



Washington State Auditor's Office

Government that works for citizens

Financial Statements Audit Report **Kennewick Irrigation District**

Benton County

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

Published December 22, 2016

Report No. 1018239





Washington State Auditor's Office

December 22, 2016

Board of Directors
Kennewick Irrigation District
Kennewick, Washington

Report on Financial Statements

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

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

Sincerely,

TROY KELLEY
STATE AUDITOR
OLYMPIA, WA

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SCHEDULE OF AUDIT FINDINGS AND RESPONSES

2015-001 The District's internal controls over financial reporting are inadequate to ensure financial statements are accurate and complete.

Background

It is the responsibility of District management to design and follow internal controls that provide reasonable assurance regarding the reliability of financial reporting. Controls must ensure that financial data is reliably authorized, processed and reported.

In 2015, the District experienced turnover in key accounting positions including the finance director and senior accountant. The District reports its financial statements using the cash basis method. The staff are new to cash-basis reporting and are responsible for preparing and reviewing 2015 financial statements.

Our audit identified a material weakness in controls over implementing the pension liability reporting that affects the District's ability to produce reliable financial statements.

Description of Condition

We identified the following deficiencies in internal controls, that when taken together, represent a material weakness:

- The District did not implement sufficient procedures to analyze new accounting standards to determine if the standards apply to the District.
- The District procedures related to financial statements preparation were not sufficient to ensure financial statements were accurate.

Cause of Condition

District staff did not know that the pension liability was applicable to cash-basis entities.

Effect of Condition

Because the District did not implement the pension liability reporting requirements, the financial statements were materially misstated. We identified the following errors:

- The District did not include the net pension liabilities in schedule of liabilities. Thus, the net pension liability was understated by \$3,157,115.

This is approximately 34% of the District's total liabilities reported on the schedule and approximately 17% of total expenditures reported on the District's financial statements.

- The District did not disclose the minimum note disclosure for the pension note, such as the state sponsored pension plan background information and the proportionate share of pension liabilities for each plan.

Recommendation

We recommend the District:

- Use the current accounting and reporting guidance provided in the State Auditor's Office *Budget, Accounting and Reporting Systems* (BARS) Manual when preparing its financial statements.
- Establish a formal process to evaluate the applicability of new reporting standards, and obtain additional training and technical guidance as needed.
- Establish a detailed review process of the financial statements by a person knowledgeable of reporting requirements for cash-basis entities to ensure accurate preparation of the District's financial statements

District's Response

Kennewick Irrigation District (KID) thanks the Washington State Auditor's Office for pointing out our oversight on the GASB 68 implementation in our schedule filings on the SAO website for the fiscal year 2015.

As noted above KID experienced simultaneous turn over in the only two positions (Comptroller/Treasurer and Senior Accountant) that developed and produced the District's Financial Statements and filed the required schedules on the SAO website. There was very limited overlap between the incumbents and no substantive discussion of the financial statements and SAO filings. The new Treasurer accurately produced 2015 Financials and updated the 2015 SAO filings by using the 2014 Financials and the 2014 SAO filings as template. Since the GASB 68 filing was new in 2015 this process did not include this new GASB 68 requirement.

KID is a cash basis reporting agency. As such the PERS Pension liability has absolutely no impact on the day to day operating statements and the monthly and annual financial reports issued by the District.

The District presented the Executive Director, Board of Director, and Customers of KID with accurate and complete 2015 Financial Statements. The failure to include the PERS Pension liability in Schedule 9 posted on the State Auditors'

website had absolutely no impact on the Financial Statements Issued by Finance Department to the Executive Director, Board of Director, Staff and Customers of KID.

KID has updated its Schedule 9 and Notes to include the GASB 68 provisions. Going forward the Finance Staff will closely monitor any new changes to financial and schedule reporting requirements.

Auditor's Remarks

We appreciate the District's response and wish to thank the District's staff and management for their cooperation and assistance during our audit. We also appreciate the District's commitment to resolve the issues and improve current year processes.

Applicable Laws and Regulations

Government Auditing Standards, December 2011 Revision, paragraph 4.23 states:

4.23 When performing GAGAS financial audits, auditors should communicate in the report on internal control over financial reporting and compliance, based upon the work performed, (1) significant deficiencies and material weaknesses in internal control; (2) instances of fraud and noncompliance with provisions of laws or regulations that have a material effect on the audit and any other instances that warrant the attention of those charged with governance; (3) noncompliance with provisions of contracts or grant agreements that has a material effect on the audit; and (4) abuse that has a material effect on the audit.

The American Institute of Certified Public Accountants defines significant deficiencies and material weaknesses in its Codification of Statements on Auditing Standards, section 265, as follows:

.07 For purposes of generally accepted auditing standards, the following terms have the meanings attributed as follows:

Deficiency in 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 deficiency in design exists when (a) a control necessary to meet the control objective is missing, or (b) an existing control is not properly designed so that, even if the control operates as designed, the control objective would not be met. A deficiency in

operation exists when a properly designed control does not operate as designed or when the person performing the control does not possess the necessary authority or competence to perform the control effectively.

Material weakness. A deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.

Significant deficiency. 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.

.A11 Indicators of material weaknesses in internal control include:

- Identification of fraud, whether or not material, on the part of senior management;
- Restatement of previously issued financial statements to reflect the correction of a material misstatement due to fraud or error;
- Identification by the auditor of a material misstatement of the financial statements under audit in circumstances that indicate that the misstatement would not have been detected by the entity's internal control; and
- Ineffective oversight of the entity's financial reporting and internal control by those charged with governance.

Budget Accounting and Reporting System (BARS) Manual - Part 3, Accounting, Chapter 1. Accounting Principles and General Procedures, Section B. Internal Control, states in part:

Internal control is a management process for keeping an entity on course in achieving its business objectives, as adopted by the governing body. This management control system should ensure that resources are guarded against waste, loss and misuse; that reliable data is obtained, maintained, and fairly disclosed in financial statement and other reports; and resource use is consistent with laws, regulations and policies.

Each entity is responsible for establishing and maintaining an effective system of internal control throughout their government.

RCW 43.09.200 – Local government accounting – Uniform system of accounting, states in part:

The state auditor shall formulate, prescribe, and install a system of accounting and reporting for all local governments, which shall be uniform for every public institution, and every public office, and every public account of the same class.

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

**Kennewick Irrigation District
Benton County
January 1, 2015 through December 31, 2015**

Board of Directors
Kennewick Irrigation District
Kennewick, Washington

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the Kennewick Irrigation District, Benton County, Washington, as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the District's financial statements, and have issued our report thereon dated December 16, 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 audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Audit Findings and Responses, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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. We consider the deficiencies described in the accompanying Schedule of Audit Findings and Responses as Finding 2015-001 to be material weaknesses.

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.

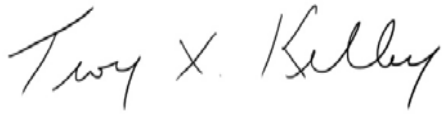
The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

DISTRICT'S RESPONSE TO FINDINGS

The District's response to the findings identified in our audit is described in the accompanying Schedule of Audit Findings and Responses. The District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

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

December 16, 2016

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Kennewick Irrigation District Benton County January 1, 2015 through December 31, 2015

Board of Directors
Kennewick Irrigation District
Kennewick, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the Kennewick Irrigation District, Benton County, Washington, for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the District's financial statements, as listed on page 16.

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

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 Kennewick Irrigation 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 Kennewick Irrigation District, for the year ended December 31, 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 Kennewick Irrigation District, as of December 31, 2015, or the changes in financial position or cash flows for the year then ended, due to the significance of the matter discussed in the above “Basis for Adverse Opinion on U.S. GAAP” paragraph.

Other Matters

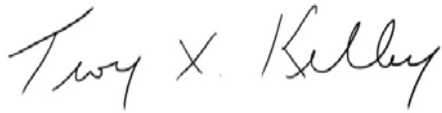
Supplementary and Other Information

Our audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying Schedule of Liabilities is presented for purposes of additional analysis, as required by the prescribed BARS manual. This schedule is 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 December 16, 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 black ink that reads "Troy X. Kelley". The signature is written in a cursive, flowing style.

TROY KELLEY
STATE AUDITOR
OLYMPIA, WA

December 16, 2016

FINANCIAL SECTION

**Kennewick Irrigation District
Benton County
January 1, 2015 through December 31, 2015**

FINANCIAL STATEMENTS

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

SUPPLEMENTARY AND OTHER INFORMATION

Schedule of Liabilities – 2015

Kennewick Irrigation District
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2015

Beginning Cash and Investments

30810	Reserved	1,251,085
30880	Unreserved	19,738,083
388 & 588	Prior Period Adjustments, Net	-

Operating Revenues

330	Intergovernmental Revenues	581,481
340	Charges for Goods and Services	10,554,930
350	Fines and Penalties	-
360	Miscellaneous Revenues	382,862
Total Operating Revenues:		11,519,273

Operating Expenditures

530	Utilities	9,236,929
550	Natural and Economic Environment	-
598	Miscellaneous Expenses	-
Total Operating Expenditures:		9,236,929
Net Operating Increase (Decrease):		2,282,344

Nonoperating Revenues

370-380, 395 & 398	Other Financing Sources	2,185,197
391-393	Debt Proceeds	-
Total Nonoperating Revenues:		2,185,197

Nonoperating Expenditures

580, 596 & 599	Other Financing Uses	106,175
591-593	Debt Service	82,724
594-595	Capital Expenditures	8,699,539
Total Nonoperating Expenditures:		8,888,438

Net Increase (Decrease) in Cash and Investments: **(4,420,897)**

Ending Cash and Investments

5081000	Reserved	1,100,665
5088000	Unreserved	15,467,606
Total Ending Cash and Investments		16,568,271

The accompanying notes are an integral part of this statement.

KENNEWICK IRRIGATION DISTRICT
Notes to the Financial Statements
For the Year Ended December 31, 2015

Note 1 - Summary of Significant Accounting Policies

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

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

PROPRIETARY FUND TYPES:

Enterprise Funds

These funds account for operations that provide goods or services to the general public and are supported primarily through user charges. The District further divides its system of accounts within the Enterprise group to account for certain capital improvement activities and reserve fund activities in separate managerial funds to ensure that funds restricted internally for certain uses are properly allocated.

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

The District adopts annual appropriated budgets for its enterprise funds (internal funds that roll up to a single enterprise fund for external reporting). These budgets are appropriated at the fund level. The budget constitutes the legal authority for expenditures at that level. Annual appropriations for these funds lapse at the fiscal year end.

Annual appropriated budgets are adopted on the same basis of accounting as used for financial reporting. Interfund transfers included in the budgeted revenues and expenditures have been eliminated for financial statement purposes.

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

Fund/Department	Final Appropriated Amounts	Actual Expenditures	Variance
<u>Enterprise Funds- Operating & Capital:</u>			
Irrigation General	\$ 9,076,935	\$ 8,462,226	\$ 614,709
Elliot Lake Debt Svc	\$ 10,000	\$ 9,765	\$ 235
Elliot Lake Potable	\$ 37,650	\$ 26,150	\$ 11,500
Lorayne J Potable	\$ 62,050	\$ 45,367	\$ 16,683
Capital Upgrade Fund	\$ 4,940,280	\$ 4,518,957	\$ 421,323
Red Mountain Capital	\$ 2,211,000	\$ 1,071,497	\$ 1,139,503
LID Capital Project Fund	\$ 0	\$ 0	\$ 0
General Capital Proj.Fund	\$ 3,176,850	\$ 3,109,086	\$ 67,765
Total Enterprise Funds- Operating & Capital:	\$19,514,765	\$17,243,047	\$ 2,271,718
<u>Enterprise Fund- Internal Reserve Funds:</u>			
Operating Reserve Funds	\$ 0	\$ 0	\$ 0
Equipment Replacement Reserve	\$ 570,000	\$ 797,158	\$ (227,158)
Emergency Mitigation Reserve	\$ 0	\$ 0	\$ 0
Drought Mitigation Reserve	\$ 0	\$ 0	\$ 0
Realty Restricted Reserve	\$ 150,000	\$ 85,163	\$ 64,837
Total Enterprise Fund- Reserve Funds	\$ 720,000	\$ 882,321	\$ (162,321)

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

D. Cash and Investments

It is the District's policy to invest all temporary cash surpluses (Note: leaving balances in the general checking that earn interest to offset fees is also an acceptable investment strategy). The amount is included in the cash and investments shown on the statements of fund resources and uses arising from cash transactions. The interest on these investments is prorated, if required by covenants of the various restricted funds, with the balance allocated to the general irrigation enterprise fund.

Investments and Deposits See Note 2

E. Capital Assets

Capital assets are assets with an initial individual cost of more than \$5,000.00 and an estimated useful life in excess of one year. Capital assets and inventory are recorded as expenditures when purchased.

F. Compensated Absences

Vacation leave may be accumulated up to 280 hours and is payable upon separation or retirement. Sick leave may be accumulated indefinitely. Upon separation or retirement employees may receive payment for 25% of their unused sick leave, with a maximum payout of \$1800, if they provide adequate notice and are not terminated for just cause. Payments are recognized as expenditures when paid.

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:

Other Financing Sources

Gains on sale of surplus capital assets	\$ 1,976,437
Private capital contribution	135,381
Contractor temporary bonds & deposits	73,378

Other Financing Uses

Refunds of revenues collected in error	\$ 61,578
Disburse cash bonds, completion	44,597

I. Risk Management

The Kennewick Irrigation District is a member of Cities Insurance Association of Washington (CIAW). Chapter 48.62 RCW authorizes the governing body of any one or more governmental entities to form together into or join a program or organization for the joint purchasing of insurance, and/or joint self-insuring, and/or joint hiring or contracting for risk management services to the same extent that they may individually purchase insurance, self-insure, or hire or contract for risk management services. An agreement to form a pooling arrangement was made pursuant to the provisions of Chapter 39.34 RCW, the Interlocal Cooperation Act. The program was formed on September 1, 1988, when 34 cities in the State of Washington joined together by signing an Interlocal Governmental Agreement to pool their self-insured losses and jointly purchase insurance and administrative services. As of December 1, 2015, there are 210 members in the program.

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

The program acquires liability insurance through their Administrator, Clear Risk that is subject to a per-occurrence self-insured retention of \$100,000. The standard member deductible is \$1,000 for each claim (in KID's case, we have increased deductibles as they may vary per member), while the program is responsible for the \$100,000 self-insured retention. Insurance carriers cover insured losses over \$101,000 to the limits of each policy. Since the program is a cooperative program, there is a joint liability among the participating members towards the sharing of the \$100,000 of the self-insured retention. The program also purchases a Stop Loss Policy with an attachment point of \$2,140,107 to cap the total claims paid by the program in any one policy term.

Property insurance is subject to a per-occurrence self-insured retention of \$25,000. Members are responsible for a \$1,000 deductible for each claim (in KID's case, it has been increased to \$25,000). The program bears the \$25,000 self-insured retention, in addition to the deductible.

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

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

A board of ten members is selected by the membership from three geographic areas of the State on a staggered term basis and is responsible for conducting the business affairs of the program. CIAW's policy year runs from December 1st through November 30th of the following year.

The program has no employees. Claims are filed by members/brokers with Clear Risk, who has been contracted to perform program administration, claims adjustment, administration, and loss prevention for the program. Fees paid to the third party administrator under this arrangement for the period ending December 1, 2015 were \$627,702.

J. Reserved Portion of Ending Cash and Investments

Beginning and Ending Cash and Investments is reported as reserved when it is subject to restrictions on use imposed by external parties or due to internal commitments established by a specific Resolution of the Board. When expenditures that meet restrictions are incurred, the District intends to use reserved resources first before using unreserved amounts.

Reservations of Ending Cash and Investments consist of Reserved Cash pursuant to debt agreements (\$915,024) and Reserved Cash pursuant to contractual obligations with Contractors and Developers (\$185,641).

Note 2 – Deposits and Investments

Deposits and Investments

The Kennewick Irrigation District's investments are held in the name of the District and were invested during 2015 in accounts entirely covered by the Federal Depository Insurance Corporation (FDIC) Act or Washington Public Depository Act.

Investments by type at December 31, 2015 were as follows:

<u>Type of Investment</u>	<u>Balance</u>
Certificates of Deposit	\$ 2,078,597
Local Government Investment Pool	<u>\$14,825,077</u>
 TOTAL	 \$16,903,674

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 general obligation bonds, revenue bonds and other governmental debt, including both principal and interest, are as follows:

	Other Debt	Total Debt
2016	\$ 421,131	\$ 421,131
2017	\$ 278,377	\$ 278,377
2018	\$ 278,165	\$ 278,165
2019	\$ 277,953	\$ 277,953
2020-2024	\$ 1,353,039	\$ 1,353,039
2025-2029	\$ 991,318	\$ 991,318
2030-2034	\$ 991,318	\$ 991,318
2035-2039	\$ 991,318	\$ 991,318
2040-2044	\$ 99,132	\$ 99,132
TOTALS	\$ 5,681,751	\$ 5,681,751

Note 4 - Interfund Loans

The following table displays managerial interfund loan activity during 2015:

Borrowing Managerial Fund	Lending Managerial Fund	Balance 1/1/2015	New Loans	Repayments	Balance 12/31/15
Red Mtn LID	Realty Reserve	\$6,312,740	\$1,071,497	\$0	\$7,384,237
Misc. Capital Work	Realty Reserve	\$0	\$2,946,542	\$0	\$2,946,542

Note 5 – Pension Plans

State Sponsored Pension Plans

Substantially all Kennewick Irrigation District's full-time and qualifying part-time employees participate or participated in one of the two of two statewide retirement systems administered by the Washington State Department of Retirement Systems (DRS). The plans are cost-sharing, multiple-employer public employee defined benefit and defined contribution retirement plans; PERS 1 and PERS 2/3.

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

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

Department of Retirement Systems
Communications Unit
P.O. Box 48380
Olympia, WA 98540-8380

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

At June 30, 2015, the Kennewick Irrigation Districts proportionate share of the collective net pension liabilities, as reported on the DRS CAFR Schedule 09, was as follows:

	Allocation %	Lialibilty (Asset)
PERS 1	0.032065%	\$ 1,677,298
PERS 2/3	0.041416%	\$ 1,479,817

Note 6 – Construction and Other Significant Commitments

A. Construction of New Administrative Building

At the close of the 2015 Fiscal/Calendar year the District was in the process of constructing a new administration building on the site of its facility and maintenance yard at 2015 South Ely Street in Kennewick. In 2015 the District spent \$2,946,542 on the project. Administrative staff moved into the new facility in Mid-February, 2016. From January 1st through April 30, 2016 an additional \$2,248,437 was spent on the completion of the building. The building was paid for with internal resources which will be repaid over time from operating expenses.

Kennewick Irrigation District
Schedule of Liabilities
For the Year Ended December 31, 2015

ID. No.	Description	Due Date	Beginning Balance	Additions	Reductions	Ending Balance
Revenue and Other (non G.O.) Debt/Liabilities						
263.82	1999 - Loan WA DWSRF - Elliot	9/30/2020	50,948	-	8,491	42,456
259.12	Compensated Absence		244,728	6,406	-	251,134
263.82	1953 - USBR Construction Loan	12/1/2024	708,009	-	72,959	635,049
263.82	2012 - Dept of Ecology (1)	12/31/2040	5,000,000	-	-	5,000,000
264.30	PERS 1 and PERS 2/3 Liabilities		-	3,157,115	-	3,157,115
Total Revenue and Other (non G.O.) Debt/Liabilities:			6,003,684	3,163,521	81,451	9,085,754
Total Liabilities:			6,003,684	3,163,521	81,451	9,085,754

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