Board of Directors, which is comprised of one designated representative from each participating member. An Executive Committee is elected at the annual meeting, and is responsible for overseeing the business affairs of the Pool and providing policy direction to the Pool's Executive Director. The Financial Statements for the Pool can be found at <http://www.wsrmp.org/members/reports.php>

The District self insures unemployment compensation for employees. Actual claims for former employee benefits are paid through the State of Washington Employment Security Department and then the District is billed for reimbursement. This self-insurance program, for 2015, cost the District nothing in benefit claim reimbursements.

Note 2 – Deposits and Investments

Deposits and Investments

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

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

Investments are presented at cost. Investments by type at December 31, 2015 are as follows:

Type of Investment	District's Own Investments	Investments held by the District as an agent for other local governments, individuals or private organizations	Total
LGIP	\$ 2,364,759.33	\$ -	\$ 2,364,759.33
Total	\$ 2,364,759.33		\$ 2,364,759.33

Note 3 – Debt Service Requirements

The accompanying Schedule of Liabilities (09) provides more details of the outstanding debt and liabilities of the District and summarizes the District's debt transactions for year ended December 31, 2015.

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

	Principal	Interest	Total Debt
2016	\$ 409,404	\$ 24,782	\$ 434,186
2017	\$ 409,404	\$ 23,276	\$ 432,680
2018	\$ 409,404	\$ 21,181	\$ 430,585
2019	\$ 409,404	\$ 19,087	\$ 428,491
2020	\$ 409,404	\$ 16,992	\$ 426,396
2021-2025	\$ 1,885,133	\$ 53,540	\$ 1,938,673
2026-2030	\$ 523,829	\$ 19,119	\$ 542,948
2031-2035	\$ 381,096	\$ 7,686	\$ 388,782
2036	\$ 74,947	\$ 375	\$ 75,322
TOTALS	\$ 4,912,025	\$ 186,038	\$ 5,098,063

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

Note 4 - Pension Plans

A. State Sponsored Pension Plans

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

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

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

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

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

At June 30, 2015 the District's proportionate share of the collective net pension liabilities, as reported on the Schedule 09, was as follows:

	Allocation %	Liability
PERS1	.002944	\$ 153,999
Plan 1 UAAL	.008916	\$ 466,390
PERS 2 and 3	.011526	\$ 411,831
Total		\$1,032,219

Note 5 – Other Disclosures

During 2015 the District began work on a water main line replacement project on the Blaine Road. This project was necessary because of the age of the waterline. Two sections of waterline are contained within this project, the first is from Double R Ranch to Bay Road and the second is the section of Sunday Harbor to Birch Bay Lynden. The work on this Blaine Road water main line replacement is expected to continue through 2017. In August 2015 the District terminated it's Federal loan funding (DM13-952-122) on the section of Double R Ranch to Bay Road. The District accessed other financing which was more advantageous to the District ratepayers.

Note 6 – Subsequent Events

During December 2015 the District received notification from the State of Washington Department of Ecology of a pending grant award for \$700,000. The District anticipates a final grant agreement by the end of April 2016. The draft grant tasks during 2016-17 will include the City of Blaine and the District jointly investigating a project to enhance flows in the Nooksack basin by: (1) delivery of potable groundwater from the Blaine Groundwater Management Area to the Dakota basin and/or Nooksack basin and the Cherry Point Industrial Area; (2) delivery of potable and/or reclaimed water from the Blaine water reclamation and BBWSD wastewater treatment facilities to the Cherry Point Industrial Area. The grant tasks will also include drilling up to 4 monitoring/exploration/production wells in the Blaine Groundwater Management Area and a feasibility study to review models for establishing a regional governance model in the lower Nooksack region. Administration of a water bank or mitigation exchange activities will be an element of the eventual governance structure established to manage the regional system.

Birch Bay Water & Sewer District

For the Year Ended December 31, 2014

Note 1 - Summary of Significant Accounting Policies

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

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

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

A. Fund Accounting

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

PROPRIETARY FUND TYPE:

Enterprise Funds

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

B. Basis of Accounting and Measurement Focus

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

C. Budgets

It has been the policy of the Board of Commissioners that the Board adopt a Budget and Capital Improvement Plan (CIP) to direct District spending each calendar year. The District adopts annual appropriated budgets for the water & sewer fund on the same basis of accounting as used for financial reporting. The budget is appropriated at the fund. The budget constitutes the legal authority for expenditures at that level. Annual appropriations for this fund lapses at the fiscal year end.

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

Fund/Department	Final Appropriated	Actual Expenditures	Variance
Water & Sewer Fund			
Operations	\$3,247,949	\$2,918,422	\$329,527
Capital	\$3,052,400	\$2,426,892	\$625,508
Debt	\$ 444,209	\$ 415,945	\$ 28,264
Total Water and Sewer Fund	\$6,744,558	\$5,761,259	\$983,299

Budgeted amounts are authorized to be transferred between departments within the fund and object classes within departments; however, any revisions that alter the total expenditures of a fund, or that affect the number of authorized employee positions, salary ranges, hours, or other conditions of employment must be approved by the District's legislative body. All CIP projects will be included in the Annual Budget document and budget expenditures managed during the year on a CIP level.

D. Cash and Investments

See Note 2, *Deposits and Investments*.

E. Capital Assets

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

F. Compensated Absences

Vacation leave may be accumulated up to 10 days and is payable upon separation or retirement. Sick leave may be accumulated up to 180 days for District employees in the Employees Contract and 75 days for District employees in the Management Group. District employees in the Employee Contract are eligible to receive 50% sick leave payout in excess of 480 hours. Upon separation, or retirement, employees receive a percentage of unused sick leave paid into a Voluntary Employee Beneficiary Association (VEBA) account. Payments are recognized as expenditures when paid. If the District employee in the Employee Contract worked twenty years or more, the rate is 67.5% payable into a VEBA account. Employees in the Management Group are eligible to receive 45% of sick leave payout into a VEBA account.

G. Long-Term Debt

See Note 4, *Debt Service Requirements*.

H. Other Financing Sources or Uses

The government's *Other Financing Sources or Uses* consist of debt proceeds and service, and contractual agreements.

I. Risk Management

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

signing an Interlocal Governmental Agreement to pool their self-insured losses and jointly purchase insurance and administrative services. The Pool currently has 68 members. The Pool's fiscal year is November 1st through October 31st.

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

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

TYPE OF COVERAGE	MEMBER DEDUCTIBLE	SELF-INSURED RETENTION	EXCESS LIMITS
Property Loss:			
Buildings and Contents	\$1,000 - \$10,000 and See (C) below	\$25,000	\$1,000,000,000
Flood	See (A) below	See (A) below	\$50,000,000
Earthquake	See (B) below	See (B) below	\$75,000,000 (\$25,000,000 dedicated to Alderwood and \$50,000,000 shared by all members)
Terrorism	\$1,000 - \$10,000	\$25,000 Primary layer	\$100,000,000 Primary layer
Boiler & Machinery	\$1,000 - \$350,000 depending on object	\$25,000 - \$350,000 depending on object	\$100,000,000
Auto - Physical Damage	\$1,000-\$10,000	\$25,000	\$10,000,000
Liability:			
Commercial General Liability	\$1,000 - \$10,000	\$200,000	\$10,000,000
Auto Liability	\$1,000 - \$10,000	\$200,000	\$10,000,000
Public Officials Errors and Omissions	\$1,000 - \$10,000	\$200,000	\$10,000,000
Employment Practices	\$1,000 - \$10,000	\$200,000	\$10,000,000
Other:			
Public Officials Bonds	Various	N/A	Various
Crime	\$1,000 - \$10,000	\$25,000	\$2,000,000
Identity Fraud	\$0	\$25,000	\$0
A. \$100,000 member deductibles, per occurrence, in Flood zones except Zones A&V; \$250,000 member deductible per occurrence, in Flood Zones A&V.			
B. Member deductible for earthquakes is 5% subject to \$100,000 minimum Earthquake Shock. If the stated deductible is on a percentage basis, the deductible will apply per occurrence on a per unit basis, as defined in the policy form, subject to the stated minimum.			
C. Member deductible for Cyber liability is \$100,000 and where applicable the dollar amount of the business interruption loss during the policy's required 8 hour waiting period			

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

Upon joining, the members contract to remain in the Pool for one full policy period. Following completion of one full policy period, members must give six months notice before terminating participation (e.g. to withdraw from the Pool on November 1, 2015, written notice must be in possession of the Pool by April 30, 2015). The Interlocal Governmental Agreement is renewed automatically each year. Even after termination of relationship with the Pool, a member is still responsible for contributions to the Pool for any unresolved, unreported, and in process claims, for the period that the District was a signatory to the Interlocal Governmental Agreement.

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

The Pool is governed by a Board of Directors, which is comprised of one designated representative from each participating member. An Executive Committee is elected at the annual meeting, and is responsible for overseeing the business affairs of the Pool and providing policy direction to the Pool's Executive Director. The Financial Statements for the Pool can be found at <http://www.wsrmp.org/members/reports.php>

The District self insures unemployment compensation for employees. Actual claims for former employee benefits are paid through the State of Washington Employment Security Department and then the District is billed for reimbursement. This self-insurance program, for 2014, cost the District nothing in benefit claim reimbursements.

Note 2 – Deposits and Investments

Deposits and Investments

It is the policy of the District to maintain reserves for operations, construction and rate stabilization. The District retains at least 21 days of utility operating costs in unrestricted Operating Reserve at all times. The District's goal is to increase the Operating Reserve to at least 37 days of utility operating costs. To provide financial reserves for unplanned capital outlays, the District shall maintain a Capital Facilities Operating Reserve equal to one percent of the original cost of District Fixed Assets. In the event of lower than projected revenue, the District has established a Rate Stabilization Reserve to allow for the District to mitigate unplanned variations in revenues and expenses and to meet any statutory requirements or contractual or policy commitments on debt service coverage. The Rate Stabilization Reserve goal is 10% of annual operating revenue in 2020. The transition from current levels on all three reserves to goal reserve levels will take place gradually, consistent with sound principles of financial management while maintaining reasonable rate stability. The reserve requirements will be evaluated each year in conjunction with the annual Budget and CIP adoption.

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

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

Investments are presented at cost. Investments by type at December 31, 2014 are as follows:

Type of Investment	District's Own Investments	Investments held by the District as an agent for other local governments, individuals or private organizations	Total
LGIP	\$ 12,259.25	\$ -	\$ 12,259.25
Total	\$ 12,259.25		\$ 12,259.25

Note 3 – Debt Service Requirements

The accompanying Schedule of Liabilities (09) provides more details of the outstanding debt and liabilities of the District and summarizes the District's debt transactions for year ended December 31, 2014.

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

	Other Debt	Total Debt
2015	\$ 431,995.85	\$ 431,995.85
2016	\$ 431,064.16	\$ 431,064.16
2017	\$ 429,030.55	\$ 429,030.55
2018	\$ 428,399.44	\$ 428,399.44
2019	\$ 425,706.17	\$ 425,706.17
2020 - 2024	\$ 2,097,800.00	\$ 2,097,800.00
2025 - 2029	\$ 704,126.71	\$ 704,126.71
2030 - 2034	\$ 389,722.36	\$ 389,722.36
<u>2035 - 2037</u>	<u>\$ 153,760.24</u>	<u>\$ 153,760.24</u>
TOTALS	\$ 5,491,605.48	\$ 5,491,605.48

Note 4 - Pension Plans

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

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

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

Note 5 – Other Disclosures

The District finished a scheduled wastewater treatment plant headworks upgrade in 2014, funded by a Washington State Public Works Trust Fund Loan.

Note 6 – Subsequent Events

Prior to December 2014, the District was awarded a federal loan through the Department of Commerce to replace existing water mains on the Blaine Road from Double R Ranch to Alderson Road. The District anticipates beginning this project design in 2015.

**Birch Bay Water and Sewer District
Schedule of Liabilities
For the Year Ended December 31, 2015**

ID. No.	Description	Due Date	Beginning Balance	Additions	Reductions	Ending Balance
Revenue Obligations						
259.12	Compensated Absences		100,810	184,480	191,631	93,659
264.30	Pension Liability		-	1,032,219	-	1,032,219
263.82	PW-04-691-005	7/1/2024	1,229,969	-	122,997	1,106,972
263.82	PW-03-691-PRE-126	7/1/2024	53,690	-	5,369	48,321
263.82	PW-04-691-004	7/1/2024	335,206	-	33,521	301,685
263.82	PW-05-691-004	7/1/2025	398,164	-	36,197	361,967
263.82	PW-06-962-008	7/1/2026	1,598,323	-	133,194	1,465,129
263.82	PC-12-951-076	6/1/2031	1,648,840	-	74,947	1,573,893
263.82	PC-13-961-015	6/1/2032	-	54,056	-	54,056
Total Revenue Obligations:			5,365,002	1,270,755	597,856	6,037,901
Total Liabilities:			5,365,002	1,270,755	597,856	6,037,901

**Birch Bay Water and Sewer District
Schedule of Liabilities
For the Year Ended December 31, 2014**

ID. No.	Description	Due Date	Beginning Balance	Additions	Reductions	Ending Balance
General Obligations						
259.11	Compensated Absences		86,327	164,936	150,454	100,810
263.81	PW-5-94-784-004	7/1/2014	16,579	-	16,579	-
263.81	PW-04-691-005	7/1/2024	1,352,966	-	122,997	1,229,969
263.81	PW-03-691-PRE-126	7/1/2024	59,059	-	5,369	53,690
263.81	PW-04-691-004	7/1/2024	368,726	-	33,521	335,206
263.81	PW-05-691-004	7/1/2025	434,361	-	36,197	398,164
263.81	PW-06-962-008	7/1/2026	1,731,516	-	133,194	1,598,323
263.81	PC12-951-076	6/1/2031	234,416	1,456,348	41,924	1,648,840
Total General Obligations:			4,283,951	1,621,284	540,233	5,365,002
Total Liabilities:			4,283,951	1,621,284	540,233	5,365,002

ABOUT THE STATE AUDITOR'S OFFICE

The State Auditor's Office is established in the state's Constitution and is part of the executive branch of state government. The State Auditor is elected by the citizens of Washington and serves four-year terms.

We work with our audit clients and citizens to achieve our vision of government that works for citizens, by helping governments work better, cost less, deliver higher value, and earn greater public trust.

In fulfilling our mission to hold state and local governments accountable for the use of public resources, we also hold ourselves accountable by continually improving our audit quality and operational efficiency and developing highly engaged and committed employees.

As an elected agency, the State Auditor's Office has the independence necessary to objectively perform audits and investigations. Our audits are designed to comply with professional standards as well as to satisfy the requirements of federal, state, and local laws.

Our audits look at financial information and compliance with state, federal and local laws on the part of all local governments, including schools, and all state agencies, including institutions of higher education. In addition, we conduct performance audits of state agencies and local governments as well as [fraud](#), state [whistleblower](#) and [citizen hotline](#) investigations.

The results of our work are widely distributed through a variety of reports, which are available on our [website](#) and through our free, electronic [subscription](#) service.

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

Contact information for the State Auditor's Office	
Public Records requests	PublicRecords@sao.wa.gov
Main telephone	(360) 902-0370
Toll-free Citizen Hotline	(866) 902-3900
Website	www.sao.wa.gov