



Office of the Washington State Auditor
Pat McCarthy

Financial Statements Audit Report

Whitworth Water District No. 2

For the period January 1, 2018 through December 31, 2018

Published October 3, 2019

Report No. 1024754





Office of the Washington State Auditor
Pat McCarthy

October 3, 2019

Board of Commissioners
Whitworth Water District No. 2
Mead, 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 black ink that reads "Pat McCarthy". The signature is written in a cursive, flowing style.

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.....	37

**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, 2018 through December 31, 2018**

Board of Commissioners
Whitworth Water District No. 2
Mead, 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 Whitworth Water District No. 2, as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated September 18, 2019. The prior year comparative information has been derived from the District's 2017 basic financial statements, on which we issued our report dated October 10, 2018.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audits of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions 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

September 18, 2019

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Whitworth Water District No. 2 January 1, 2018 through December 31, 2018

Board of Commissioners
Whitworth Water District No. 2
Mead, 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, 2018, 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 opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Whitworth Water District No. 2, as of December 31, 2018, 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, 2017, from which such partial information was derived. We have previously audited the District's 2017 basic financial statements on which we expressed an unmodified opinion in our report dated October 10, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2017, 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 September 18, 2019 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

September 18, 2019

FINANCIAL SECTION

Whitworth Water District No. 2 January 1, 2018 through December 31, 2018

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2018

BASIC FINANCIAL STATEMENTS

Statement of Net Position – 2018

Statement of Revenues, Expenses, and Changes in Fund Net Position – 2018

Statement of Cash Flows – 2018

Notes to Financial Statements – 2018

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Proportionate Share of Net Pension Liability – PERS 1 and PERS 2/3 – 2018

Schedule of Employer Contributions – PERS 1 and PERS 2/3 – 2018

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, 2018. 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, 2018 in the amount of \$41.67 million, as compared with \$40.81 million in 2017. Increase was partly due to miscellaneous contractor contributions with the balance from normal operations.

The Current Assets decreased from \$8.19 million in 2017 to \$6.90 million in 2018 most of which related to an decrease in cash due to purchase of land for future well site use and increase spending on Construction in Progress. Restricted Assets, which are used for long term debt repayment and for construction projects, increased from \$4.22 million in 2017 to \$5.98 million in 2018. Increase was due to adjustment in transfer amount to debt service for future debt payments and receipt of funds for the purpose of constructing new administration/shop complex.

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			
	2018	2017	Change
Current Assets	\$ 6,903,379	\$ 8,183,447	\$ (1,280,068)
Restricted Assets	5,975,616	4,221,863	1,753,753
Non-Current, Including Capital Assets	42,886,006	39,042,671	3,843,335
Total Assets	\$ 55,765,001	\$ 51,447,981	\$ 4,317,020
Deferred Outflows of Resources	116,520	142,118	(25,598)
Total Assets & Outflows	\$ 55,881,521	\$ 51,590,099	\$ 4,291,422
Current Liabilities	\$ 1,696,938	\$ 969,300	\$ 727,638
Non-Current Liabilities	11,547,356	8,829,147	2,718,209
Total Liabilities	\$ 13,244,294	\$ 9,798,447	\$ 3,445,847
Deferred Inflows of Resources	\$ 967,491	\$ 986,457	\$ (18,966)
Total Liabilities & Inflows	\$ 14,211,785	\$ 10,784,904	\$ 3,426,881
Invested in Capital Assets Net of Related Debt	\$ 31,124,660	\$ 30,621,643	\$ 503,017
Restricted for Debt and Construction	5,975,615	4,221,863	1,753,752
Unrestricted	4,569,460	5,961,690	(1,392,230)
Total Net Position	\$ 41,669,735	\$ 40,805,196	\$ 864,539
Total Net Position and Liabilities	\$ 55,881,521	\$ 51,590,100	\$ 4,291,420

Description of Capital Assets

The Capital Asset increased significantly for 2018. This was due to Construction in Progress of the new administration/shop complex and engineering services for a new well, pump house and transmission lines. Certain expenses captured in Construction in Progress were expensed rather than capitalized. Contributions from developers totaled \$562,386. Property was purchased in 2018 for development of a new well site.

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			
	2018	2017	Change
Total Operating Revenue	\$ 5,529,013	\$ 5,779,421	\$ (250,408)
Total Operating Expense	5,166,308	5,262,618	(96,310)
Net Operating Income (Loss)	\$ 362,705	\$ 516,803	\$ (154,098)
Non-Operating Revenue	\$ 212,013	\$ 45,789	\$ 166,224
Non-Operating Expense	272,566	41,253	231,313
Net Non-Operating Income (Loss)	\$ (60,553)	\$ 4,536	\$ (65,089)
Net Income(Loss) prior to Contributions	\$ 302,152	\$ 521,338	\$ (219,186)
Capital Contributions	562,387	1,176,356	(613,969)
Change in Net Position	\$ 864,539	\$ 1,697,694	\$ (833,155)
Beginning Net Position	\$ 40,805,196	\$ 39,107,502	\$ 1,697,694
Prior Period Adjustments			
Change in Net Position	864,539	1,697,694	(833,155)
Ending Net Position	\$ 41,669,735	\$ 40,805,196	\$ 864,539

Revenue is derived from the sale of water and miscellaneous fees and charges for other related services like fire protection, labor and materials, connection 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 Revenues, Expenses and Changes in Fund Net Position”. The above table reflects a decrease of 4.33% in operating revenue and a decrease of 1.83% in operating expenses from 2017 to 2018.

Contributions

Capital Contributions relate to facilities donated to the District by Developers who have paid for their design and installation. There were five small developer capital contributions made to the District in 2018.

Contributions			
	2018	2017	Change
Contributions	\$562,387	\$1,176,356	(\$613,969)

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 secured a long-term Water Revenue Bond for the financing of the new administration/shop complex. 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, Drinking Water State Revolving Fund, and private funded debt at December 31, 2018 and 2017 is as follows:

Long Term Debt			
	2018	2017	Change
Public Works Trust Fund	\$ 4,510,589	\$ 5,075,503	\$ (564,914)
Drinking Water State Revolving Fund	3,165,757	3,345,525	(179,768)
Water Revenue Bond 2018	4,085,000		4,085,000
Total Long Term Debt	\$ 11,761,346	\$ 8,421,028	\$ 3,340,318

District's Position

In reviewing the 2018 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, 2018 & 2017****ASSETS**

2018

2017

Current Assets:

Cash and Cash Equivalents	\$ 931,705	\$ 2,609,794
Deposits with Fiscal Agents/Trustees	\$ -	\$ -
Temporary Investments	\$ 4,532,341	\$ 3,899,331
Receivables	\$ 292,591	\$ 348,316
Receivables - Assessments	\$ 736,741	\$ 840,887
Inventories	\$ 365,677	\$ 438,911
Prepayments	\$ 44,324	\$ 46,208
Other Current Assets	\$ -	\$ -
<u>Sub Total</u>	<u>\$ 6,903,379</u>	<u>\$ 8,183,447</u>

Restricted Assets:

Debt Service, Deposits, Replacements	\$ 1,322,044	\$ 809,171
Construction Accounts	\$ 4,653,572	\$ 3,412,693
<u>Sub Total</u>	<u>\$ 5,975,616</u>	<u>\$ 4,221,863</u>

TOTAL CURRENT ASSETS

\$ 12,878,995	\$ 12,405,311
---------------	---------------

Noncurrent Assets:

Capital Assets Not Being Depreciated

Land	\$ 1,354,301	\$ 1,030,854
Construction In Progress	\$ 4,294,915	\$ 77,921

Capital Assets Being Depreciated

Plant	\$ 61,113,037	\$ 60,278,455
Machinery and Equipment	\$ 1,141,795	\$ 1,103,130
Less Accumulated Depreciation	\$ (25,018,043)	\$ (23,447,688)
Total Capital Assets (Net)	<u>\$ 42,886,006</u>	<u>\$ 39,042,671</u>

TOTAL NONCURRENT ASSETS

\$ 42,886,006	\$ 39,042,671
---------------	---------------

TOTAL ASSETS

<u>\$ 55,765,000</u>	<u>\$ 51,447,982</u>
----------------------	----------------------

DEFERRED OUTFLOWS OF RESOURCES

Deferred Outflows - Pensions	\$ 116,520	\$ 142,118
------------------------------	------------	------------

TOTAL ASSETS & DEFERRED OUTFLOWS OF RESOURCES

<u>\$ 55,881,520</u>	<u>\$ 51,590,100</u>
----------------------	----------------------

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

STATEMENT OF NET POSITION**December 31, 2018 & 2017**

<u>LIABILITIES</u>	2018	2017
Current Liabilities:		
Accounts Payable	\$ 374,894	\$ 160,129
TOTAL CURRENT LIABILITIES	<u>\$ 374,894</u>	<u>\$ 160,129</u>
Payables from Restricted Assets:		
Debt Principal - 2019	\$ 1,151,682	\$ 744,683
Debt Interest - 2019	\$ 170,361	\$ 64,488
TOTAL PAYABLES FROM RESTRICTED ASSETS	<u>\$ 1,322,044</u>	<u>\$ 809,171</u>
Noncurrent Liabilities:		
Compensated Absences	\$ 427,678	\$ 395,923
Other Long Term Debt (less 2019 principal)	\$ 10,609,663	\$ 7,676,346
Net Pension Liability	\$ 510,015	\$ 756,879
TOTAL NONCURRENT LIABILITIES	<u>\$ 11,547,356</u>	<u>\$ 8,829,147</u>
<u>TOTAL LIABILITIES</u>	<u>\$ 13,244,294</u>	<u>\$ 9,798,447</u>
DEFERRED INFLOWS OF RESOURCES		
Deferred Inflow - Pension	\$ 230,750	\$ 145,570
Deferred Inflow - Assessments	\$ 736,741	\$ 840,887
TOTAL INFLOWS OF RESOURCES	<u>\$ 967,491</u>	<u>\$ 986,457</u>
<u>TOTAL LIABILITIES & DEFERRED INFLOWS OF RESOURCES</u>	<u><u>\$ 14,211,785</u></u>	<u><u>\$ 10,784,904</u></u>
<u>NET POSITION</u>		
Invested in Capital Assets, Net of Related Debt	\$ 31,124,660	\$ 30,621,643
Restricted for Debt and Construction	\$ 5,975,616	\$ 4,221,863
Unrestricted	\$ 4,569,460	\$ 5,961,690
TOTAL NET POSITION	<u>\$ 41,669,735</u>	<u>\$ 40,805,196</u>
<u>TOTAL NET POSITION AND LIABILITIES</u>	<u><u>\$ 55,881,520</u></u>	<u><u>\$ 51,590,100</u></u>

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

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION**For Year Ending December 31, 2018 & 2017**

	<u>2018</u>	<u>2017</u>
<u>OPERATING REVENUES</u>		
Utility Sales and Service Fees	\$ 4,430,785	\$ 4,335,856
Other Charges for Services	\$ 1,098,228	\$ 1,443,565
Total Operating Revenue	\$ 5,529,013	\$ 5,779,421
<u>OPERATING EXPENSES:</u>		
Operations:		
General Operations	\$ 1,179,088	\$ 1,359,545
Cost of Power	\$ 761,372	\$ 699,320
Customer Services	\$ 459,955	\$ 445,672
Depreciation/Amortization/ Depletion	\$ 1,578,693	\$ 1,493,837
Property, Excise and B&O Taxes	\$ 334,101	\$ 315,601
Insurance, Claims & Expenses	\$ 89,720	\$ 91,686
Other Supplies & Expenses	\$ -	\$ -
Maintenance	\$ 763,379	\$ 856,957
Total Operating Expenses	\$ 5,166,308	\$ 5,262,618
OPERATING INCOME (LOSS)	\$ 362,705	\$ 516,802
<u>NONOPERATING REVENUES (EXPENSES)</u>		
Interest and Investment Revenue	\$ 214,802	\$ 60,812
Gains (Losses) on Capital Asset Disposition	\$ (2,789)	\$ (15,022)
Misc. Nonoperating (Expenses) Revenue	\$ 3,824	\$ -
Other Nonoperating Expenses - Interest Expense	\$ (276,390)	\$ (41,253)
Total Nonoperating Revenues (Expenses)	\$ (60,553)	\$ 4,536
Income Before Contributions, Transfers Extraordinary and Special Items	\$ 302,152	\$ 521,338
Capital Contributions	\$ 562,387	\$ 1,176,356
CHANGE IN NET POSITION	\$ 864,539	\$ 1,697,694
TOTAL NET POSITION, January 1	\$ 40,805,196	\$ 39,107,503
Prior Period Adjustments	\$ -	\$ -
Change in Net Position (Stmnt of Revenues)	\$ 864,539	\$ 1,697,694
TOTAL NET POSITION, December 31	\$ 41,669,735	\$ 40,805,196

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

Statement of Cash Flows
For the Year Ended December 31, 2018

CASH FLOWS FROM OPERATING ACTIVITIES

Cash received from customers	\$ 5,688,885
Cash payments to suppliers for goods and services	(2,735,112)
Cash payments to employees for service	(1,023,907)

Net Cash Provided by Operating Activities	<u><u>\$ 1,929,866</u></u>
---	----------------------------

CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES

Proceeds from fiduciary collections - street lights	\$ 159,519
Payments on fiduciary responsibilities	\$ (159,519)

Net Cash Provided by (used for) Noncapital Financing Activities	<u><u>\$ -</u></u>
---	--------------------

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Proceeds from Public Works Trust Fund loans	-
Proceeds from Drinking Water State Revolving Fund	\$ -
Proceeds from Water Revenue Bond 2018	\$ 4,500,000
Acquisition and construction of capital assets	\$ (4,605,795)
Principal payments made on revenue bond maturities and other long-term debt	\$ (1,159,682)
Interest paid on revenue bonds and other long-term debts	\$ (170,517)
Proceeds from sale of equipment	\$ -
Cash proceeds from contributions in aid of construction	\$ -

Net Cash used by Capital and Related Financing Activities	<u><u>\$ (1,435,995)</u></u>
---	------------------------------

CASH FLOWS FROM INVESTING ACTIVITIES

Interest received	\$ 214,802
-------------------	------------

Net Cash provided by Investing Activities	<u><u>\$ 214,802</u></u>
---	--------------------------

Net Increase (Decrease) in Cash and Cash Equivalents	<u><u>\$ 708,674</u></u>
--	--------------------------

Cash and Cash Equivalents at Beginning of Year	\$ 10,730,989
Cash and Cash Equivalents at End of Year	<u><u>\$ 11,439,662</u></u>

Reconciliation of Cash and Cash Equivalents

Cash and investments	\$ 5,464,046
Other restricted cash and investments	5,975,616

Cash and Cash Equivalents at End of Year	<u><u>\$ 11,439,662</u></u>
--	-----------------------------

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

Statement of Cash Flows
For the Year Ended December 31, 2018

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

Operating Income (Loss)	\$	362,705
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:		
Depreciation Expense		1,578,693
Change in Assets and Liabilities:		
(Increase) decrease in accounts receivable		159,872
(Increase) decrease in materials and supplies		73,234
(Increase) decrease in prepaid expenses		1,884
Increase (decrease) in accounts payable		(246,521)
Total Adjustments		1,567,161
Net Cash provided by operating activities	\$	<u><u>1,929,866</u></u>

NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:

Non-cash contributions in aid of construction	\$	<u><u>562,387</u></u>
---	----	-----------------------

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.

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

WHITWORTH WATER DISTRICT NO. 2

NOTES TO FINANCIAL STATEMENTS

January 1, 2018 through December 31, 2018

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, and private sources), 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 2018 include the following:

	2018	2017
Long Term Debt Reserve Accounts (See Note 3)	\$ 1,322,044	\$ 809,171
Construction Capital Improvements (Future)		
LGIP	\$ 4,411,633	\$ 1,604,571
Washington Trust	\$ 241,939	\$ 1,808,122
Total	\$ 5,975,616	\$ 4,221,864

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 may be accumulated to a maximum amount of one-hundred and thirty (130) working days or 1040 total hours.

The recorded liability for sick pay and vacation pay for the years ended December 31, 2018 and December 31, 2017 is noted below.

ID #	Year	Compensated Absences	Beginning Balance 01/01/2018	Additions	Reductions	Ending Balance 12/31/2018
259.12	2018	Sick	\$ 330,284	\$ 70,986	\$ 46,117	\$ 355,153
		Vacation	\$ 65,638	\$ 71,123	\$ 64,237	\$ 72,524
		Total	\$ 395,922	\$ 142,109	\$ 110,354	\$ 427,677
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

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. Capital assets that have a cost or value of \$5,000 or more and an estimated useful life in of five (5) years or more will be capitalized and depreciated. 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 5 to 40 years. Initial depreciation on assets is recorded in the month following purchase or completion.

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

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>
Office Furniture	<u>5</u>
Electronics	<u>5</u>
Vehicles	<u>10</u>
Equipment	<u>10</u>
Meters	<u>20</u>
Buildings	<u>20</u>
Transmission/Distribution Systems	<u>40</u>

A summary of changes in capital assets as of December 31, 2018 and December 31, 2017 follows:

1/1/2018 through 12/31/2018

	Balance 1/1/2018	Increase	Decrease	Balance 12/31/2018
Utility Plant Not Being Depreciated				
Land	\$ 1,030,854	\$ 323,447		\$ 1,354,301
Construction in Progress	\$ 77,921	\$ 4,365,756	\$ 148,762	\$ 4,294,915
Total Plant Not Being Depreciated	\$ 1,108,775	\$ 4,689,203	\$ 148,762	\$ 5,649,216
Utility Plant Being Depreciated				
Buildings, Plant	\$ 60,278,455	\$ 834,582	\$ 0	\$ 61,113,037
Equipment	\$ 1,103,130	\$ 49,793	\$ 11,127	\$ 1,141,796
Total Plant Being Depreciated	\$ 61,381,585	\$ 884,375	\$ 11,127	\$ 62,254,833
Less: Accumulated Depreciation	\$ (23,447,689)	\$ (1,578,215)	\$ (7,860)	\$ (25,018,044)
Total Plant Being Depreciated, Net	\$ 37,933,896	\$ (693,840)	\$ 3,267	\$ 37,236,790
Net Capital Assets	\$ 39,042,671	\$ 3,995,363	\$ 152,029	\$ 42,886,006

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

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. Also secured a long-term bond for the construction of the new administration/shop complex. Annual principal and interest payments on the loans require approximately 24% of the District's Operating Revenues. The total principal and interest remaining to be paid on the loans is \$12,809,274. Principal and interest paid for the current year was \$1,159,682 and \$170,517 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.

PRIVATE SOURCE LOANS:

- District Administration/Shop Complex: \$4,500,000 Water Revenue Bond, 10-year, 2.71% interest. 2 payments annually, June – Interest only, Dec – Principal & Interest. Annual payment including interest is \$517,650.00

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	2019	\$ 1,151,683	\$ 170,361	\$ 1,322,044
	2020	\$ 1,162,683	\$ 154,502	\$ 1,317,185
	2021	\$ 1,173,683	\$ 138,343	\$ 1,312,026
	2022	\$ 1,074,148	\$ 121,887	\$ 1,196,035
	2023	\$ 1,086,148	\$ 105,663	\$ 1,191,811
	2024-2028	\$ 4,336,316	\$ 276,269	\$ 4,612,585
	2029-2033	\$ 1,307,440	\$ 68,927	\$ 1,376,367
	2034-2036	\$ 469,245	\$ 11,976	\$ 481,221
Total Outstanding Debt		\$ 11,761,346	\$ 1,047,928	\$ 12,809,274

Summary of Long-Term Debt is as follows for 2018 and 2017:

ID No.	Purpose	Date of Original Issue	Date of Maturity	Outstanding Debt 01/01/2018	Additions	Reductions	Outstanding Debt 12/31/2018
263.82 PWTF – Hatch to Panorama	Main, Booster, Reservoir	2001	2021	\$ 446,137		\$ 111,534	\$ 334,603
263.82 PWTF – N. Colbert	Mains, Booster, Reservoir	2005	2025	\$ 1,056,526		\$ 132,066	\$ 924,460
263.82 PWTF Perry Rd N	Mains, Booster, Reservoir	2006	2026	\$ 1,666,027		\$ 185,114	\$ 1,480,913
263.82 Big Meadow Regular	Mains	2011	2031	\$ 1,906,813		\$ 136,201	\$ 1,770,612
263.82 DWSRF Chattaroy Hills	Mains, Pump Stn	2013	2035	\$ 1,261,030		\$ 70,057	\$ 1,190,973
263.82 DWSRF Bernhill	Mains, Pump Stn	2014	2036	\$ 1,528,953		\$ 80,471	\$ 1,448,482
263.82 DWSRF Chattaroy/Yale Rd	Mains	2014	2036	\$ 555,542		\$ 29,239	\$ 526,303
263.61 Commerce Bank	Administration/ Office Complex	2018	2027	-0-	\$4,500,000	\$ 415,000	\$ 4,085,000
Total				\$ 8,421,028	\$4,500,000	\$ 1,159,682	\$ 11,761,346

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

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.

Investments in Local Government Investment Pool (LGIP)

The District is a participant in the Local Government Investment Pool. It was authorized by Chapter 294, Laws of 1986, and is managed and operated by the Washington State Treasurer. The State Finance Committee is the administrator of the statute that created the pool and adopts rules. The State Treasurer is responsible for establishing the investment policy for the pool and reviews the policy annually and proposed changes are reviewed by the LGIP Advisory Committee.

Investments in the LGIP, a qualified external investment pool, are reported at amortized cost which approximates fair value. The LGIP is an unrated external investment pool. The pool portfolio is invested in a manner that meets the maturity, quality, diversification and liquidity requirements set forth by GASB 79 for external investments pools that elect to measure, for financial reporting purposes, investments at amortized cost. The LGIP does not have any legally binding guarantees of share values. The LGIP does not impose liquidity fees or redemption gates on participant withdrawals.

The Office of the State Treasurer prepares a stand-alone LGIP financial report. A copy of the report is available from the Office of the State Treasurer, PO Box 40200, Olympia, Washington 98504-0200, online at <http://www.tre.wa.gov>.

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

State Local Government Investment Pool			
	Category 1	Carrying Amount	Market Value 12/31/18 and 12/31/2017
2018	\$ 10,266,018	\$ 10,266,018	\$ 10,266,018
2017	\$ 6,313,073	\$ 6,313,073	\$ 6,313,073

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, 2018, Construction in Progress consisted of the following:

2018			
Projects	Estimated Project Authorization	Expended through 12/31/2018	Remaining Commitment
New Office/Shop Complex	\$ 4,500,000	\$ 4,169,485	\$ 330,515
2.0 MG Hatch Reservoir	2,915,000	5,618	2,909,382
Well 3D Drilling	2,030,000	80,542	1,949,458
Mayfair/Mill Rd Transmission Line	2,820,000	39,270	2,780,730
Total of Projects in Progress	\$ 12,265,000	\$ 4,294,915	\$ 7,970,085

2017			
Projects	Estimated Project Authorization	Expended through 12/31/2017	Remaining Commitment
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

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 2018:

Aggregate Pension Amounts – All Plans	
Pension liabilities	\$ (510,015)
Deferred outflows of resources	\$ 116,520
Deferred inflows of resources	\$ (230,750)
Pension expense/expenditures	\$ (9,583)

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 2018 were as follows:

PERS Plan 2/3		
Actual Contribution Rates:	Employer 2/3	Employee 2/3
January - June 2018		
PERS Plan 2/3	7.49%	7.38%
PERS Plan 1 UAAL	5.03%	
Administrative Fee	.18%	
Total	12.70%	7.38%
July - December 2018		
PERS Plan 2/3	7.52%	7.41%
PERS Plan 1 UAAL	5.13%	
Administrative Fee	.18%	
Total	12.83%	7.41%

The District's actual contributions to the plan were \$ 128,314.32 for the year ended December 31, 2018.

Actuarial Assumptions

The total pension liability (TPL) for each of the DRS plans was determined using the most recent actuarial valuation completed in 2018 with a valuation date of June 30, 2017. 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 *2017 Economic Experience Study*.

Additional assumptions for subsequent events and law changes are current as of the 2017 actuarial valuation report. The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2018. Plan liabilities were rolled forward from June 30, 2017, to June 30, 2018, reflecting each plan's normal cost (using the entry-age cost method), assumed interest and actual benefit payments.

- **Inflation:** 2.75% total economic inflation; 3.50% salary inflation
- **Salary increases:** In addition to the base 3.50% salary inflation assumption, salaries are also expected to grow by promotions and longevity.
- **Investment rate of return:** 7.4%

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.

- Lowered the valuation interest rate from 7.70% to 7.50% for all systems except LEOFF 2. For LEOFF 2 the valuation interest rate was lowered from 7.50% to 7.40%.
- Lowered the assumed general salary growth from 3.75% to 3.50% for all systems.
- Lowered assumed inflation from 3.00% to 2.75% for all systems.
- Modified how the valuation software calculates benefits paid to remarried duty-related death survivors of LEOFF 2 members.
- Updated the trend that the valuation software uses to project medical inflation for LEOFF 2 survivors of a duty-related death, and for certain LEOFF 2 medical-related duty disability benefits.

Discount Rate

The discount rate used to measure the total pension liability for all DRS plans was 7.4 percent.

To determine that rate, an asset sufficiency test included an assumed 7.5 percent long-term discount rate to determine funding liabilities for calculating future contribution rate requirements. (All plans use 7.5 percent except LEOFF 2, which has assumed 7.4 percent). Consistent with the long-term expected rate of return, a 7.4 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 7.4 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 7.4 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, 2018, 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	7%	4.90%
Real Estate	18%	5.80%
Global Equity	32%	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 7.4 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 (6.4 percent) or 1-percentage point higher (8.4 percent) than the current rate.

	1% Decrease (6.4%)	Current Discount Rate (7.4%)	1% Increase (8.4%)
PERS 1	\$ 419,759	\$ 341,562	\$ 273,828
PERS 2/3	\$ 770,509	\$ 168,453	\$ (325,165)

***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, 2018, the District reported a total pension liability of \$510,015 for its proportionate share of the net pension liabilities as follows:

	Liability (or Asset)
PERS 1	\$341,562
PERS 2/3	\$168,453

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

	Proportionate Share 6/30/17	Proportionate Share 6/30/18	Change in Proportion
PERS 1	.008214%	.007648%	(.000566%)
PERS 2/3	.010566%	.009866%	(.0007%)

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, 2018, and the actuarial valuation date on which the total pension liability (asset) is based was as of June 30, 2017, with update procedures used to roll forward the total pension liability to the measurement date.

Pension Expense

For the year ended December 31, 2018, the District recognized pension expense as follows:

	Pension Expense
PERS 1	\$1,953
PERS 2/3	(\$11,536)

Deferred Outflows of Resources and Deferred Inflows of Resources

At December 31, 2018, 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	(\$13,573)
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	\$ 27,560	\$ 0
TOTAL	\$ 27,560	(\$13,573)

PERS 2/3	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 20,649	(\$ 29,493)
Net difference between projected and actual investment earnings on plan investments	\$ 0	(\$103,371)
Changes in assumptions	\$ 1,972	(\$ 47,940)
Changes in proportion and differences between contributions and proportionate share of contributions	\$ 25,706	(\$36,372)
Contributions subsequent to the measurement date	\$ 40,633	\$ 0
TOTAL	\$ 88,960	(\$ 217,176)

TOTAL ALL PLANS	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 20,649	(\$ 29,493)
Net difference between projected and actual investment earnings on plan investments	\$ 0	(\$116,944)
Changes in assumptions	\$ 1,972	(\$47,940)
Changes in proportion and differences between contributions and proportionate share of contributions	\$ 25,706	(\$36,372)
Contributions subsequent to the measurement date	\$ 68,193	\$ 0
TOTAL	\$ 116,520	(\$ 230,749)

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, 2019. 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
2019	\$ 594	(\$ 24,743)
2020	(\$ 2,967)	(\$ 35,402)
2021	(\$ 8,904)	(\$ 62,295)
2022	(\$ 2,296)	(\$ 22,452)
2023		(\$ 7,695)
Thereafter		(\$ 16,266)
Total	(\$ 13,573)	(\$ 168,853)

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.

NOTE 10 – CONTINGENT LIABILITIES & LITIGATION

As discussed in Note 3, Whitworth Water District has a number of Federal and State Public Works Trust Fund, Drinking Water State Revolving Fund loans and private loans and is contingently liable for the repayment of the debt. These 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 District is not aware of any litigation issues.

NOTE 11 – SUBSEQUENT EVENTS

Whitworth Water District has moved from its Waikiki Rd location into its new administration/shop complex as of February 16, 2019. This new facility will consolidate administration, maintenance, garage facilities and inventory into one location. The previous Waikiki office property was segregated into 3 parcels consisting of 2 parcels kept by the District for the reservoir and booster station and the other parcel was sold for approximately \$400,000.

Whitworth Water District implemented a 5% increase in water rates effective January 1, 2019. Other rates for miscellaneous services are being evaluated.

Bids for the first phase of the Mayfair/Mill Rd transmission project were accepted on April 9, 2019. Bid is being reviewed at this time.

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, 2018
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%	0.007648%					
Employer's proportionate share of the net pension liability	\$	434,167	408,424	389,761	341,562					
TOTAL	\$	434,167	408,424	389,761	341,562					
Employer's covered employee payroll	\$	951,685	934,356	1,009,274	1,006,847					
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	%	45.62%	43.71%	38.62%	33.92%					
Plan fiduciary net position as a percentage of the total pension liability	%	59.10%	57.03%	61.24%	63.22%					

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, 2018
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%	0.009866%					
Employer's proportionate share of the net pension liability	\$	383,353	491,257	367,118	168,453					
TOTAL	\$	383,353	491,257	367,118	168,453					
Employer's covered employee payroll	\$	951,685	934,356	1,009,274	1,006,847					
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	%	40.28%	52.58%	36.37%	16.73%					
Plan fiduciary net position as a percentage of the total pension liability	%	89.20%	85.82%	90.97%	95.77%					

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, 2018
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	50,987						
Contributions in relation to the statutorily or contractually required contributions	\$ (42,034)	(46,473)	(49,574)	(50,987)						
Contribution deficiency (excess)	\$ 0	0	0	0						
Covered employer payroll	\$ 953,237	974,270	1,009,274	1,006,847						
Contributions as a percentage of covered employee payroll	% 4.41%	4.77%	4.91%	5.06%						

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, 2018
 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	75,515						
Contributions in relation to the statutorily or contractually required contributions	\$ (54,033)	(60,697)	(69,816)	(75,515)						
Contribution deficiency (excess)	\$ 0	0	0	0						
Covered employer payroll	\$ 953,237	974,270	1,009,274	1,006,847						
Contributions as a percentage of covered employee payroll	% 5.67%	6.23%	6.92%	7.50%						

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
Main telephone	(360) 902-0370
Toll-free Citizen Hotline	(866) 902-3900
Website	www.sao.wa.gov