



Office of the Washington State Auditor
Pat McCarthy

Financial Statements Audit Report

Whitworth Water District No. 2

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

Published November 19, 2018

Report No. 1022560





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

November 19, 2018

Board of Commissioners
Whitworth Water District No. 2
Spokane, Washington

Report on Financial Statements

Please find attached our report on Whitworth Water District No. 2's financial statements.

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

Sincerely,

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

Pat McCarthy
State Auditor
Olympia, WA

TABLE OF CONTENTS

Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards.....	4
Independent Auditor's Report on Financial Statements.....	6
Financial Section.....	9
About the State Auditor's Office.....	38

**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**

**Whitworth Water District No. 2
January 1, 2017 through December 31, 2017**

Board of Commissioners
Whitworth Water District No. 2
Spokane, 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 Whitworth Water District No. 2, as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated October 18, 2018. The prior year comparative information has been derived from the District's 2016 basic financial statements, on which we issued our report dated May 17, 2017.

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.

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.



Pat McCarthy

State Auditor

Olympia, WA

October 18, 2018

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Whitworth Water District No. 2 January 1, 2017 through December 31, 2017

Board of Commissioners
Whitworth Water District No. 2
Spokane, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of Whitworth Water District No. 2, as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed on page 9.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our 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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Whitworth Water District No. 2, as of December 31, 2017, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Report on Summarized Comparative Information

The financial statements include partial prior-year comparative information. Such information does not include all of the information required for a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the District's financial statements for the year ended December 31, 2016, from which such partial information was derived. We have previously audited the District's 2016 basic financial statements on which we expressed an unmodified opinion in our report dated May 17, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2016 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplementary information listed on page 9 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing

standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated October 18, 2018 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.



Pat McCarthy

State Auditor

Olympia, WA

October 18, 2018

FINANCIAL SECTION

Whitworth Water District No. 2 January 1, 2017 through December 31, 2017

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2017

BASIC FINANCIAL STATEMENTS

Statement of Net Position – 2017

Statement of Revenues, Expenses, and Changes in Fund Net Position – 2017

Statement of Cash Flows – 2017

Notes to Financial Statements – 2017

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Proportionate Share of the Net Pension Liability – PERS 1 and PERS 2/3 –
2017

Schedule of Employer Contributions – PERS 1 and PERS 2/3 – 2017

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following is a discussion and analysis of Whitworth Water District's financial activities for the year ended December 31, 2017. The Discussion and Analysis is intended to serve as an introduction to Whitworth Water District's basic financial statements, which consist of the government wide financial statements, notes to the financial statements and other supplementary information, and should be used in conjunction with additional information that is included in the financial statements.

FINANCIAL STATEMENTS

The financial statements are designed to provide readers with a broad overview of the District's finances. The statements provide both short-term and long-term information about the financial position which helps readers determine whether Whitworth Water District's position has improved or deteriorated during the fiscal year. This report consists of the Statement of Net Position, Statement of Revenue, Expense and Change in Fund Net Position, Notes to the Financial Statements, and Cash Flow Statement.

Statement of Net Position: Presents information on all of the District's assets and liabilities, with the difference between the two reported as Net Position. Over time, increases or decreases in net position may indicate whether the financial position of the District is improving or deteriorating. The Statement presents information on how the net position (difference between assets and liabilities) changed during the fiscal year and consists of three components: (1) invested in capital assets, net of related debt; (2) restricted assets; and (3) unrestricted assets.

Statement of Revenues, Expenses and Changes in Fund Net Position: Relates to the revenues, expenses and balances of Whitworth Water District's financial resources. It distinguishes between operating and non-operating revenue and expenses. Capital contributions are also reported separately.

Statement of Cash Flow: Designed to show cash flows from four sources: (1) operating activities; (2) non-capital financing activities like contributions; (3) capital and related financing activities; and (4) investing activities.

Notes to the Financial Statements: The Notes to the Financial Statements serve to describe Whitworth Water District as a reporting entity and to further clarify its financial activity as reported in the Financial Statements.

Examining the financial statements as a whole rather than separately from each other will provide a more comprehensive picture of the business activities.

PROPRIETARY FUNDS

- A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District maintains an Enterprise fund, a type of Proprietary fund, to account for its water activities. Enterprise funds report activities that charge fees for supplies or services to the general public. Enterprise funds are reported as business-type activities on the government-wide financial statements. The Enterprise fund uses the full accrual basis of accounting where revenues are recognized in the period earned whether actually received or not and expenses are recognized and matched with the related revenues of the period, whether actually paid or not.

FINANCIAL HIGHLIGHTS

The District reported Net Position as of December 31, 2017 in the amount of \$40.81 million, as compared with \$39.11 million in 2016. Increase was partly due to 50% loan principal forgiveness on a DWSRF contract that was closed out in 2017 and miscellaneous contractor contributions with the balance from normal operations.

The Current Assets increased from \$7.79 million in 2016 to \$8.19 million in 2017 most of which related to an increase in cash received from loan draws and normal operations. Restricted Assets, which are used for long term debt repayment and for construction projects, increased from \$2.86 million in 2016 to \$4.22 million in 2017. Increase was due to two final draws on DWSRF projects

OVERVIEW OF THE FINANCIAL STATEMENTS

Statement of Net Position:

The Statement of Net Position presents the District's assets and liabilities at year end. Detailed information about the District's capital assets is included in Note 2 of the Financials.

Net Position			
	2017	2016	Change
Current Assets	\$ 8,183,447	\$ 7,786,862	\$ 396,586
Restricted Assets	4,221,863	2,858,364	1,363,500
Non-Current, Including Capital Assets	39,042,671	38,692,486	350,185
Total Assets	\$ 51,447,982	\$ 49,337,712	\$ 2,110,270
Deferred Outflows of Resources	142,118	159,058	(16,940)
Total Assets & Outflows	\$ 51,590,100	\$ 49,496,770	\$ 2,093,330
Current Liabilities	\$ 969,300	\$ 768,939	\$ 200,361
Non-Current Liabilities	8,829,147	8,636,445	192,702
Total Liabilities	\$ 9,798,447	\$ 9,405,383	\$ 393,063
Deferred Inflows of Resources	\$ 986,457	\$ 983,884	\$ 2,573
Total Liabilities & Inflows	\$ 10,784,904	\$ 10,389,267	\$ 395,637
Invested in Capital Assets Net of Related Debt	\$ 30,621,643	\$ 30,801,646	\$ (180,003)
Restricted for Debt and Construction	4,221,863	2,858,364	1,363,500
Unrestricted	5,961,690	5,447,493	514,197
Total Net Position	\$ 40,805,196	\$ 39,107,503	\$ 1,697,694
Total Net Position and Liabilities	\$ 51,590,100	\$ 49,496,770	\$ 2,093,330

Description of Capital Assets

The Capital Asset increased slightly for 2017. This was due to capitalizing five significant Construction in Progress projects pertaining to the installation of new meters, mains, hydrants and services. Certain expenses captured in Construction in Progress were expensed rather than capitalized. Contributions from developers totaled \$582,574. Two vehicles were purchased in 2017, a 2017 GMC Sierra 2500HD and a 2018 Chevy Tahoe.

Statement of Revenue and Expense

The Statement of Revenue and Expenses shows the revenues and expenses that were earned and/or generated during the year with the difference reported as Change in Net Position.

Statement of Revenue and Expenses			
	2017	2016	Change
Total Operating Revenue	\$ 5,779,421	\$ 5,218,873	\$ 560,548
Total Operating Expense	5,262,618	4,580,696	681,922
Net Operating Income (Loss)	\$ 516,802	\$ 638,177	\$ (121,375)
Non-Operating Revenue	\$ 45,789	\$ 82,683	\$ (36,894)
Non-Operating Expense	41,253	113,619	(72,366)
Net Non-Operating Income (Loss)	\$ 4,536	\$ (30,936)	\$ (35,472)
Net Income(Loss) prior to Contributions	\$ 521,338	\$ 607,242	\$ (85,904)
Capital Contributions	1,176,356	374,606	801,750
Change in Net Position	\$ 1,697,694	\$ 981,848	\$ 715,846
Beginning Net Position	\$ 39,107,503	\$ 36,601,052	\$ 506,451
Prior Period Adjustments		(1,524,603)	(1,524,603)
Change in Net Position	1,697,694	981,848	715,846
Ending Net Position	\$ 40,805,196	\$ 39,107,503	\$ 1,697,694

Revenue is derived from the sale of water and inherent miscellaneous fees and charges for other related services like fire protection, labor and materials and meter installation. Expenses are a direct result of all maintenance and operation costs both internally (office) and externally (field). These revenue and expense categories are more specifically defined in the "Statement of Revenue and Expense". The above table reflects an increase of 9.8% in revenue and an increase of 13% in expenses from 2016 to 2017. Revenue received directly from water sales alone increased in 2017. Increased revenue was due to new connections added with DWSRF projects being completed.

Contributions

Capital Contributions relate to facilities donated to the District by Developers who have paid for their design and installation. There were two small developer capital contribution made to the District in 2017 plus DWSRF loan forgiveness on a large project.

Contributions			
	2017	2016	Change
Contributions	\$1,176,356	\$374,606	\$801,750

Long Term Debt

During the fiscal year the District continued to pay down its existing Public Works Trust Fund and Drinking Water State Revolving Fund debt. The District received two final draws on completed projects funded by DWSRF. More detailed information about the District's long-term debt is presented in Note 3 of the Financials. The District's total Public Works Trust Fund and Drinking Water State Revolving Fund debt at December 31, 2017 and 2016 is as follows:

Long Term Debt			
	2017	2016	Change
Public Works Trust Fund	\$ 5,075,503	\$ 5,640,418	\$ (564,915)
Drinking Water State Revolving Fund	3,345,525	2,250,422	1,095,103
Total Long Term Debt	\$ 8,421,028	\$ 7,890,840	\$ 530,188

District's Position

In reviewing the 2017 Financials and noting the slight changes (both increases and decreases) in the Statements of Net Position, Revenue and Expense and Long Term Debt, the District's financial position improved and remains strong. Also, we are not aware of any facts, decisions or conditions that would have a significant effect on the District's financial position or results of operations.

STATEMENT OF NET POSITION**December 31, 2017 and 2016****ASSETS**

2017

2016

Current Assets:

Cash and Cash Equivalents	\$ 2,609,794	\$ 3,095,453
Deposits with Fiscal Agents/Trustees	\$ -	\$ -
Temporary Investments	\$ 3,899,331	\$ 3,086,185
Receivables	\$ 348,316	\$ 280,461
Receivables - Assessments	\$ 840,887	\$ 936,997
Inventories	\$ 438,911	\$ 339,281
Prepayments	\$ 46,208	\$ 48,485
<u>Sub Total</u>	<u>\$ 8,183,447</u>	<u>\$ 7,786,862</u>

Restricted Assets:

Debt Service, Deposits, Replacements	\$ 809,171	\$ 732,653
Construction Accounts	\$ 3,412,693	\$ 2,125,711
<u>Sub Total</u>	<u>\$ 4,221,863</u>	<u>\$ 2,858,364</u>

TOTAL CURRENT ASSETS

\$ 12,405,311	\$ 10,645,226
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Noncurrent Assets:

Capital Assets Not Being Depreciated		
Land	\$ 1,030,854	\$ 1,030,854
Construction In Progress	\$ 77,921	\$ 3,381,982
Capital Assets Being Depreciated		
Plant	\$ 60,278,455	\$ 55,223,692
Machinery and Equipment	\$ 1,103,130	\$ 1,046,748
Less Accumulated Depreciation	\$ (23,447,688)	\$ (21,990,789)
Total Capital Assets (Net)	\$ 39,042,671	\$ 38,692,486

TOTAL NONCURRENT ASSETS

\$ 39,042,671	\$ 38,692,486
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TOTAL ASSETS

\$ 51,447,982	\$ 49,337,712
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DEFERRED OUTFLOWS OF RESOURCES

Deferred Outflows - Pensions	\$ 142,118	\$ 159,058
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TOTAL ASSETS & DEFERRED OUTFLOWS OF RESOURCES

\$ 51,590,100	\$ 49,496,770
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The Notes to Financial Statements are an integral part of this statement.

STATEMENT OF NET POSITION

December 31, 2017 and 2016

<u>LIABILITIES</u>	2017	2016
Current Liabilities:		
Accounts Payable	\$ 160,129	\$ 36,286
TOTAL CURRENT LIABILITIES	\$ 160,129	\$ 36,286
Payables from Restricted Assets:		
Debt Principal - PWTF 2018	\$ 744,683	\$ 634,972
Debt Interest - PWTF & Bond 2018	\$ 64,488	\$ 97,680
TOTAL PAYABLES FROM RESTRICTED ASSETS	\$ 809,171	\$ 732,653
Noncurrent Liabilities:		
Compensated Absences	\$ 395,923	\$ 480,896
Other Long Term Debt (less 2018 principal)	\$ 7,676,346	\$ 7,255,868
Net Pension Liability	\$ 756,879	\$ 899,681
TOTAL NONCURRENT LIABILITIES	\$ 8,829,147	\$ 8,636,445
<u>TOTAL LIABILITIES</u>	\$ 9,798,447	\$ 9,405,383
DEFERRED INFLOWS OF RESOURCES		
Deferred Inflow - Pension	\$ 145,570	\$ 46,887
Deferred Inflow - Assessments	\$ 840,887	\$ 936,997
TOTAL INFLOWS OF RESOURCES	\$ 986,457	\$ 983,884
<u>TOTAL LIABILITIES & DEFERRED INFLOWS OF RESOURCES</u>	\$ 10,784,904	\$ 10,389,267
<u>NET POSITION</u>		
Invested in Capital Assets, Net of Related Debt	\$ 30,621,643	\$ 30,801,646
Restricted for Debt and Construction	\$ 4,221,863	\$ 2,858,364
Unrestricted	\$ 5,961,690	\$ 5,447,493
TOTAL NET POSITION	\$ 40,805,196	\$ 39,107,503
<u>TOTAL NET POSITION AND LIABILITIES</u>	\$ 51,590,100	\$ 49,496,770

The Notes to Financial Statements are an integral part of this statement.

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION**For Years Ending December 31, 2017 and 2016**

	<u>2017</u>	<u>2016</u>
<u>OPERATING REVENUES</u>		
Utility Sales and Service Fees	\$ 4,335,856	\$ 4,257,348
Other Charges for Services	\$ 1,443,565	\$ 961,525
Total Operating Revenue	\$ 5,779,421	\$ 5,218,873
<u>OPERATING EXPENSES:</u>		
Operations:		
General Operations	\$ 1,359,545	\$ 983,974
Cost of Power	\$ 699,320	\$ 672,127
Customer Services	\$ 445,672	\$ 406,263
Depreciation/Amortization/ Depletion	\$ 1,493,837	\$ 1,446,159
Property, Excise and B&O Taxes	\$ 315,601	\$ 297,666
Insurance, Claims & Expenses	\$ 91,686	\$ 98,537
Maintenance	\$ 856,957	\$ 675,969
Total Operating Expenses	\$ 5,262,618	\$ 4,580,696
OPERATING INCOME (LOSS)	\$ 516,802	\$ 638,177
<u>NONOPERATING REVENUES (EXPENSES)</u>		
Interest and Investment Revenue	\$ 60,812	\$ 33,436
Gains (Losses) on Capital Asset Disposition	\$ (15,022)	\$ (7,253)
Grant Revenue	\$ -	\$ 56,500
Other Nonoperating Expenses - Interest Expense	\$ (41,253)	\$ (113,619)
Total Nonoperating Revenues (Expenses)	\$ 4,536	\$ (30,935)
Income Before Contributions, Transfers Extraordinary and Special Items	\$ 521,338	\$ 607,242
Capital Contributions	\$ 1,176,356	\$ 374,606
CHANGE IN NET POSITION	\$ 1,697,694	\$ 981,848
TOTAL NET POSITION, January 1, 2017	\$ 39,107,503	\$ 36,601,052
Prior Period Adjustments	\$ -	\$ 1,524,603
Change in Net Position (Stmnt of Revenues)	\$ 1,697,694	\$ 981,848
TOTAL NET POSITION, December 31, 2017	\$ 40,805,196	\$ 39,107,503

The Notes to Financial Statements are an integral part of this statement.

Statement of Cash Flows
For the Year Ended December 31, 2017

CASH FLOWS FROM OPERATING ACTIVITIES

Cash received from customers	\$ 5,807,675
Cash payments to suppliers for goods and services	(2,803,514)
Cash payments to employees for service	(1,101,489)

Net Cash Provided by Operating Activities

\$ 1,902,671

CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES

Proceeds from fiduciary collections - street lights	\$ 156,863
Payments on fiduciary responsibilities	\$ (156,863)

Net Cash Provided by (used for) Noncapital Financing Activities

\$ -

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Proceeds from Public Works Trust Fund loans	-
Proceeds from Drinking Water State Revolving Fund	\$ 1,859,652
Proceeds from Dept of Ecology Grant	\$ -
Acquisition and construction of capital assets (2017 amounts only)	\$ (1,324,692)
Principal payments made on revenue bond maturities and other long-term debt	\$ (744,683)
Interest paid on revenue bonds and other long-term debts	\$ (74,445)
Proceeds from sale of equipment	\$ 2,672
Cash proceeds from contributions in aid of construction	\$ 9,000

Net Cash used by Capital and Related Financing Activities

\$ (272,496)

CASH FLOWS FROM INVESTING ACTIVITIES

Interest received	\$ 60,812
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Net Cash provided by Investing Activities

\$ 60,812

Net Increase (Decrease) in Cash and Cash Equivalents

\$ 1,690,987

Cash and Cash Equivalents at Beginning of Year

\$ 9,040,002

Cash and Cash Equivalents at End of Year

\$ 10,730,989

Reconciliation of Cash and Cash Equivalents

Cash and investments	\$ 6,509,125
Other restricted cash and investments	4,221,863

Cash and Cash Equivalents at End of Year

\$ 10,730,989

Statement of Cash Flows
For the Year Ended December 31, 2017

**RECONCILIATION OF OPERATING INCOME TO NET CASH
PROVIDED BY OPERATING ACTIVITIES:**

Operating Income (Loss)	\$ 516,802
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:	
Depreciation Expense	1,493,837
Change in Assets and Liabilities:	
(Increase) decrease in accounts receivable	28,254
(Increase) decrease in materials and supplies	(99,630)
(Increase) decrease in prepaid expenses	2,278
Increase (decrease) in accounts payable	<u>(38,869)</u>
Total Adjustments	<u>1,385,869</u>
Net Cash provided by operating activities	<u><u>\$ 1,902,671</u></u>

NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:

Non-cash contributions in aid of construction	<u><u>\$ 1,167,356</u></u>
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DISCLOSURE OF ACCOUNTING POLICY:

For purposes of this statement of cash flows, the District considers all of its investments in highly liquid debt instruments to have a maturity of three months or less and are thus considered as cash equivalents.

WHITWORTH WATER DISTRICT NO. 2
NOTES TO FINANCIAL STATEMENTS
January 1, 2017 through December 31, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Whitworth Water District No. 2 (the District) have been prepared in conformity with generally accepted accounting principles (GAAP) as applicable to Proprietary funds of governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The significant accounting policies are described below.

A. Reporting Entity

Whitworth Water District is a municipal corporation special purpose district that was incorporated in 1939 and operates under the laws of the State of Washington applicable to water districts. It is governed by an elected five member Board. As defined by the generally accepted accounting principles, Whitworth Water District has no component units.

B. Basis of Accounting and Presentation

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

The District uses the full-accrual basis of accounting where revenues are recognized when earned and expenses are recognized when incurred. Capital asset purchases are capitalized and long-term liabilities are accounted for in the fund. Operating income includes gains and losses from the disposal of utility plant and equipment.

The District distinguishes between operating revenues and expenses from non-operating ones. Operating revenues and expenses result from providing services and producing and delivering goods in connection with the District's principal ongoing operations. The principal operating revenues of the District are charges to customers for water and miscellaneous fees. The District also recognizes as operating revenue the portion of the tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for the district include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The District's financial statements include Statement of Net Position, Statement of Revenues, Expenses, and Changes in Fund Net Position, Statement of Cash Flows and the Management Discussion & Analysis. The financial statements also include the assets and liabilities for which the District has a custodial or trust responsibility.

C. Cash and Cash Equivalents

For purposes of the Statement of Cash Flows, the District considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

D. Utility Plant and Depreciation

See Note 2.

E. Restricted Funds

In accordance with certain related loan agreements (Public Works Trust Fund and Drinking Water State Revolving Fund), separate restricted funds are required to be established. The assets held in these funds are restricted for specific uses, including construction, debt service, and other special reserve requirements. Restricted funds needed for Public Works Trust Fund and Drinking Water State Revolving Fund loans for projects not yet closed out are estimated in the following table and both principal and interest fluctuate

according to the amount borrowed as of a specific date. Restricted funds required by loan covenants to cover principal and interest and reserved capital improvements funds in 2017 include the following:

	2017	2016
Long Term Debt Reserve Accounts (See Note 3)	\$ 809,171	\$ 732,653
Construction Capital Improvements (Future)		
LGIP	\$ 1,604,571	\$ 851,044
Washington Trust	\$ 1,808,122	\$ 1,274,667
Total	\$ 4,221,864	\$ 2,858,364

F. Receivables

Customer accounts receivable consists of amounts owed from private individuals or organizations for goods and services. The District's receivable balance represents all unpaid amounts at year end. The balance is not reduced by an estimated uncollectible amount since the District experiences virtually no bad debt loss because of its statutory authority to refuse service to delinquent properties and the District also has lien rights.

G. Inventories

Inventories consist of expendable supplies held for consumption and are valued at cost, using FIFO, which approximates the market value.

H. Deposits & Investments

Whitworth Water District certificates of deposit and deposits are entirely covered by federal depository insurance or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission.
(See Note 4)

I. Compensated Absences

Compensated absences are absences, like vacation and sick leave, for which employees will be paid. The District records unpaid leave for compensated absences as an expense and liability when occurred.

The District accrues accumulated unpaid vacation leave benefit amounts up to thirty working days and this is payable upon resignation, retirement or death. In accordance with the Union contract with Whitworth Water District, at separation any unused sick leave shall be forfeited and will not be paid as separation pay except when separation is due to death, retirement, or termination without cause after 10 years. When separation is due to the latter, an employee will be paid 50% of their accrued sick leave up to sixty-five days at his permanent rate of pay. Separation due to any other cause will result in forfeiture of sick leave. Sick leave accrual is unlimited.

The recorded liability for sick pay and vacation pay for the years ended December 31, 2017 and December 31, 2016 is noted below.

ID #	Year	Compensated Absences	Beginning Balance 01/01/2017	Additions	Reductions	Ending Balance 12/31/2017
259.12	2017	Sick	\$ 385,700	\$ 48,779	\$ 104,195	\$ 330,284
		Vacation	\$ 95,196	\$ 65,856	\$ 95,414	\$ 65,638
		Total	\$ 480,896	\$ 114,635	\$ 199,609	\$ 395,922
ID #	Year	Compensated Absences	Beginning Balance 01/01/2016	Additions	Reductions	Ending Balance 12/31/2016
259.12	2016	Sick	\$ 363,045	\$ 46,225	\$ 23,570	\$ 385,700
		Vacation	\$ 98,890	\$ 66,393	\$ 70,087	\$ 95,196
		Total	\$ 461,935	\$ 112,618	\$ 93,657	\$ 480,896

J. Unamortized Debt Expense

The District has no outstanding bonds at this time.

K. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of all state sponsored pension plans and additions to/deductions from those plans' fiduciary net position have been determined on the same basis as they are reported by the Washington State Department of Retirement Systems. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

NOTE 2 – UTILITY PLANT & DEPRECIATION

Major expenses for capital assets including major repairs that increase useful lives are capitalized. Determining when to capitalize and when to expense varies based on the project and the useful life of the expenditure. Generally, capital assets that have an initial cost or value of \$1000 and/or an estimated useful life in of ten (10) years or more. Maintenance and repairs which do not extend the useful life of the asset are recorded as expenses when incurred. Land is recorded at purchase price and is not depreciated.

Donations by developers and customers are recorded at the contract price or donor cost. Depreciation on assets acquired with contributed capital is recorded with other depreciation charges.

Depreciation is computed on the straight line method with useful lives of 10 to 40 years. Initial depreciation on assets is recorded in the month of purchase or completion. Depreciation is prorated from the month following the date of purchase or completion.

When capital assets are disposed of, the original cost is removed from the utility plant accounts, accumulated depreciation is reduced by the assets accumulated depreciation, and the net gain or loss is recorded to non-operating income.

Most capital assets will fall within the following guidelines relating to the number of years they will be depreciated.

<u>Asset</u>	<u>Years</u>
Building	<u>20</u>
Vehicles	<u>10</u>
Equipment	<u>10</u>
Transmission/Distribution Plant	<u>40</u>
Office Furniture & Equipment	<u>10</u>
Meters	<u>20</u>

A summary of changes in capital assets as of December 31, 2017 and December 31, 2016 follows:

1/1/2017 through 12/31/2017

	Balance 1/1/2017	Increase	Decrease	Balance 12/31/2017
Utility Plant Not Being Depreciated				
Land	\$ 1,030,854			\$ 1,030,854
Construction In Progress	\$ 3,381,982	\$ 1,456,908	\$ 4,760,969	\$ 77,921
Total Plant Not Being Depreciated	\$ 4,412,836	\$ 1,456,908	\$ 4,760,969	\$ 1,108,775
Utility Plant Being Depreciated				
Buildings, Plant	\$ 55,223,692	\$ 5,081,986	\$ 27,223	\$ 60,278,455
Equipment	\$ 1,046,747	\$ 83,792	\$ 27,409	\$ 1,103,130
Total Plant Being Depreciated	\$ 56,270,439	\$ 5,165,778	\$ 54,632	\$ 61,381,585
Less: Accumulated Depreciation	\$ (21,990,789)	\$ (1,493,837)	\$ (36,937)	\$ (23,447,689)
Total Plant Being Depreciated, Net	\$ 34,279,650	\$ 3,671,941	\$ 17,695	\$ 37,933,896
Net Capital Assets	\$ 38,692,486	\$ 5,128,849	\$ 4,778,664	\$ 39,042,671

1/1/2016 through 12/31/2016

	Balance 1/1/2016	Increase	Decrease	Balance 12/31/2016
Utility Plant Not Being Depreciated				
Land	\$ 1,030,854			\$ 1,030,854
Construction In Progress	\$ 5,709,042	\$ 871,870	\$ 3,198,930	\$ 3,381,982
Total Plant Not Being Depreciated	\$ 6,739,896	\$ 871,870	\$ 3,198,903	\$ 4,412,836
Utility Plant Being Depreciated				
Buildings, Plant	\$ 51,891,278	\$ 3,615,433	\$ 283,019	\$ 55,223,692
Equipment	\$ 1,092,526	\$ 64,110	\$ 109,889	\$ 1,046,747
Total Plant Being Depreciated	\$ 52,983,804	\$ 3,679,543	\$ 392,908	\$ 56,270,439
Less: Accumulated Depreciation	\$ (20,922,067)	\$ (1,446,159)	\$ (377,437)	\$ (21,990,789)
Total Plant Being Depreciated, Net	\$ 32,061,737	\$ 2,233,384	\$ 15,471	\$ 34,279,650
Net Capital Assets	\$ 36,801,633	\$ 3,105,254	\$ 3,214,401	\$ 38,692,486

NOTE 3 – LONG TERM DEBT

At this time the District has no bonded indebtedness. The District has been able to secure both Washington State Public Works Trust Fund (PWTF) and Drinking Water State Revolving Fund (DWSRF) low interest loans for the funding of major construction projects and these loans are repaid from water sales revenue of the District. Annual principal and interest payments on the loans require approximately 14% of the District's Operating Revenues. The total principal and interest remaining to be paid on the loans is \$8,960,252. Principal and interest paid for the current year was \$744,683 and \$74,445 respectively.

PUBLIC WORKS TRUST FUND LOANS:

The District has Public Works Trust Fund (PWTF) and Drinking Water State Revolving Fund (DWSRF) low interest bearing loans from the State of Washington for the construction of numerous projects as follows:

- Midway to Panorama: 2001, \$3,201,100, 20 year, .5% loan. Annual payment including interest is approximately \$114,000.
- North Colbert: 2005, \$2,502,300, 20 year, 0.50% loan. Annual payment including interest is approximately \$137,000.
- Perry North: 2006, \$3,496,600, 20 year, 0.50% loan. Annual payment including interest is approximately \$194,000.
- Big Meadows-Woolard Regular: 2011, \$2,586,950, 20 year, 0.25% loan. Annual payment including interest is approximately \$141,000.

DWSRF LOANS:

- SCWD #3, Chattaroy Hills: \$1,401,144, 20 year, 1% interest loan. Annual payment including interest is approximately \$83,400.
- 12" & 16" Main, Chattaroy Rd: \$584,781, 20 year, 1.5% interest loan. Annual payment including interest is approximately \$37,000.
- 18" Main, Bernhill: \$1,609,738, 20 year, 1.5% interest loan. Annual payment including interest is approximately \$68,000.

The estimated annual requirements to amortize outstanding debt of the District includes both principal and interest as follows:				
		Principal	Interest	Total
Year ending 12/31	2018	\$ 744,682	\$ 64,488	\$ 809,170
	2019	\$ 744,682	\$ 59,658	\$ 804,340
	2020	\$ 744,682	\$ 54,828	\$ 799,510
	2021	\$ 744,682	\$ 49,997	\$ 794,679
	2022	\$ 633,148	\$ 45,167	\$ 678,315
	2023 – 2037	\$ 4,809,150	\$ 265,086	\$ 5,074,236
Total Outstanding Debt		\$ 8,421,028	\$ 539,224	\$ 8,960,252

Summary of Long Term Debt is as follows for 2017 and 2016:

ID No.	Purpose	Date of Original Issue	Date of Maturity	Outstanding Debt 01/01/2017	Additions	Reductions	Outstanding Debt 12/31/2017
263.82 PWTF – Midway to Panorama	Main, Booster, Reservoir	2001	2021	\$ 557,671		\$ 111,534	\$ 446,137
263.82 PWTF – N. Colbert	Mains, Booster, Reservoir	2005	2025	\$ 1,188,592		\$ 132,066	\$ 1,056,526
263.82 PWTF Perry Rd N	Mains, Booster, Reservoir	2006	2026	\$ 1,851,141		\$ 185,114	\$ 1,666,027
263.82 Big Meadow Regular	Mains	2011	2031	\$ 2,043,014		\$ 136,201	\$ 1,906,813
263.82 DWSRF Chattaroy Hills	Mains, Pump Stn	2013	2035	\$ 1,331,087		\$ 70,057	\$ 1,261,030
263.82 DWSRF Bernhill	Mains, Pump Stn	2014	2036	\$ 919,335	\$ 690,089	\$ 80,471	\$ 1,528,953
263.82 DWSRF Chattaroy/Yale Rd	Mains	2014	2036		\$ 1,169,562	\$ 614,020	\$ 555,542
Total				\$ 7,890,840	\$ 1,859,651	\$ 1,329,463	\$ 8,421,028

ID No.	Purpose	Date of Original Issue	Date of Maturity	Outstanding Debt 01/01/2016	Additions	Reductions	Outstanding Debt 12/31/2016
263.82 PWTF – 8/9	Mains, Reservoir, Well	1999	2016	\$ 62,932		\$ 62,932	\$ 0
263.82 PWTF – Hatch to Panorama	Main, Booster, Reservoir	2001	2021	\$ 669,205		\$ 111,534	\$ 557,671
263.82 PWTF – N. Colbert	Mains, Booster, Reservoir	2005	2025	\$ 1,320,658		\$ 132,066	\$ 1,188,592
263.82 PWTF Perry Rd N	Mains, Booster, Reservoir	2006	2026	\$ 2,036,256		\$ 185,114	\$ 1,851,141
263.82 Big Meadow Regular	Mains	2011	2031	\$ 2,179,215		\$ 136,201	\$ 2,043,014
263.82 DWSRF Chattaroy Hills	Mains, Pump Stn	2013	2035	\$ 2,501,330	\$ 300,958	\$ 1,471,201	\$ 1,331,087
263.82 DWSRF Bernhill	Mains, Pump Stn	2014	2036	\$ 919,335			\$ 919,335
Total				\$ 9,688,931	\$ 300,958	\$ 2,099,048	\$ 7,890,840

NOTE 4 – INVESTMENTS

As required by State law, all investments of the District's funds are obligations of the U.S. Government, the State Treasurer's Local Government Investment Pool (LGIP) or deposits with a Washington State bank savings and loan institution. District funds are invested at the direction of the District's Board of Commissioners. The District considers all of its investments in highly liquid debt instruments to have a maturity of three months or less and are therefore considered as cash equivalents. While the LGIP is managed diligently by professional and dedicated personnel to protect against losses from market and credit changes, the pool is not insured or guaranteed by any government. Therefore, the maintenance of principal is not fully assured.

The pool was created by the Washington State Legislature in 1986 to provide a mechanism whereby eligible government entities, at their option, invest temporary cash surpluses and take advantage of the volume and expertise of the state's investment program to earn a competitive rate of return while maintaining the security and liquidity of the funds they manage.

The pool is managed and operated solely by the office of the State Treasurer. In 1995, the Local Government Investment Pool Advisory Committee was created by the State Treasurer to advise the Treasurer on the operation of the pool.

The investment activity of the pool is guided by an investment policy, which sets forth the parameters within which the portfolio manager may operate. The policy, which was approved by the State Treasurer and certified by the Association of Public Treasurers, is reviewed annually and updated as necessary. Compliance with the policy is monitored by the investment accounting division of the Office of the State Treasurer, which is separate and distinct from the investment division.

Participants are offered 100% liquidity on a daily basis, provided notification is made within specified times. The expenses of operating the pool are covered through an administrative fee of less than 1 basis point charged to participants based on their average daily balance in the pool. Fees in excess of the expenses incurred for pool operation are rebated to participants. As of June 30, 2017 there were 530 LGIP participants, with total net position of \$14.8 billion.

The Local Government Investment Pool is considered extremely low risk. The pool is operated in a manner consistent with the Securities and Exchange Commission's Rule 2a-7 of the 1940 Investment Company Act; therefore, its holdings are limited to high quality obligations with maximum and average maturities which minimizes both market and credit risk. The Pool's portfolio consists of high quality, highly liquid securities and its relative average maturity reduces its price sensitivity to market interest rate. Its strong degree of asset diversification also helps to minimize risk and maintain adequate rates of return to the Pool participants.

The State Treasurer requires reimbursement for the administration and recovery of costs associated with the operation of the LGIP. Reimbursement is calculated based on the pool participant's monthly average daily balance and is reflected on the monthly statement. The reimbursement amount is deducted from Whitworth Water District's earnings prior to the earnings posting to the account. At the end of the year, the LGIP determines the actual amount of funds necessary for Pool expenses and rebates those collected administrative fees in excess of operational requirements.

The District's deposits and certificates of deposit are entirely covered by Federal Depository Insurance (FDIC) or by collateral held or a multiple financial collateral pool administered by the Washington Public Deposit Protection Commission (PDPC). The Federal Reserve and Public Deposit Protection Commission have requirements for banks holding public funds. The District's bank buys Treasury Bonds at 102% to cover all District public funds being held.

The District's investments are categorized to give an indication of the risk assumed at year end. Category 1 includes investments that are either insured, registered or held by the District or its agents in the District's name. Category 2 includes uninsured and unregistered investments which are held by the brokers, dealers trust department or agent in the District's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the broker, its trust department, or agent, but not in the District's name.

The District's investments at year end are stated as follows:

State Local Government Investment Pool			
	Category 1	Carrying Amount	Market Value 12/31/17 and 12/31/2016
2017	\$ 6,313,073	\$ 6,313,073	\$ 6,313,073
2016	\$ 4,669,882	\$ 4,669,882	\$ 4,669,882

All temporary investments are stated at cost, which approximates market value. Management intends to hold the time deposits and securities until maturity.

NOTE 5 – CONSTRUCTION IN PROGRESS

As of December 31, 2017, Construction in Progress consisted of the following:

2017			
<u>Projects</u>	<u>Estimated Project Authorization</u>	<u>Expended through 12/31/2017</u>	<u>Remaining Commitment</u>
New Office/Shop Complex	\$ 4,500,000	\$ 40,964	\$ 4,459,036
Midway Reservoir Roof Repairs	102,000	1,608	100,392
WWD Water System Plan	50,000	35,349	14,651
Total of Projects in Progress	\$ 4,652,000	\$ 77,921	\$ 4,574,079

2016			
<u>Projects</u>	<u>Estimated Project Authorization</u>	<u>Expended through 12/31/2016</u>	<u>Remaining Commitment</u>
Bernhill Road	\$ 2,121,017	\$ 2,041,017	\$ 80,000
Chattaroy Rd/Yale Rd	1,329,400	1,106,736	50,000
Midway Booster Repair	110,000	40,904	69,000
Hardesty Ridge Phase I	130,000	129,473	0
Hardesty Ridge Phase II	380,000	30,006	350,000
SR 2 Crossing – in engineering		8,791	
GBWA Precon	250,000	7,555	242,500
WWD Water System Plan	50,000	17,500	32,500
Total of Projects in Progress	\$ 4,370,417	\$ 3,381,982	\$ 824,000

NOTE 6 – PENSION PLANS

The following table represents the aggregate pension amounts for all plans subject to the requirements of the GASB Statement 68, *Accounting and Financial Reporting for Pensions* for the year 2017:

Aggregate Pension Amounts – All Plans	
Pension liabilities	\$ (756,879)
Deferred outflows of resources	\$ 142,117
Deferred inflows of resources	\$ (145,568)
Pension expense/expenditures	\$ 92,210

State Sponsored Pension Plans

Substantially all District's full-time and qualifying part-time employees participate in one of the following statewide retirement systems administered by the Washington State Department of Retirement Systems, under cost-sharing, multiple-employer public employee defined benefit and defined contribution retirement plans. The state Legislature establishes, and amends, laws pertaining to the creation and administration of all public retirement systems.

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

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

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

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

PERS members include elected officials; state employees; employees of the Supreme, Appeals, and Superior Courts; employees of legislature; employees of district and municipal courts; employees of local governments; and higher education employees not participating in higher education retirement programs.

PERS is comprised of three separate pension plans for membership purposes. PERS plans 1 and 2 are defined benefit plans, and PERS plan 3 is a defined benefit plan with a defined contribution component.

PERS Plan 1 provides retirement, disability and death benefits. Retirement benefits are determined as two percent of the member's average final compensation (AFC) times the member's years of service. The AFC is the average of the member's 24 highest consecutive service months. Members are eligible for retirement from active status at any age with at least 30 years of service, at age 55 with at least 25 years of service, or at age 60 with at least five years of service. Members retiring from active status prior to the age of 65 may receive actuarially reduced benefits. Retirement benefits are actuarially reduced to reflect the choice of a survivor benefit. Other benefits include duty and non-duty disability payments, an optional cost-of-living adjustment (COLA), and a one-time duty-related death benefit, if found eligible by the Department of Labor and Industries. PERS 1 members were vested after the completion of five years of eligible service. The plan was closed to new entrants on September 30, 1977.

Contributions

The District has no active PERS 1 employees. Contributions are a component of PERS 2/3 to address the PERS 1 UAAL.

PERS Plan 2/3 provides retirement, disability and death benefits. Retirement benefits are determined as two percent of the member's average final compensation (AFC) times the member's years of service for Plan 2 and 1 percent of AFC for Plan 3. The AFC is the average of the member's 60 highest-paid consecutive service months. There is no cap on years of service credit. Members are eligible for retirement with a full benefit at 65 with at least five years of service credit. Retirement before age 65 is considered an early retirement. PERS Plan 2/3 members who have at least 20 years of service credit and are 55 years of age or older, are eligible for early retirement with a benefit that is reduced by a factor that varies according to age for each year before age 65. PERS Plan 2/3 members who have 30 or more years of service credit and are at least 55 years old can retire under one of two provisions:

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

PERS Plan 2/3 members hired on or after May 1, 2013 have the option to retire early by accepting a reduction of 5 percent for each year of retirement before age 65. This option is available only to those who are age 55 or older and have at least 30 years of service. PERS Plan 2/3 retirement benefits are also actuarially reduced to reflect the choice of a survivor benefit. Other PERS Plan 2/3 benefits include duty and non-duty disability payments, a cost-of-living allowance (based on the CPI), capped at three percent annually and a one-time duty related death benefit, if found eligible by the Department of Labor and Industries. PERS 2 members are vested after completing five years of eligible service.

Contributions

The **PERS Plan 2/3** employer and employee contribution rates are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. The Plan 2/3 employer rates include a component to address the PERS Plan 1 UAAL and an administrative expense that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 2 employer and employee contribution rates and Plan 3 contribution rates. The PERS Plan 2/3 required contribution rates (expressed as a percentage of covered payroll) for 2017 were as follows:

PERS Plan 2/3		
Actual Contribution Rates:	Employer 2/3	Employee 2/3
January - June 2017		
PERS Plan 2/3	6.23%	6.12%
PERS Plan 1 UAAL	4.77%	
Administrative Fee	.18%	
Total	11.18%	6.12%
July - December 2017		
PERS Plan 2/3	7.49%	7.38%
PERS Plan 1 UAAL	5.03%	
Administrative Fee	.18%	
Total	12.70%	7.38%

The District's actual contributions to the plan were \$ 121,206.62 for the year ended December 31, 2017.

Actuarial Assumptions

The total pension liability (TPL) for each of the DRS plans was determined using the most recent actuarial valuation completed in 2017 with a valuation date of June 30, 2016. The actuarial assumptions used in the valuation were based on the results of the Office of the State Actuary's (OSA) *2007-2012 Experience Study* and the *2015 Economic Experience Study*.

Additional assumptions for subsequent events and law changes are current as of the 2016 actuarial valuation report. The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2017. Plan liabilities were rolled forward from June 30, 2016, to June 30, 2017, reflecting each plan's normal cost (using the entry-age cost method), assumed interest and actual benefit payments.

- **Inflation:** 3.0% total economic inflation; 3.75% salary inflation
- **Salary increases:** In addition to the base 3.75% salary inflation assumption, salaries are also expected to grow by promotions and longevity.
- **Investment rate of return:** 7.5%

Mortality rates were based on the RP-2000 report's Combined Healthy Table and Combined Disabled Table, published by the Society of Actuaries. The OSA applied offsets to the base table and recognized future improvements in mortality by projecting the mortality rates using 100 percent Scale BB. Mortality rates are applied on a generational basis; meaning, each member is assumed to receive additional mortality improvements in each future year throughout his or her lifetime.

There were changes in methods and assumptions since the last valuation.

- For all plans except LEOFF Plan 1, how terminated and vested member benefits are valued was corrected.
- How the basic minimum COLA in PERS Plan 1 is valued for legal order payees was improved.
- For all plans, the average expected remaining service lives calculation was revised

Discount Rate

The discount rate used to measure the total pension liability for all DRS plans was 7.5 percent.

To determine that rate, an asset sufficiency test included an assumed 7.7 percent long-term discount rate to determine funding liabilities for calculating future contribution rate requirements. (All plans use 7.7 percent except LEOFF 2, which has assumed 7.5 percent). Consistent with the long-term expected rate of return, a 7.5 percent future investment rate of return on invested assets was assumed for the test. Contributions from plan members and employers are assumed to continue being made at contractually required rates (including PERS 2/3, PSERS 2, SERS 2/3, and TRS 2/3 employers, whose rates include a component for the PERS 1, and TRS 1 plan liabilities). Based on these assumptions, the pension plans' fiduciary net position was projected to be available to make all projected

future benefit payments of current plan members. Therefore, the long-term expected rate of return of 7.5 percent was used to determine the total liability.

Long-Term Expected Rate of Return

The long-term expected rate of return on the DRS pension plan investments of 7.5 percent was determined using a building-block-method. In selecting this assumption, the Office of the State Actuary (OSA) reviewed the historical experience data, considered the historical conditions that produced past annual investment returns, and considered capital market assumptions and simulated expected investment returns provided by the Washington State Investment Board (WSIB). The WSIB uses the capital market assumptions and their target asset allocation to simulate future investment returns over various time horizons.

Estimated Rates of Return by Asset Class

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2017, are summarized in the table below. The inflation component used to create the table is 2.2 percent and represents the WSIB's most recent long-term estimate of broad economic inflation.

Asset Class	Target Allocation	% Long-Term Expected Real Rate of Return Arithmetic
Fixed Income	20%	1.70%
Tangible Assets	5%	4.90%
Real Estate	15%	5.80%
Global Equity	37%	6.30%
Private Equity	23%	9.30%
	100%	

Sensitivity of Net Pension Liability

The table below presents the District's proportionate share* of the net pension liability calculated using the discount rate of 7.5 percent, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.5 percent) or 1-percentage point higher (8.5 percent) than the current rate.

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
PERS 1	\$ 474,803	\$ 389,761	\$ 316,096
PERS 2/3	\$ 989,054	\$ 367,118	\$ (142,467)

***See Note 4.C of the DRS Participating Employer Financial Information report for the year ended June 30. Multiply the total net pension liability amounts for each applicable plan by your proportionate share for that plan.**

Pension Plan Fiduciary Net Position

Detailed information about the State's pension plans' fiduciary net position is available in the separately issued DRS financial report.

Pension Liabilities (Assets), Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2017, the District reported a total pension liability of \$756,879 for its proportionate share of the net pension liabilities as follows:

	Liability (or Asset)
PERS 1	\$389,761
PERS 2/3	\$367,118

At June 30, the District's proportionate share of the collective net pension liabilities was as follows:

	Proportionate Share 6/30/16	Proportionate Share 6/30/17	Change in Proportion
PERS 1	.007605%	.008214%	.000609%
PERS 2/3	.009757%	.010566%	.000809%

Employer contribution transmittals received and processed by the DRS for the fiscal year ended June 30 are used as the basis for determining each employer's proportionate share of the collective pension amounts reported by the DRS in the *Schedules of Employer and Nonemployer Allocations* for all plans except LEOFF 1.

The collective net pension liability (asset) was measured as of June 30, 2017, and the actuarial valuation date on which the total pension liability (asset) is based was as of June 30, 2016, with update procedures used to roll forward the total pension liability to the measurement date.

Pension Expense

For the year ended December 31, 2017, the District recognized pension expense as follows:

	Pension Expense
PERS 1	\$51,229
PERS 2/3	\$40,982

Deferred Outflows of Resources and Deferred Inflows of Resources

At December 31, 2017, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

PERS 1	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 0	\$ 0
Net difference between projected and actual investment earnings on plan investments	\$0	(\$14,545)
Changes in assumptions	\$ 0	\$ 0
Changes in proportion and differences between contributions and proportionate share of contributions	\$ 0	\$ 0
Contributions subsequent to the measurement date	\$ 27,697	\$ 0
TOTAL	\$ 27,697	(\$14,545)

PERS 2/3	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 37,198	(\$ 12,074)
Net difference between projected and actual investment earnings on plan investments	\$ 0	(\$97,865)
Changes in assumptions	\$ 3,899	\$ 0
Changes in proportion and differences between contributions and proportionate share of contributions	\$ 32,080	(\$21,085)
Contributions subsequent to the measurement date	\$ 41,242	\$ 0
TOTAL	\$ 114,420	(\$ 131,024)

TOTAL ALL PLANS	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 37,198	(\$ 12,074)
Net difference between projected and actual investment earnings on plan investments	\$ 0	(\$112,410)
Changes in assumptions	\$ 3,899	\$ 0
Changes in proportion and differences between contributions and proportionate share of contributions	\$ 32,080	(\$21,085)
Contributions subsequent to the measurement date	\$ 68,939	\$ 0
TOTAL	\$ 142,117	(\$ 145,569)

Deferred outflows of resources related to pensions resulting from the District's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2018. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31:	PERS1	PERS 2/3
2018	(\$ 9,831)	(\$ 42,205)
2019	\$ 3,104	\$ 6,214
2020	(\$ 721)	(\$ 5,699)
2021	(\$ 7,097)	(\$ 34,635)
2022		8,034
Thereafter		10,444
Total	(\$14,545)	(\$ 57,846)

NOTE 7 – DEFERRED COMPENSATION PROGRAM

The State of Washington has approved offering its employees and employees of those political subdivisions that elect to participate, a deferred compensation program (DCP) pursuant to RCW 41.50.770, in accordance with Internal Revenue Code Section 457. Whitworth Water District commissioners have likewise approved offering its employees the State deferred compensation program. The deferred compensation is not available to employees until termination, retirement, disability, death or unforeseeable financial emergency. This deferred compensation program is administered by DRS.

The intent of the program is to provide additional income to participants upon retirement. By deferring part of their income, participants can reduce their taxable income each year. The investments remain tax-free until they are withdrawn. The program provides participants with a way to easily save money and help supplement their other retirement income.

Whitworth Water District employees participating in DCP self-direct their investments through options provided by the Washington State Investment Board (WSIB). The WSIB has the full power to invest moneys in DCP in accordance with RCW 43.84.150, 43.33A.140, and 41.50.770.

The program offers two investment options as follows:

The **One-Step Investing** option is designed for those who do not have the desire, comfort level and/or time to select, monitor and rebalance, as needed, their own allocation mix of funds. Each Retirement Strategy Fund is diversified and automatically rebalances, adjusting the participant's allocation mix as the participant moves toward a retirement date. The program funds for this option include 12 specific Retirement Strategy year options from 2000 to 2055.

The **Build and Monitor** option requires the participant to select fund(s) from any or all of the following seven professionally managed funds, monitor account activity and rebalance the allocation mix as necessary to maintain the desired investment objectives.

DCP participants may adjust or suspend their participation in the program at any time. Upon separation from employment, DCP participants have the option of withdrawing some or all of the balance in their account or leaving their balance in place to continue to benefit from market fluctuations.

The IRS requires a DCP participant to start receiving mandatory account distributions at retirement, or by April of the year after the participant turns 70 ½ years old, whichever comes later.

All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, are held in trust by the WSIB, as set forth under RCW 43.33A.030, for the exclusive benefit of the DCP participants and their beneficiaries. Neither the participant, nor the participant's beneficiary or beneficiaries, nor any other designee, has any right to commute, sell, assign, transfer, or otherwise convey the right to receive any payments under the plan. These payments and rights thereto are non-assignable and non-transferable.

NOTE 8 – RISK MANAGEMENT

The District purchases insurance through local agents as shown below:

AGENT	COVERAGE	LIMIT	DEDUCTIBLE
Hub International Northwest LLC	Notary Bonds	\$ 10,000	
	Public Officials Bond	50,000	
	Commercial Package:		
	Property – Per Occurrence	Blanket	10,000
	General Liability	1,000,000 - 3,000,000	Varies
	Crime & Fidelity	5,000 – 500,000	1,000
	Inland Marine	Varies	1,000
	Automobile – BI and PD	1,000,000	500
	Professional Liab. (D&O) Per Claim	1,000,000	1,000
	Boiler and Machinery	29,553,330 max.	10,000
	Employment Practices – Per Claim	1,000,000	1,000
	Commercial Umbrella	10,000,000	
	Street Obstruction Bond-Spokane Co	10,000	
	Franchise & Permit, WA State DOT	10,000	
	Flood Insurance	Bldg-\$500,000 Content-\$319,100	5,000 5,000
	Public Officials & Mgmt Liability	1,000,000 - 3,000,000	1,000
	Cyber Liability	1,000,000	2,500
Moranco and Associates	Group Medical, Vision, Life & AD&D, Insurance	Varies	Varies
Delta Dental of Washington	Dental and Orthodontia	Varies	Varies

NOTE 9 – JOINT VENTURE

Spokane Aquifer Joint Board

Whitworth Water District became a member of the Spokane Aquifer Joint Board in June 1995. The Board was formed in accordance with and authorized by RCW 39.34, Washington Interlocal Cooperation Act.

The activities of the Board all relate to the protection of the Spokane Valley/Rathdrum Prairie Aquifer public water supply; however, its main focus is to eliminate the duplication of effort in developing required wellhead protection plans for each Spokane County public water system, to insure that a coordinated effort is made to enforce the plans, and to collectively ensure ongoing aquifer protection education programs and contaminant source inventories.

Each member district bears its share of administrative costs and project costs, which are minimal, that are based on the benefit each derives from the project.

Spokane County Watershed Planning Unit - WRIA 55 and 57

Whitworth Water District is an initiating agency on the WRIA55-57 Watershed Planning Unit. The Watershed Planning Unit provides a collaborative process for participating governmental entities, non-governmental organizations and other interested parties to implement the completed local watershed plan. It provides an alternative, voluntary way to engage in cooperative planning and managing the use of Washington's water resources in the Spokane County region. The governmental initiating agencies participate in this endeavor through a signed Memorandum of Agreement (MOA) between and by the parties.

The signators to the MOA provide funding to the Unit's Lead Agency (Spokane Conservation District) for administrative costs necessary to carry out the implementation process and at times, provide a matching portion of a grants implementation. Financial obligations spelled out in the MOA have received governmental body approval. The current MOA is for a 4 year term that will expire June 1, 2018, however, the MOA can be extended an additional four years by agreement.

NOTE 10 – POST EMPLOYMENT BENEFITS

The District provides no post-employment benefits to retired employees other than those provided through the Washington State Retirement System for retirement income.

NOTE 11 – CONTINGENT LIABILITIES & LITIGATION

As discussed in Note 3, Whitworth Water District has a number of Federal and State Public Works Trust Fund and Drinking Water State Revolving Fund loans and is contingently liable for the repayment of the debt. These grants and loans are subject to audit by the grantors or their representatives. Such audits could result in requests for reimbursement to grantor agencies for expenditures disallowed under the terms of the grants. The District believes that such disallowances, if any, will be immaterial.

The legal matter, that had been previously disclosed in prior years, was settled in 2017 in favor of the District.

NOTE 12 – SUBSEQUENT EVENTS

Whitworth Water District secured \$4.5 million Water Revenue Bond in January 2018 for the purpose of constructing a new office/shop complex on district owned property. The bond is a 10 year 2.71% fixed rate loan with semi-annual interest payments and an annual principal payment.

REQUIRED SUPPLEMENTARY INFORMATION - State Sponsored Plans

WHITWORTH WATER DISTRICT #2
Schedule of Proportionate Share of the Net Pension Liability

PERS 1

As of June 30, 2017
Last 10 Fiscal Years*

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Employer's proportion of the net pension liability (asset)	%	0.008300%	0.007605%	0.008214%						
Employer's proportionate share of the net pension liability	\$	434,167	408,424	389,761						
TOTAL	\$	434,167	408,424	389,761						
Employer's covered employee payroll	\$	951,685	934,356	1,009,274						
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	%	45.62%	43.71%	38.62%						
Plan fiduciary net position as a percentage of the total pension liability	%	59.10%	57.03%	61.24%						

Notes to Schedule:

* Until a full 10-year trend is compiled, governments should present information only for those years for which information is available.

REQUIRED SUPPLEMENTARY INFORMATION - State Sponsored Plans

WHITWORTH WATER DISTRICT #2
Schedule of Proportionate Share of the Net Pension Liability

PERS 2/3

As of June 30, 2017
 Last 10 Fiscal Years*

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Employer's proportion of the net pension liability (asset)	%	0.010729%	0.009757%	0.010566%						
Employer's proportionate share of the net pension liability	\$	383,353	491,257	367,118						
TOTAL	\$	383,353	491,257	367,118						
Employer's covered employee payroll	\$	951,685	934,356	1,009,274						
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	%	40.28%	52.58%	36.37%						
Plan fiduciary net position as a percentage of the total pension liability	%	89.20%	85.82%	90.97%						

Notes to Schedule:

* Until a full 10-year trend is compiled, governments should present information only for those years for which information is available.

REQUIRED SUPPLEMENTARY INFORMATION - State Sponsored Plans

WHITWORTH WATER DISTRICT #2
Schedule of Employer Contributions

PERS 1

As of December 31, 2017
 Last 10 Fiscal Years*

	2015 **	2016	2017	2018	2019	2020	2021	2022	2023	2024
Statutorily or contractually required contributions \$	42,034	46,473	49,574							
Contributions in relation to the statutorily or contractually required contributions \$	(42,034)	(46,473)	(49,574)							
Contribution deficiency (excess) \$	0	0	0							
Covered employer payroll \$	953,237	974,270	1,009,274							
Contributions as a percentage of covered employee payroll %	4.41%	4.77%	4.91%							

Notes to Schedule:

* Until a full 10-year trend is compiled, governments should present information only for those years for which information is available.

** Corrected 2015 contributions to reflect actual amounts contributed to PERS1 & PERS2/3.

REQUIRED SUPPLEMENTARY INFORMATION - State Sponsored Plans

WHITWORTH WATER DISTRICT #2
Schedule of Employer Contributions

PERS 2/3

As of December 31, 2017

Last 10 Fiscal Years*

	2015 **	2016	2017	2018	2019	2020	2021	2022	2023	2024
Statutorily or contractually required contributions \$	54,033	60,697	69,816							
Contributions in relation to the statutorily or contractually required contributions \$	(54,033)	(60,697)	(69,816)							
Contribution deficiency (excess) \$	0	0	0							
Covered employer payroll \$	953,237	974,270	1,009,274							
Contributions as a percentage of covered employee payroll %	5.67%	6.23%	6.92%							

Notes to Schedule:

* Until a full 10-year trend is compiled, governments should present information only for those years for which information is available.

** Corrected 2015 contributions to reflect actual amounts contributed to PERS1 & PERS2/3.

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
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Toll-free Citizen Hotline	(866) 902-3900
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