Washington State Auditor's Office

Financial Statements Audit Report

Silver Lake Water District
(Silver Lake Water and Sewer District)
Snohomish County

Audit Period
January 1, 2011 through December 31, 2012

Report No. 1011238

Issue Date
February 10, 2014

WASHINGTON
TROY KELLEY
STATE AUDITOR

Washington State Auditor
Troy Kelley

February 10, 2014

Board of Directors
Silver Lake Water and Sewer District
Mill Creek, Washington

Report on Financial Statements

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

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

Sincerely,

Troy X. Kelley

TROY KELLEY
STATE AUDITOR

Table of Contents

Silver Lake Water and Sewer District
Snohomish County
January 1, 2011 through December 31, 2012

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*

Silver Lake Water and Sewer District
Snohomish County
January 1, 2011 through December 31, 2012

Board of Directors
Silver Lake Water and Sewer District
Mill Creek, 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 Silver Lake Water and Sewer District, Snohomish County, Washington, as of and for the years ended December 31, 2012, 2011 and 2010, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated January 17, 2014. During the year ended December 31, 2012, the District implemented Governmental Accounting Standards Board Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

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

COMPLIANCE AND OTHER MATTERS

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

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

PURPOSE OF THIS REPORT

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Troy X. Kelley

TROY KELLEY
STATE AUDITOR

January 17, 2014

Independent Auditor's Report on Financial Statements

Silver Lake Water and Sewer District
Snohomish County
January 1, 2011 through December 31, 2012

Board of Directors
Silver Lake Water and Sewer District
Mill Creek, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the Silver Lake Water and Sewer District, Snohomish County, Washington, as of and for the years ended December 31, 2012, 2011 and 2010, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed on page 5.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Silver Lake Water and Sewer District, as of December 31, 2012, 2011 and 2010, and the changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Matters of Emphasis

The District adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position.* Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 6 through 15 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 January 17, 2014 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.

Troy X. Kelley

TROY KELLEY
STATE AUDITOR

January 17, 2014

Financial Section

Silver Lake Water and Sewer District
Snohomish County
January 1, 2011 through December 31, 2012

REQUIRED SUPPLEMENTARY INFORMATION

BASIC FINANCIAL STATEMENTS

SILVER LAKE WATER AND SEWER DISTRICT

INTRODUCTION

Silver Lake Water and Sewer District was founded in 1934 and provides water and sewer services to customers residing within the District boundaries. The District's primary mission is to provide its customers with high quality water for today and into the future at a fair and equitable price, while meeting overall public and regulatory approval. The District has secondary goals of providing fire flow, maintaining level of service goals, and maintaining the financial health of the District. The District has prioritized the following goals and objectives:

1. Protect the health and safety of District employees and customers.
2. Meet or exceed regulatory requirements and industry standards for water quality, levels of service and operation and maintenance practices.
3. Provide a high standard of service at an affordable rate.
4. Provide fire flow while maintaining a minimum pressure of 20 psi system wide.
5. Maintain the financial viability of the District.

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of management's discussion and analysis presents our review of the District's financial position as of December 31, 2012 and 2011 and our financial performance for the years then ended. Please read these comments in conjunction with the District's financial statements, which follow this section.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

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

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

CONDENSED STATEMENT OF NET POSITION AT DECEMBER 31:

	2012	2011	2010
Capital assets	$ 137,700,374	$ 136,841,202	$ 134,611,237
Other assets	27,264,048	22,127,003	20,757,298
Total assets	$ 164,964,422	$ 158,968,205	$ 155,368,535
Long-term liabilities	5,953,194	5,496,341	6,304,894
Other liabilities	2,640,576	2,672,918	2,203,896
Total liabilities	$ 8,593,770	$ 8,169,259	$ 8,508,790
Net investment in capital assets	130,823,812	130,505,542	127,491,401
Restricted amounts	854,586	874,579	878,672
Unrestricted amounts	24,692,254	19,418,825	18,489,672
Total net position	$ 156,370,652	$ 150,798,946	$ 146,859,745

CONDENSED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION FOR THE YEARS ENDED:

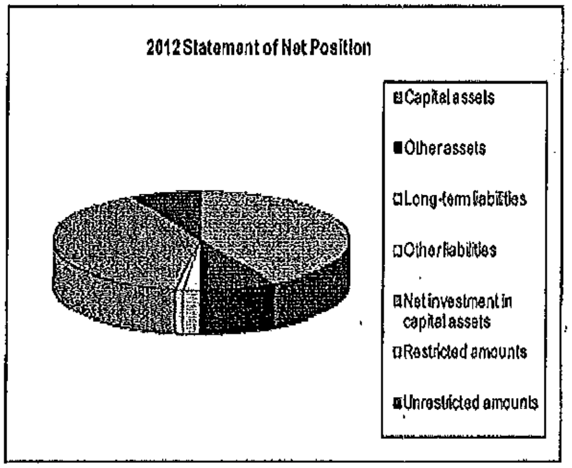
	2012	2011	2010
Sewer service revenue	$ 10,471,233	$ 10,095,738	$ 9,508,862
Water service revenue	4,756,754	4,389,663	4,097,595
Other sewer operating revenues	296,858	264,147	241,338
Other water operating revenues	398,483	327,245	338,936
Total operating revenue	15,923,328	15,076,783	14,186,731
Sewer operation and maintenance expenses	5,863,703	5,777,391	5,353,400
Water operation and maintenance expenses	2,593,472	2,351,768	2,024,704
Sewer general and administrative expenses	1,395,835	1,492,672	1,405,131
Water general and administrative expenses	1,850,778	1,846,551	1,694,942
Depreciation and amortization, sewer	1,534,493	1,487,448	1,489,706
Depreciation and amortization, water	1,110,848	1,087,817	1,080,740
Total operating expense	14,349,129	14,043,647	13,048,623
Operating income	1,574,199	1,033,136	1,138,108
Non-operating revenue:			
Interest	65,284	49,537	56,652
Gain on disposal of assets	38,619		
Non-operating expense:			
Interest and amortization	(84,158)	(89,010)	(120,339)
Loss on disposal and abandonment of assets	-	(128,690)	(38,378)
Income before capital contributions	1,593,944	864,973	1,036,043
Capital contributions	3,977,762	3,074,228	1,919,539
Increase in net position	$ 5,571,706	$ 3,939,201	$ 2,955,582

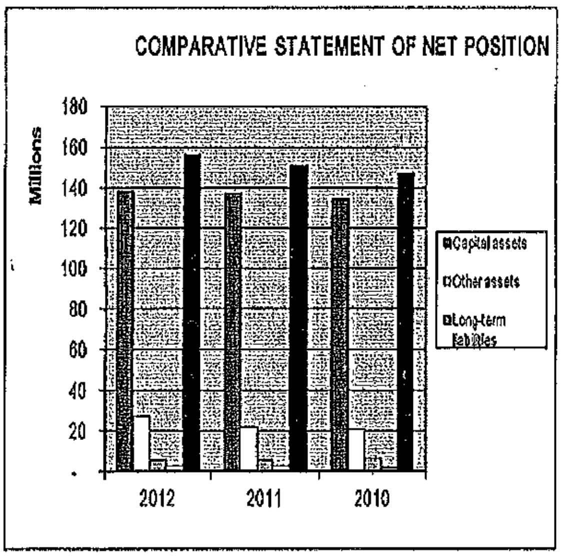
FINANCIAL POSITION

The District's overall financial position continues to be strong with sufficient liquidity, growing revenues, and debt capacity to finance future capital improvements if necessary.

The District is financed primarily by equity and substantial liquid assets are available to fund liabilities and construction. Capital assets increased in 2012 and 2011 due to growth in the District's customer base and system improvements. The District is located in a growing area of Snohomish County, Washington.

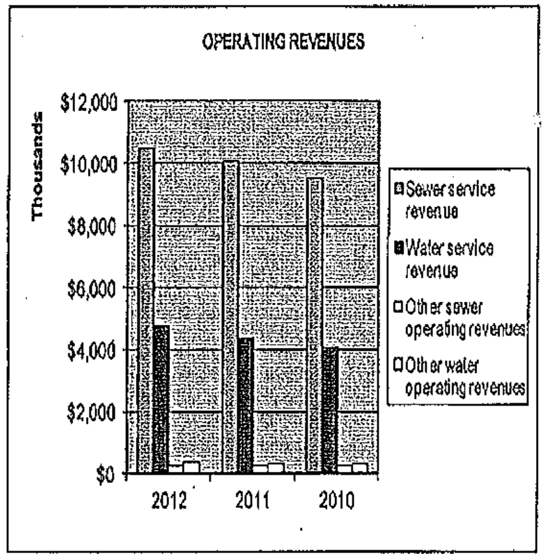
The following charts indicate the components of financial position.





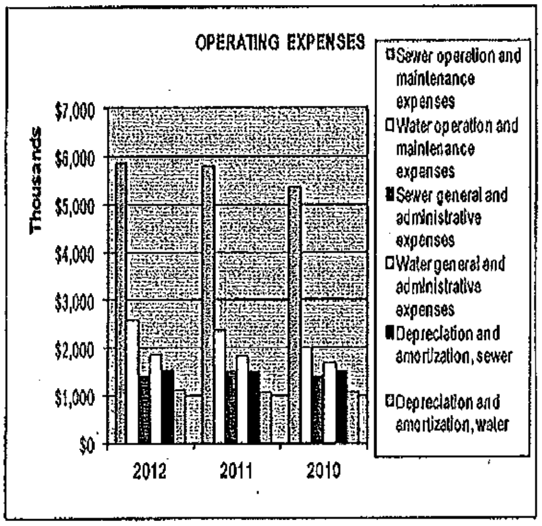
RESULTS OF OPERATIONS

Operating revenues are received primarily from two sources: water service and sewer service. The following chart indicates operating revenue over the last three years.



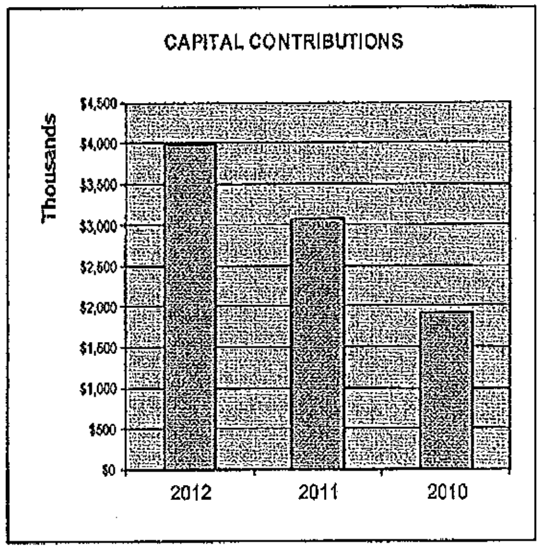
The increase in sewer revenue in 2012 and 2011 was due to the growth in the customer base and rate increases. The increase in water revenue in 2012 and 2011 was due to the growth in the customer base, rate increases and varying summer weather conditions and related outdoor water use. Specifically, the hot and dry summer weather conditions of 2012 compared to the wet and cold weather conditions during the summers of 2011 and 2010.

The following chart indicates operating expenses over the last three years.



Sewer operation and maintenance costs increased in 2012 and 2011 due to rate increases for sewage treatment. The increase in water operating expenses in 2012 was primarily due to increased water purchases as a result of the dry summer weather conditions. The increase in water operating expenses in 2011 was primarily due to maintenance projects including re-painting two reservoirs. General and administrative expenses were stable in 2012 and 2011. Sewer depreciation expense in 2012 increased due to the completion of large construction projects. Water depreciation expense in 2012 and sewer and water depreciation expense in 2011 was comparable to 2010.

The District collects capital contributions from new customers. These contributions consist of connection charges, grants, ULID assessments and donated systems. The following chart indicates capital contributions over the last three years.



The contributions are indicative of the growth of the District and include donated systems totaling $1,636,931, $1,401,358 and $771,917 for the years ended December 31, 2012, 2011 and 2010, respectively. The growth of the District is increasing due to the effects of the overall economic recovery.

CAPITAL ASSETS AND LONG-TERM DEBT

The capital assets of the District increased in 2012 and 2011 due to growth in the District's customer base and system improvements. Significant capital asset additions during 2012 and 2011 included the following:

2012:	
Water system:	
Donated Systems	$ 781,795
Master Meter 9 & Reservoir 2 Site Upgrades	215,832
Operations Manual	53,488
Meters, Registers and Transmitters	253,801
Sewer system:	
Donated Systems	855,136
WPCF expansion phase B	174,778
WPCF expansion phase C	82,425
Lift Station 3 Improvements	866,813
2011:	
Water system:	
Donated Systems	$ 486,650
Sewer system:	
Donated Systems	914,708
Smith Island River Dike Design and Construction	172,773
South End Interceptor Upgrade	391,396
WPCF expansion phase B	789,507
WPCF expansion phase C	126,472
Valmont Lift Station Improvements	531,557
Point – Lift Station Improvements	715,245
Lift Station #3 Improvement	153,970

The increase in long-term debt in 2012 was due to receipt of a Public Works Trust Fund loan for the lift station improvement projects. The overall decrease in long-term debt in 2011 was due to principal payments made by the District in excess of new borrowings.

See notes 4, 5 and 6 in the financial statements for detail activity in capital assets and long-term debt.

As of December 31, 2012, the District has $23,762,253 of unrestricted cash and investments available for operating costs and capital asset acquisition of which $787,435 is committed under existing contracts. The District is also committed to pay a portion of certain city of Everett projects. See note 9 in the financial statements for the District's estimated share of these projects over the next 10 years.

ADDITIONAL COMMENTS

The District purchases wholesale water and sewage treatment services from other entities. The District intends to adjust rates to compensate for increases in these direct costs.

The District has been approved for a Public Works Trust Fund loan in the amount of $7,810,000 for a certain City of Everett project. As of December 31, 2012, no draws have been received on the loan. See Note 5 for the terms of the loan.

SILVER LAKE WATER AND SEWER DISTRICT

INTRODUCTION

Silver Lake Water and Sewer District was founded in 1934 and provides water and sewer services to customers residing within the District boundaries. The District's primary mission is to provide its customers with high quality water for today and into the future at a fair and equitable price, while meeting overall public and regulatory approval. The District has secondary goals of providing fire flow, maintaining level of service goals, and maintaining the financial health of the District. The District has prioritized the following goals and objectives:

1. Protect the health and safety of District employees and customers.
2. Meet or exceed regulatory requirements and industry standards for water quality, levels of service and operation and maintenance practices.
3. Provide a high standard of service at an affordable rate.
4. Provide fire flow while maintaining a minimum pressure of 20 psi system wide.
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MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of management's discussion and analysis presents our review of the District's financial position as of December 31, 2011 and 2010 and our financial performance for the years then ended. Please read these comments in conjunction with the District's financial statements, which follow this section.

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

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

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

CONDENSED STATEMENT OF NET POSITION AT DECEMBER 31

	2011	2010	2009
Capital assets	$ 136,841,202	$ 134,611,237	$ 134,762,423
Other assets	22,127,003	20,757,298	18,162,849
Total assets	$ 158,968,205	$ 155,368,535	$ 152,925,272
Long-term liabilities	5,496,341	6,304,894	7,113,689
Other liabilities	2,672,918	2,203,896	1,907,420
Total liabilities	$ 8,169,259	$ 8,508,790	$ 9,021,109
Capital assets, net of related debt	130,505,542	127,491,401	126,871,925
Restricted amounts	874,579	878,672	890,170
Unrestricted amounts	19,418,825	18,489,672	16,142,068
Total net position	$ 150,798,946	$ 146,859,745	$ 143,904,163

CONDENSED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION FOR THE YEARS ENDED

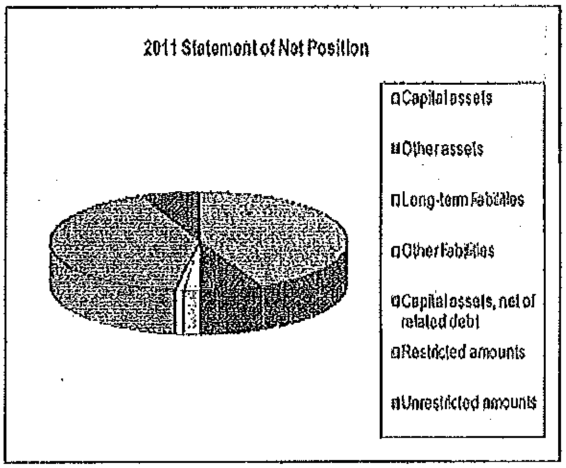
	2011	2010	2009
Sewer service revenue	$ 10,095,738	$ 9,508,862	$ 8,726,146
Water service revenue	4,389,653	4,097,595	4,167,277
Other sewer operating revenues	264,147	241,338	198,045
Other water operating revenues	327,245	338,936	336,318
Total operating revenue	15,076,783	14,186,731	13,427,786
Sewer operation and maintenance expenses	5,777,391	5,353,400	5,204,837
Water operation and maintenance expenses	2,351,768	2,024,704	2,019,504
Sewer general and administrative expenses	1,492,672	1,405,131	1,010,617
Water general and administrative expenses	1,846,551	1,694,942	1,884,820
Depreciation and amortization, sewer	1,487,448	1,489,706	1,925,920
Depreciation and amortization, water	1,087,817	1,080,740	1,602,124
Total operating expense	14,043,647	13,048,623	13,647,822
Operating income (loss)	1,033,136	1,138,108	(220,036)
Non-operating revenue:			
Interest	49,537	56,652	151,839
Non-operating expense:			
Interest and amortization	(89,010)	(120,339)	
Loss on disposal and abandonment of assets	(128,690)	(38,378)	-
Income (loss) before capital contributions	864,973	1,036,043	(68,197)
Capital contributions	3,074,228	1,919,539	3,780,735
Increase in net position	$ 3,939,201	$ 2,955,582	$ 3,712,538

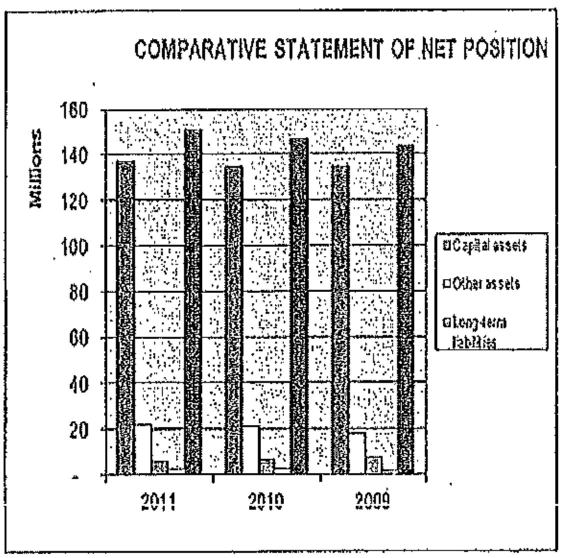
FINANCIAL POSITION

The District's overall financial position continues to be strong with sufficient liquidity, growing revenues, and debt capacity to finance future capital improvements if necessary.

The District is financed primarily by equity and substantial liquid assets are available to fund liabilities and construction. Capital assets increased in 2011 due to growth in the District's customer base and system improvements. Capital assets decreased in 2010 due to depreciation in excess of construction activity and donated systems. The District is located in a growing area of Snohomish County, Washington.

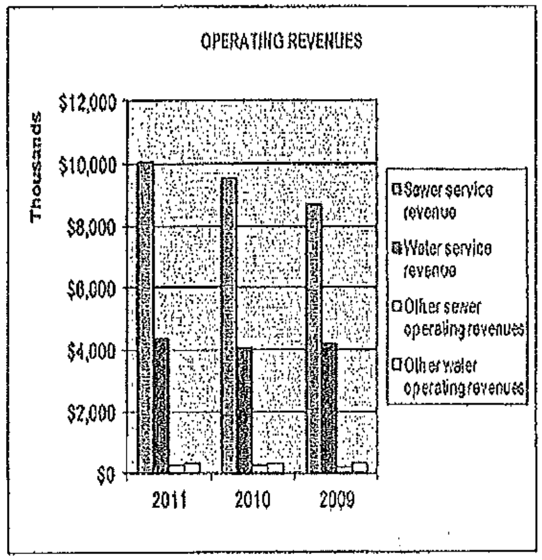
The following charts indicate the components of financial position.





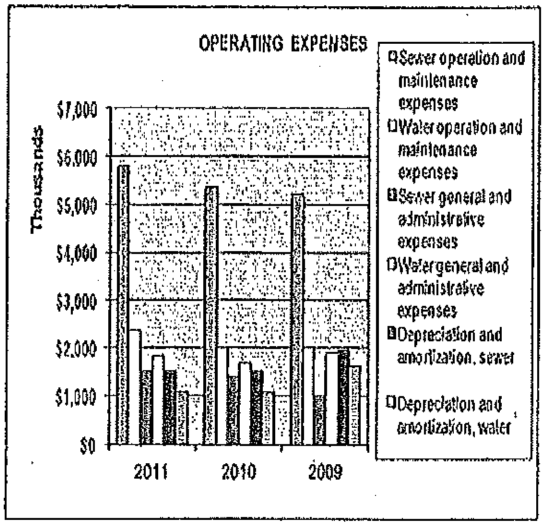
RESULTS OF OPERATIONS

Operating revenues are received primarily from two sources: water service and sewer service. The following chart indicates operating revenue over the last three years.



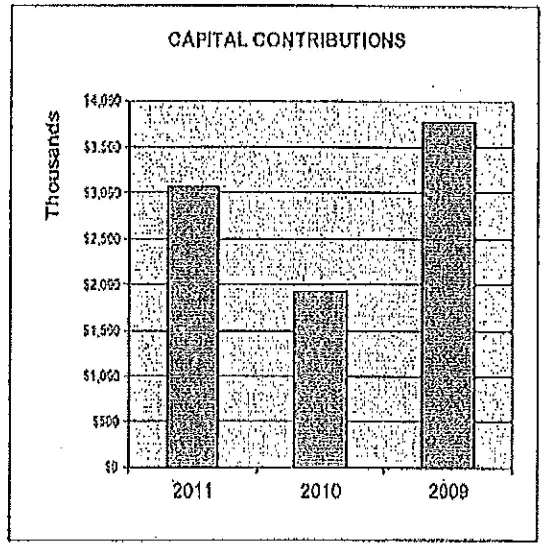
The increase in sewer revenue in 2011 and 2010 was due to the growth in the customer base and rate increases. The District increased water rates in both 2011 and 2010. The variation in water revenue in 2011 and 2010 was primarily due to varying summer weather conditions and related outdoor water use. Specifically, the wet and cold weather conditions during the summers of 2011 and 2010 as compared to 2009 which included an extended period of record temperatures and no measurable rainfall during the peak summer outdoor watering months.

The following chart indicates operating expenses over the last three years.



Sewer operation and maintenance costs increased in 2011 and 2010 due to rate increases for sewage treatment. The increase in water operating expenses in 2011 was primarily due to maintenance projects including re-painting two reservoirs. Additionally, water operating expenses were impacted in 2011 and 2010 in the same manner as operating revenues due to the varying summer weather conditions. General and administrative expenses increased in 2011 and 2010 primarily due to increasing personnel and benefit expenses. Depreciation expense in 2011 for both water and sewer was comparable to 2010. Depreciation was lower for both water and sewer in 2010 as compared to 2009 due to changes in the estimated useful lives of assets. See note 1 for a description of the changes.

The District collects capital contributions from new customers. These contributions consist of connection charges, grants, ULID assessments and donated systems. The following chart indicates capital contributions over the last three years.



The contributions are indicative of the growth of the District and include donated systems totaling $1,401,358, $770,917 and $2,781,026 for the years ended December 31, 2011, 2010 and 2009, respectively. The growth of the District is decreasing due to the effects of the slowdown in the overall economy.

CAPITAL ASSETS AND LONG-TERM DEBT

The capital assets of the District increased in 2011 due to growth in the District's customer base and system improvements and decreased in 2010 due to depreciation in excess of construction activity and donated systems. Significant capital asset additions during 2011 and 2010 included the following:

2011:

Water system:	
Donated Systems	$ 486,650
Sewer system:	
Donated Systems	914,708
Smith Island River Dike Design and Construction	172,773
South End Interceptor Upgrade	391,396
WPCF expansion phase B	789,507
WPCF expansion phase C	126,472
Valmont Lift Station Improvements	531,557
Point – Lift Station Improvements	715,245
Lift Station #3 Improvement	153,970

2010:

Water system:	
Donated Systems	$ 470,156
Silver Acres Water Main	287,275
Sewer system:	
Donated Systems	300,761
WPCF expansion phase B	368,154
Relocate sector 7 lift station	296,989
WPCF expansion phase C	159,607
Valmont Lift Station Improvements	69,995
Point – Lift Station Improvements	69,995
2010 Manhole Adjustments	82,118

The overall decrease in long-term debt in 2011 and 2010 is due to principal payments made by the District.

See notes 4, 5 and 6 in the financial statements for detail activity in capital assets and long-term debt.

As of December 31, 2011, the District has $19,141,587 of unrestricted cash and investments available for operating costs and capital asset acquisition. The District is committed to pay a portion of certain city of Everett projects. See note 9 in the financial statements for the District's estimated share of these projects over the next 10 years.

ADDITIONAL COMMENTS

The District purchases wholesale water and sewage treatment services from other entities. The District intends to adjust rates to compensate for increases in these direct costs.

SILVER LAKE WATER AND SEWER DISTRICT

STATEMENT OF NET POSITION

December 31, 2012 and 2011

ASSETS

	2012	2011
Current assets:		
Unrestricted:		
Cash	$ 14,006,893	$ 9,401,698
Investments	9,755,360	9,739,889
Accounts receivable	1,630,597	1,436,872
Unbilled utility service receivable	515,745	487,465
Accounts receivable, other	103,344	-
Materials and supplies	134,049	139,061
	26,145,988	21,204,985
Restricted:		
Cash	609,170	393,816
Investments	481,423	480,659
Interest receivable	1,707	2,769
Assessments receivable - current portion	6,133	8,587
	1,098,433	885,831
Noncurrent assets:		
Restricted:		
Assessments receivable, less current portion	19,627	36,187
Capital assets not being depreciated:		
Land and land rights	3,756,904	3,756,904
Construction in progress	4,191,963	4,248,501
Capital assets being depreciated:		
Plant in service	171,557,393	168,034,402
Less accumulated depreciation	(41,805,886)	(39,198,605)
Net capital assets	137,700,374	136,841,202
	$ 164,964,422	$ 158,968,205

See accompanying notes to the financial statements

SILVER LAKE WATER AND SEWER DISTRICT

STATEMENT OF NET POSITION
(CONTINUED)

December 31, 2012 and 2011

LIABILITIES AND NET POSITION

	2012	2011
Current liabilities:		
Payable from unrestricted assets:		
Accounts payable	$ 1,024,068	$ 1,380,368
Accrued compensated absences	331,723	319,298
Deposits for construction	83,455	66,760
Retainage payable	-	5,407
Accrued interest	14,488	14,327
Long-term debt - current maturities	458,368	389,319
	1,912,102	2,175,479
Payable from restricted assets:		
Accounts payable	254,095	37,066
Accrued interest	9,379	10,373
Long-term debt - current maturities	465,000	450,000
	728,474	497,439
Non-current liabilities:		
Long-term debt payable from unrestricted assets, net of current maturities	3,454,966	2,532,363
Long-term debt payable from restricted assets, net of current maturities	2,498,228	2,963,978
Total liabilities	8,593,770	8,169,259
Net position:		
Net investment in capital assets	130,823,812	130,505,542
Restricted for debt service	854,586	874,579
Unrestricted	24,692,254	19,418,825
Total net position	156,370,652	150,798,946
	$ 164,964,422	$ 158,968,205

See accompanying notes to the financial statements

SILVER LAKE WATER AND SEWER DISTRICT

STATEMENT OF NET POSITION

December 31, 2011 and 2010

ASSETS

		2011		2010
Current assets:				
Unrestricted:				
Cash	$	9,401,698	$	6,628,561
Investments		9,739,889		11,232,451
Accounts receivable		1,436,872		1,398,611
Unbilled utility service receivable		487,465		495,756
Materials and supplies		139,061		111,912
		21,204,985		19,867,291
Restricted:				
Cash		393,816		356,725
Investments		480,659		479,897
Interest receivable		2,769		2,479
Assessments receivable - current portion		8,587		9,226
		885,831		848,327
Noncurrent assets:				
Restricted:				
Assessments receivable, less current portion		36,187		41,680
Capital assets not being depreciated:				
Land and land rights		3,756,904		3,756,904
Construction in progress		4,248,501		1,923,133
Capital assets being depreciated:				
Plant in service		168,034,402		165,554,540
Less accumulated depreciation		(39,198,605)		(36,623,340)
Net capital assets		136,841,202		134,611,237
	$	158,968,205	$	155,368,535

See accompanying notes to the financial statements

SILVER LAKE WATER AND SEWER DISTRICT

STATEMENT OF NET POSITION
(CONTINUED)

December 31, 2011 and 2010

LIABILITIES AND NET POSITION

	2011	2010
Current liabilities:		
Payable from unrestricted assets:		
Accounts payable	$ 1,380,368	$ 1,043,213
Accrued compensated absences	319,298	303,106
Deposits for construction	66,760	9,452
Retainage payable	5,407	5,762
Accrued interest	14,327	16,086
Long-term debt - current maturities	389,319	379,942
	2,175,479	1,757,561
Payable from restricted assets:		
Accounts payable	37,066	
Accrued interest	10,373	11,335
Long-term debt - current maturities	450,000	435,000
	497,439	446,335
Non-current liabilities:		
Long-term debt payable from unrestricted assets, net of current maturities	2,532,363	2,893,550
Long-term debt payable from restricted assets, net of current maturities	2,963,978	3,411,344
Total liabilities	8,169,259	8,508,790
Net position:		
Invested in capital assets, net of related debt	130,505,542	127,491,401
Restricted for debt service	874,579	878,672
Unrestricted	19,418,825	18,489,672
Total net position	150,798,946	146,859,745
	$ 158,968,205	$ 155,368,535

See accompanying notes to the financial statements

SILVER LAKE WATER AND SEWER DISTRICT

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION

Years Ended December 31, 2012 and 2011

	2012	2011
Operating revenues:		
Service charges	$ 15,227,987	$ 14,485,391
Permits	247,070	210,752
Miscellaneous	448,271	380,640
	15,923,328	15,076,783
Operating expenses:		
Operation expenses	7,904,857	7,567,033
Maintenance expenses	552,318	562,126
General and administrative	3,246,613	3,339,223
Depreciation	2,645,341	2,575,265
	14,349,129	14,043,647
Operating income	1,574,199	1,033,136
Non-operating revenues:		
Investment and assessment income	65,284	49,537
Gain on disposal of assets	38,619	-
	103,903	49,537
Non-operating expenses:		
Interest on long-term debt - net of amount capitalized	84,908	86,376
Amortization of debt premiums, discount, issue costs and refunding loss	(750)	2,634
Loss on disposal of assets	-	128,690
	84,158	217,700
Income before capital contributions	1,593,944	864,973
Capital contributions	3,977,762	3,074,228
Change in net position	5,571,706	3,939,201
Net position, January 1	150,798,946	146,859,745
Net position, December 31	$ 156,370,652	$ 150,798,946

See accompanying notes to the financial statements

SILVER LAKE WATER AND SEWER DISTRICT

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION

Years Ended December 31, 2011 and 2010

	2011	2010
Operating revenues:		
Service charges	$ 14,485,391	$ 13,606,457
Permits	210,752	201,690
Miscellaneous	380,640	378,584
	15,076,783	14,186,731
Operating expenses:		
Operation expenses	7,567,033	6,917,795
Maintenance expenses	562,126	460,309
General and administrative	3,339,223	3,100,073
Depreciation	2,575,265	2,570,446
	14,043,647	13,048,623
Operating income	1,033,136	1,138,108
Non-operating revenues:		
Investment and assessment income	49,537	56,652
Non-operating expenses:		
Interest on long-term debt - net of amount capitalized	86,376	114,192
Amortization of debt premiums, discount, issue costs and refunding loss	2,634	6,147
Loss on disposal and abandonment of assets	128,690	38,378
	217,700	158,717
Income before capital contributions	864,973	1,036,043
Capital contributions	3,074,228	1,919,539
Change in net position	3,939,201	2,955,582
Net position, January 1	146,859,745	143,904,163
Net position, December 31	$ 150,798,946	$ 146,859,745

See accompanying notes to the financial statements

SILVER LAKE WATER AND SEWER DISTRICT

STATEMENT OF CASH FLOWS

Years Ended December 31, 2012 and 2011

	2012	2011
Cash flows from operating activities:		
Cash received from customers and other	$ 15,701,323	$ 15,046,813
Cash paid to vendors	(8,862,014)	(8,697,492)
Cash paid to and for employees and commissioners	(2,515,025)	(2,576,495)
Net cash provided by operating activities	4,324,284	3,772,826
Cash flows from capital financing activities:		
Contributions in aid of construction	2,340,831	1,672,870
Collections on ULID assessments receivable	19,014	6,132
Interest received on assessments	3,144	2,242
Proceeds from issuance of long-term debt	1,380,972	37,510
Proceeds from disposal of assets	38,619	-
Expenditures for plant in service and construction	(2,408,221)	(3,306,740)
Payment on long-term debt	(839,320)	(824,320)
Interest paid on long-term debt, net of amount capitalized	(85,741)	(89,097)
Net cash provided by (used in) capital financing activities	449,298	(2,501,403)
Cash flows from investing activities:		
Proceeds from sale of investments	-	1,679,136
Purchase of investments	(16,235)	(187,336)
Interest received on investments	63,202	47,005
Net cash provided by investing activities	46,967	1,538,805
Net increase in cash	4,820,549	2,810,228
Cash at January 1	9,795,514	6,985,286
Cash at December 31	$ 14,616,063	$ 9,795,514
Cash is comprised of the following at December 31:		
Cash - current assets	$ 14,006,893	$ 9,401,698
Cash - restricted assets	609,170	393,816
	$ 14,616,063	$ 9,795,514

See accompanying notes to the financial statements

SILVER LAKE WATER AND SEWER DISTRICT

STATEMENT OF CASH FLOWS
(CONTINUED)

Years Ended December 31, 2012 and 2011

	2012	2011
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	$ 1,574,199	$ 1,033,136
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	2,645,341	2,575,265
(Increase) decrease in assets:		
Receivables	(222,005)	(29,970)
Materials and supplies	5,012	(27,149)
Increase (decrease) in liabilities:		
Accounts payable	292,617	148,044
Accrued compensated absences	12,425	16,192
Deposits for construction	16,695	57,308
Net cash provided by operating activities	$ 4,324,284	$ 3,772,826
Supplemental schedule of significant non-cash financing and investing activities:		
Utility plant donations received	$ 1,636,931	$ 1,401,358
Utility plant assets transferred to the City of Everett as part of South End Interceptor exchange	$ -	$ 350,530
Utility plant assets received from the City of Everett as part of South End Interceptor exchange	$ -	$ 201,410

See accompanying notes to the financial statements

SILVER LAKE WATER AND SEWER DISTRICT

STATEMENT OF CASH FLOWS

Years Ended December 31, 2011 and 2010

	2011	2010
Cash flows from operating activities:		
Cash received from customers	$ 15,046,813	$ 14,063,880
Cash paid to vendors	(8,697,492)	(8,021,191)
Cash paid to and for employees and commissioners	(2,576,495)	(2,419,627)
Net cash provided by operating activities	3,772,826	3,623,062
Cash flows from capital financing activities:		
Contributions in aid of construction	1,672,870	1,148,622
Collections on ULID assessments receivable	6,132	13,495
Interest received on assessments	2,242	4,408
Proceeds from issuance of long-term debt	37,510	
Expenditures for plant in service and construction	(3,306,740)	(1,471,440)
Payment on long-term debt	(824,320)	(776,809)
Interest paid on long-term debt, net of amount capitalized	(89,097)	(117,007)
Net cash used in capital financing activities	(2,501,403)	(1,198,731)
Cash flows from investing activities:		
Proceeds from sale of investments	1,679,136	
Purchase of investments	(187,336)	(159,301)
Interest received on investments	47,005	106,087
Net cash provided by (used in) investing activities	1,538,805	(53,214)
Net increase in cash	2,810,228	2,371,117
Cash at January 1	6,985,286	4,614,169
Cash at December 31	$ 9,795,514	$ 6,985,286
Cash is comprised of the following at December 31:		
Cash - current assets	$ 9,401,698	$ 6,628,561
Cash - restricted assets	393,816	356,725
	$ 9,795,514	$ 6,985,286

See accompanying notes to the financial statements

SILVER LAKE WATER AND SEWER DISTRICT

STATEMENT OF CASH FLOWS
(CONTINUED)

Years Ended December 31, 2011 and 2010

	2011	2010
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	$ 1,033,136	$ 1,138,108
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	2,575,265	2,570,446
(Increase) decrease in assets:		
Accounts receivable	(29,970)	(122,851)
Materials and supplies	(27,149)	(8,518)
Increase (decrease) in liabilities:		
Accounts payable	148,044	(18,166)
Accrued compensated absences	16,192	74,544
Deposits for construction	57,308	(10,501)
Net cash provided by operating activities	$ 3,772,826	$ 3,623,062
Supplemental schedule of significant non-cash financing and investing activities:		
Utility plant donations received	$ 1,401,358	$ 770,917
Utility plant assets transferred to the City of Everett as part of South End Interceptor exchange	$ 350,530	
Utility plant assets received from the City of Everett as part of South End Interceptor exchange	$ 201,410	

See accompanying notes to the financial statements

1. DESCRIPTION OF BUSINESS, NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES

Description of business, nature of operations and reporting entity - Silver Lake Water and Sewer District, a municipal corporation organized under the laws of the state of Washington, was created for the purpose of constructing, maintaining and operating water and sewer systems within its boundaries, which encompass an area in south Snohomish County. The District has no component units.

Basis of presentation and accounting - These financial statements are prepared utilizing the full accrual basis of accounting. Effective January 1, 2010, the District adopted Governmental Accounting Standards Board Statement 62 which codified accounting and financial reporting guidance contained in Pre-November 30, 1989 Financial Accounting Standards Board (FASB) and American Institute of Certified Public Accountants (AICPA) pronouncements and eliminated the option for the District to apply Post-November 30, 1989 FASB statements and interpretations that do not conflict with statements issued by the Governmental Accounting Standards Board. All activities of the District are accounted for within a single proprietary (enterprise) fund.

Investments - Investments in the State of Washington Treasurer's Investment Pool are stated at share price which is equal to cost. Other investments are stated at fair value.

Accounts receivable - The District utilizes the allowance method of accounting for doubtful accounts. However, all accounts are considered fully collectible since nonpayment of an account can result in a lien assessment filed against the property. Therefore, no allowance for doubtful accounts has been provided in the financial statements.

Materials and supplies - Materials and supplies are inventories available for future use and are stated at the lower of cost (FIFO) or market.

Capital assets - Capital assets are stated at cost. For water and sewer systems installed by developers or customers and conveyed to the District by bill of sale, the District records the cost of the system at the contributing party's estimated cost. Expenditures for capital assets exceeding $5,000, including capital leases and major repairs that increase useful lives, are capitalized. Certain assets including meters, hydrants and titled motor vehicles and trailers are capitalized regardless of cost. Maintenance, repairs, and minor renewals are accounted for as expenses when incurred. Provision is made for depreciation of capital assets using the straight-line method over the estimated useful lives of the assets which generally are 3-75 years.

1. **DESCRIPTION OF BUSINESS, NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES** (continued)

Interest capitalization - Interest costs incurred for the construction of capital assets are subject to capitalization.

Total interest and amortization cost incurred for the years ended December 31, 2012 and 2011 was $153,407 and $168,184, respectively. Interest capitalized to Construction Work in Progress for the years ended December 31, 2012 and 2011 was $69,249 and $79,174, respectively.

Accrued compensated absences - The District accrues accumulated unpaid vacation and sick leave benefit amounts as earned. District employees accumulate vacation and sick leave hours, subject to certain restrictions, for subsequent use or payment upon termination, retirement or death.

Long-term debt - Long-term debt is reported net of premiums, discounts, issue costs and losses on refunding.

Premiums, discounts and issue costs on long-term debt are amortized by the interest method over the period the related debt is outstanding. Losses on refundings of long-term debt are amortized by the interest method over the life of the new debt issued or the debt refunded, whichever is shorter.

Net position - Net position is classified in the following three components: 1) Net investment in capital assets - This component of net position consists of capital assets, net of accumulated depreciation, and reduced by the outstanding balances of any borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of net investment in capital assets. Rather, that portion of the debt is included in the same net position component as the unspent proceeds. 2) Restricted - This component of net position consists of restrictions placed on asset use by external creditors (such as through debt covenants), grantors, contributors or others, reduced by liabilities related to those assets. 3) Unrestricted net position - This component of net position consists of assets reduced by liabilities related to those assets, that do not meet the definition of "restricted" or "net investment in capital assets."

The District applies unrestricted and restricted resources to purposes for which both unrestricted and restricted net resources are available based on management's discretion.

1. DESCRIPTION OF BUSINESS, NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenues and expenses - Revenues and expenses are distinguished between operating and non-operating items. Operating revenues result from providing products and services in connection with the District's water and sewer systems. Operating expenses include the costs associated with providing the District's products and services, general and administrative expenses and depreciation on capital assets. All revenues and expenses not meeting these definitions are classified as non-operating revenues and expenses.

Capital contributions - ULID assessments and contributions in aid of construction from property owners are recorded as capital contribution revenue.

Use of estimates in financial statement preparation - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

2. DEPOSITS AND INVESTMENTS

Deposits - The District's 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.

Investments - As required by state law, all investments of the District's funds are obligations of the U.S. Government, U.S. agency issues, obligations of the state of Washington, certificates of deposit with Washington State Banks and the Local Government Investment Pool managed by the Washington State Treasurer's office.

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

	Fair value
2012:	
State Treasurer's Investment Pool	$10,236,783
2011:	
State Treasurer's Investment Pool	$10,220,549

2. DEPOSITS AND INVESTMENTS (continued)

Credit risk - As of December 31, 2012 and 2011, the District's investment in the Pool was not rated by a nationally recognized statistical rating organization (NRSRO).

Interest rate risk - The Pool is a 2a-7-like pool. Consequently, the District's investments in the Pool are not subject to interest rate risk as the weighted average maturity of the Pool's portfolio will not exceed 90 days.

The District does not have a formal policy that limits investment maturities as a means of managing its exposure to fair value arising from increasing interest rates.

3. RESTRICTED ASSETS

In accordance with the bond resolutions and other agreements, separate restricted accounts are required to be established. The assets held in these accounts are restricted for specific uses, including debt service, reserve and other requirements. Restricted assets were as follows:

	Revenue Bond Debt Service Account	Revenue Bond Reserve Account	180th Street Lift Station Latecomer Fees	Total
December 31, 2012:				
Current restricted assets:				
Cash	$355,075		$254,095	$609,170
Investments	5,336	$476,087		481,423
Interest receivable	1,707			1,707
Assessments receivable - current	6,133			6,133
	368,251	476,087	254,095	1,098,433
Noncurrent - restricted assets:				
Assessments receivable - long-term	19,627			19,627
	$387,878	$476,087	$254,095	$1,118,060

SILVER LAKE WATER AND SEWER DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

December 31, 2012 and 2011

3. RESTRICTED ASSETS (continued)

	Revenue Bond Debt Service Account	Revenue Bond Reserve Account	180th Street Lift Station Latecomer Fees	Total
December 31, 2011:				
Current restricted assets:				
Cash	$356,750		$37,066	$393,816
Investments	4,572	$476,087		480,659
Interest receivable	2,769			2,769
Assessments receivable - current	8,587			8,587
	372,678	476,087	37,066	885,831
Noncurrent - restricted assets:				
Assessments receivable - long-term	36,187			36,187
	$408,865	$476,087	$37,066	$922,018

Terms of the revenue bond issues require the District to establish and maintain debt service and reserve accounts. The debt service accounts are to accumulate funds for payment of bond, principal and interest and the reserve accounts are to provide security for bond holders.

The required reserve account at December 31, 2012 and 2011 is $291,600 and $206,400, respectively. Both the debt service and reserve accounts are fully funded.

4. CAPITAL ASSETS

Major classes of capital assets and capital asset activity was as follows:

	Balance, beginning of year	Additions	Disposals	Transfers	Balance, end of year
2012:					
Capital assets not being depreciated:					
Land and land rights	$ 3,756,904				$ 3,756,904
Construction in progress	4,248,501	$ 1,478,191	$ (107,000)	$ (1,427,729)	4,191,963
	8,005,405	1,478,191	(107,000)	(1,427,729)	7,948,867
Capital assets being depreciated:					
Water system	66,121,723	1,047,309		4,092	67,173,124
Sewer system	85,060,544	862,576		1,423,637	87,346,757
Office building and improvements	14,220,958	31,383			14,252,341
Equipment and other	2,631,177	192,054	(38,060)		2,785,171
	168,034,402	2,133,322	(38,060)	1,427,729	171,557,393
Accumulated depreciation:					
Water system	(13,410,748)	(831,745)			(14,242,493)
Sewer system	(21,534,311)	(1,300,158)			(22,834,469)
Office building and improvements	(2,438,918)	(363,990)			(2,802,908)
Equipment and other	(1,814,628)	(149,448)	38,060		(1,926,016)
	(39,198,605)	(2,645,341)	38,060		(41,805,886)
Net capital assets	$136,841,202	$ 966,172	$ (107,000)	$ -	$137,700,374

4. CAPITAL ASSETS (continued)

	Balance, beginning of year	Additions	Disposals	Transfers	Balance, end of year
2011:					
Capital assets not being depreciated:					
Land and land rights	$ 3,756,904				$ 3,756,904
Construction in progress	1,923,133	$ 3,130,789	$ (330,862)	$ (474,559)	4,248,501
	5,680,037	3,130,789	(330,862)	(474,559)	8,005,405
Capital assets being depreciated:					
Water system	65,360,076	745,166		16,481	66,121,723
Sewer system	83,705,208	1,116,547		238,789	85,060,544
Office building and improvements	14,120,122			100,836	14,220,958
Equipment and other	2,369,134	143,590		118,453	2,631,177
	165,554,540	2,005,303		474,559	168,034,402
Accumulated depreciation:					
Water system	(12,594,807)	(815,941)			(13,410,748)
Sewer system	(20,273,448)	(1,260,863)			(21,534,311)
Office building and improvements	(2,080,361)	(358,557)			(2,438,918)
Equipment and other	(1,674,724)	(139,904)			(1,814,628)
	(36,623,340)	(2,575,265)			(39,198,605)
Net capital assets	$134,611,237	$ 2,560,827	$ (330,862)	$ -	$136,841,202

5. LONG-TERM DEBT PAYABLE FROM UNRESTRICTED ASSETS

Long-term debt outstanding payable from unrestricted assets, consisted of the following Public Works Trust Fund loans secured by the revenue of the water and sewer systems issued for utility construction:

	2012	2011
1998 $101,144 loan, payable $5,323 annually through the year 2018, plus interest at 1.0 annual percentage rate.	$ 31,940	$ 37,263
1999 $6,208,160 loan, payable $346,486 annually through the year 2019, plus interest at 1.0 annual percentage rate.	2,425,403	2,771,889
2009 $150,040 loan, payable $37,510 annually through the year 2014, plus interest at .50 annual percentage rate.	75,020	112,530
2012 loan: $1,859,100 authorized, $1,380,971 drawn to December 31, 2012. Based on draws to December 31, 2012, payable $69,049 annually through the year 2032, plus interest at .25 annual percentage rate.	1,380,971	
2013 loan: $7,810,000 authorized, $0 drawn to December 31, 2012. Payable annually in equal principal payments, based on draws outstanding, through the year 2033, plus interest at .25 annual percentage rate.		
	3,913,334	2,921,682
Less current maturities	(458,368)	(389,319)
	$3,454,966	$2,532,363

5. LONG-TERM DEBT PAYABLE FROM UNRESTRICTED ASSETS (continued)

Long-term debt service requirements to maturity, payable by the District from unrestricted assets are as follows (based on draws received through December 31, 2012):

	Principal	Interest	Total
2013	$ 458,368	$ 28,401	$ 486,769
2014	458,368	24,523	482,891
2015	420,858	20,644	441,502
2016	420,858	16,954	437,812
2017	420,858	13,263	434,121
2018-2022	1,043,538	21,668	1,065,206
2023-2027	345,243	6,905	352,148
2028-2032	345,243	2,589	347,832
	$3,913,334	$134,947	$4,048,281

Long-term debt, payable from unrestricted assets activity was as follows:

	Balance, beginning of year	Additions	Reductions	Balance, end of year	Amounts due within one year
2012:					
1998 Loan	$ 37,263		$ 5,323	$ 31,940	$ 5,323
1999 Loan	2,771,889		346,486	2,425,403	346,486
2009 Loan	112,530		37,510	75,020	37,510
2012 Loan	-	$1,380,971	-	1,380,971	69,049
	$2,921,682	$1,380,971	$ 389,319	$3,913,334	$ 458,368
2011:					
1998 Loan	$ 42,587		$ 5,324	$ 37,263	$ 5,323
1999 Loan	3,118,375		346,486	2,771,889	346,486
2009 Loan	112,530	$ 37,510	37,510	112,530	37,510
	$3,273,492	$ 37,510	$ 389,320	$2,921,682	$ 389,319

6. LONG-TERM DEBT PAYABLE FROM RESTRICTED ASSETS

Long-term debt outstanding payable from restricted assets, consisted of the following:

	2012	2011
Revenue Bonds:		
$360,000 issued March 1, 2002, for utility construction, due serially through the year 2016, with interest payable semi-annually at 5.2 annual percentage rate.	$ 125,000	$ 150,000
$4,260,000 issued June 11, 2009 for refunding, due serially through the year 2018, with interest payable semi-annually at 3.00 to 4.00 annual percentage rates.	2,835,000	3,260,000
	2,960,000	3,410,000
Less current maturities	(465,000)	(450,000)
Unamortized premiums, discounts, issue costs and refunding loss	3,228	3,978
	$2,498,228	$2,963,978

Long-term debt service requirements to maturity, payable by the District from restricted assets are as follows:

	Principal	Interest	Total
2013	$ 465,000	$ 112,550	$ 577,550
2014	475,000	97,940	572,940
2015	490,000	83,030	573,030
2016	510,000	65,370	575,370
2017	500,000	42,800	542,800
2018	520,000	20,800	540,800
	$2,960,000	$422,490	$3,382,490

6. LONG-TERM DEBT PAYABLE FROM RESTRICTED ASSETS (continued)

Long-term debt, payable from restricted assets activity was as follows:

	Balance beginning of year	Additions	Reductions	Balance end of year	Amounts due within one year
2012:					
2002 Revenue Bonds	$ 150,000		$ 25,000	$ 125,000	$ 30,000
2009 Revenue Bonds	3,260,000	$ -	425,000	2,835,000	435,000
	$3,410,000	$ -	$450,000	$2,960,000	$465,000
2011:					
2002 Revenue Bonds	$ 175,000		$ 25,000	$ 150,000	$ 25,000
2009 Revenue Bonds	3,670,000	$ -	410,000	3,260,000	425,000
	$3,845,000	$ -	$435,000	$3,410,000	$450,000

7. PENSION PLAN

Substantially all of the 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 retirement plans. The Department of Retirement Systems (DRS), a department within the primary government of the State of Washington, issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for each plan. The DRS CAFR may be obtained by writing to: Department of Retirement Systems, Communications Unit, P.O. Box 48380, Olympia, WA 98504-8380; or it may be downloaded from the DRS website at www.drs.wa.gov. The following disclosures are made pursuant to GASB Statements No. 27, *Accounting for Pensions by State and Local Government Employers* and No. 50, *Pension Disclosures, an Amendment of GASB Statements No. 25 and No. 27.*

Plan description:
The Legislature established PERS in 1947. Membership in the system includes: elected officials; state employees; employees of the Supreme, Appeals, and Superior courts (other than judges currently in the Judicial Retirement System); employees of legislative committees; community and technical colleges, college and university employees not participating in higher education retirement programs; judges of district and municipal courts; and employees of local governments. Approximately 50 percent of PERS salaries are accounted for by the state employment. PERS retirement benefit provisions are established in Chapters 41.34 and 41.40 RCW and may be amended only by the State Legislature.

7. PENSION PLAN (continued)

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

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

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

PERS Plan 1 and Plan 2 retirement benefits are financed from a combination of investment earnings and employer and employee contributions. Employee contributions to the PERS Plan 1 and Plan 2 defined benefit plans accrue interest at a rate specified by the Director of DRS. During DRS' Fiscal Year 2012, the rate was five and one-half percent compounded quarterly. Members in PERS Plan 1 and Plan 2 can elect to withdraw total employee contributions and interest thereon upon separation from PERS-covered employment.

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

PERS Plan 1 members are eligible for retirement after 30 years of service, or at the age of 60 with five years of service, or at the age of 55 with 25 years of service. The monthly benefit is 2 percent of the average final compensation (AFC) per year of service, but the benefit may not exceed 60 percent of the AFC. The AFC is the monthly average of the 24 consecutive highest-paid service credit months.

7. **PENSION PLAN** (continued)

The monthly benefit is subject to a minimum for retirees who have 25 years of service and have been retired 20 years, or who have 20 years of service and have been retired 25 years. If a survivor option is chosen, the benefit is reduced. Plan 1 members retiring from inactive status prior to the age of 65 may also receive actuarially reduced benefits. Plan 1 members may elect to receive an optional COLA that provides an automatic annual adjustment based on the Consumer Price Index. The adjustment is capped at 3 percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

PERS Plan 1 provides duty and non-duty disability benefits. Duty disability retirement benefits for disablement prior to the age of 60 consist of a temporary life annuity. The benefit amount is $350 a month, or two-thirds of the monthly AFC, whichever is less. The benefit is reduced by any workers' compensation benefit and is payable as long as the member remains disabled or until the member attains the age of 60, at which time the benefit is converted to the member's service retirement amount. A member with five years of covered employment is eligible for non-duty disability retirement. Prior to the age of 55, the benefit amount is 2 percent of the AFC for each year of service reduced by 2 percent for each year that the member's age is less than 55. The total benefit is limited to 60 percent of the AFC and is actuarially reduced to reflect the choice of a survivor option. Plan 1 members may elect to receive an optional COLA amount (based on the Consumer Price Index), capped at 3 percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

PERS Plan 1 members can receive credit for military service while actively serving in the military if such credit makes them eligible to retire. Members can also purchase up to 24 months of service credit lost because of an on-the-job injury.

The survivor of a PERS Plan 1 member who dies after having earned ten years of service credit has the option, upon the member's death, of either a monthly survivor benefit or the lump sum of contributions plus interest.

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

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

7. **PENSION PLAN** (continued)

PERS Plan 2 members who have 30 or more years of service credit and are at least 55 years old can retire under one of two provisions:

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

PERS Plan 2 retirement benefits are also actuarially reduced to reflect the choice, if made, of a survivor option. The surviving spouse or eligible child(ren) of a PERS Plan 2 member who dies after having earned ten years of service credit has the option of either a monthly benefit or a lump sum payment of the member's contributions plus interest.

PERS Plan 3 has a dual benefit structure. Employer contributions finance a defined benefit component and member contributions finance a defined contribution component. As established by Chapter 41.34 RCW, employee contribution rates to the defined contribution component range from 5 percent to 15 percent of salaries, based on member choice. There are currently no requirements for employer contributions to the defined contribution component of PERS Plan 3.

PERS Plan 3 defined contribution retirement benefits are dependent upon the results of investment activities. Members may elect to self-direct the investment of their contributions. Any expenses incurred in conjunction with self-directed investments are paid by members. Absent a member's self-direction, PERS Plan 3 investments are made in the same portfolio as that of the PERS 2/3 defined benefit plan.

For DRS' fiscal year 2012, PERS Plan 3 employee contributions were $95.2 million, and plan refunds paid out were $66.2 million.

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

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

7. **PENSION PLAN** (continued)

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

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

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

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

PERS Plan 2 and Plan 3 members may have up to ten years of interruptive military service credit; five years at no cost and five years that may be purchased by paying the required contributions.

PERS Plan 2 and Plan 3 members who become totally incapacitated for continued employment while serving the uniformed services, or a surviving spouse or eligible child(ren), may request interruptive military service credit.

PERS Plan 2 and Plan 3 members can purchase up to 24 months of service credit lost because of an on-the-job injury.

PERS members may also purchase up to five years of additional service credit once eligible for retirement. This credit can only be purchased at the time of retirement and can be used only to provide the member with a monthly annuity that is paid in addition to the member's retirement benefit.

Beneficiaries of a PERS Plan 2 or Plan 3 member with ten years of service who is killed in the course of employment receive retirement benefits without actuarial reduction. This provision applies to any member killed in the course of employment, on or after June 10, 2004, if found eligible by the Director of the Department of Labor and Industries.

7. PENSION PLAN (continued)

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

There are 1,184 participating employers in PERS. Membership in PERS consisted of the following as of the latest actuarial valuation date for the plans of June 30, 2011:

Retirees and beneficiaries receiving benefits	79,363
Terminated plan members entitled to but not yet receiving benefits	29,925
Active plan members vested	105,578
Active plan members non-vested	46,839
	261,705

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

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

7. PENSION PLAN (continued)

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

	2012			2011		
	PERS Plan 1	PERS Plan 2	PERS Plan 3	PERS Plan 1	PERS Plan 2	PERS Plan 3
Employer*	7.21%	7.21%	7.21%**	7.25%	7.25%	7.25%**
Employee	6.00%	4.64%	***	6.00%	4.64%	***

* The employer rates include the employer administrative expense fee currently set at 0.16% as of December 31, 2012 and 2011.
** Plan 3 defined benefit portion only.
*** Variable from 5.00% minimum to 15.00% maximum based on rate selected by the PERS 3 member.

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

	Required contributions	
	PERS Plan 1	PERS Plan 2
2012	$5,235	$117,639
2011	$4,613	$101,434
2010	$3,796	$ 81,839

8. DEFERRED COMPENSATION

The District offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. This plan is with the state of Washington. The Plan, available to all employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. The District made no contributions to the plan in 2012 or 2011.

9. COMMITMENTS AND CONTINGENCY

The District is obligated to the city of Everett to pay for a portion of certain city projects. The District does not record a liability and related asset for city project billings until billing has been received. As of December 31, 2012, the District's share of the projects is estimated to be as follows:

2013	$1,323,200
2014	$3,145,600
2015	$2,080,000
2016	$2,768,000
2017	$2,768,000
2018-2022	$1,616,000

As of December 31, 2012, the District is also obligated under construction contracts totaling $1,350,466 of which $563,031 has been expended.

In October 2008, the Washington State Supreme Court confirmed in Lane v. City of Seattle, 164 Wn.2nd 875 (2008), that a city water utility may not include within rates charged to its retail water customers the expenses related to the provision of fire hydrants because that is a general governmental service that provides a benefit generally to the public, rather than a proprietary service providing a specific benefit to the customer. In that case, the Court stated the city must pay the costs associated with hydrants out of the city's general fund. The District is required by the land use agencies which enforce the International Fire Code within the District's service area to provide fire hydrants as part of its water system. The District pays for hydrants with District operating revenues, including revenues received from rates and charges. It is not clear from the Lane case whether the District is required to seek recovery of hydrant costs from the general purpose governments located in the District's service area. However, it appears that legislation pending in the Washington Legislature authorizing the District to recover the cost of fire suppression facilities, including fire hydrants, for its utility customers will be enacted into law this year. If so, the new legislation would clarify the District's authority to recover fire hydrant costs. The District does not expect the ruling to have a material adverse impact on the District's ability to meet its operational expenses.

10. RISK MANAGEMENT

The District is a member of the Washington Cities Insurance Authority (WCIA).

Utilizing Chapter 48.62 RCW (self-insurance regulation) and Chapter 39.34 RCW (Interlocal Cooperation Act), nine cities originally formed WCIA on January 1, 1981. WCIA was created for the purpose of providing a pooling mechanism for jointly purchasing insurance, jointly self-insuring, and/or jointly contracting for risk management services. WCIA has a total of 153 members.

10. RISK MANAGEMENT (continued)

New members initially contract for a three-year term, and thereafter automatically renew on an annual basis. A one-year withdrawal notice is required before membership can be terminated. Termination does not relieve a former member from its unresolved loss history incurred during membership.

Liability coverage is written on an occurrence basis, without deductibles. Coverage includes general, automobile, police, public officials' errors or omissions, stop gap, and employee benefits liability. Limits are $4 million per occurrence self insured layer, and $16 million per occurrence in the re-insured excess layer. The excess layer is insured by the purchase of reinsurance and insurance and is subject to aggregate limits. Total limits are $20 million per occurrence subject to aggregate sublimits in the excess layers. The Board of Directors determines the limits and terms of coverage annually.

Insurance coverage for property, automobile physical damage, fidelity, inland marine, and boiler and machinery are purchased on a group basis. Various deductibles apply by type of coverage. Property insurance and auto physical damage are self-funded from the members' deductible to $750,000, for all perils other than flood and earthquake, and insured above that amount by the purchase of insurance.

In-house services include risk management consultation, loss control field services, claims and litigation administration, and loss analyses. WCIA contracts for the claims investigation consultants for personnel issues and land use problems, insurance brokerage, and lobbyist services.

WCIA is fully funded by its members, who make annual assessments on a prospectively rated basis, as determined by an outside, independent actuary. The assessment covers loss, loss adjustment, and administrative expenses. As outlined in the interlocal, WCIA retains the right to additionally assess the membership for any funding shortfall.

An investment committee, using investment brokers, produces additional revenue by investment of WCIA's assets in financial instruments which comply with all State guidelines.

A Board of Directors governs WCIA, which is comprised of one designated representative from each member. The Board elects an Executive Committee and appoints a Treasurer to provide general policy direction for the organization. The WCIA Executive Director reports to the Executive Committee and is responsible for conducting the day to day operations of WCIA.

11. MAJOR SUPPLIERS

All sewage collected by the District is treated by the city of Everett and the Department of Natural Resources / King County, Washington.

Water purchased by the District is supplied by the city of Everett and the Clearview Water Supply Agency. In 2004, the District negotiated a 50 year supply contract for water with the Clearview Water Supply Agency.

12. LEASES

The District leases space for cell towers on certain reservoirs under noncancelable provisions of operating leases. Future rental income due to the District under the noncancelable portion of the leases is as follows:

Year ending December 31:

2013	$ 111,795
2014	109,224
2015	114,453
2016	100,405
2017	26,943
	$462,820

SILVER LAKE WATER AND SEWER DISTRICT

NOTES TO FINANCIAL STATEMENTS

December 31, 2011 and 2010

1. DESCRIPTION OF BUSINESS, NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES

Description of business, nature of operations and reporting entity - Silver Lake Water and Sewer District, a municipal corporation organized under the laws of the state of Washington, was created for the purpose of constructing, maintaining and operating water and sewer systems within its boundaries, which encompass an area in south Snohomish County. The District has no component units.

Basis of presentation and accounting - These financial statements are prepared utilizing the full accrual basis of accounting. Effective January 1, 2010, the District adopted Governmental Accounting Standards Board Statement 62 which codified accounting and financial reporting guidance contained in Pre-November 30, 1989 Financial Accounting Standards Board (FASB) and American Institute of Certified Public Accountants (AICPA) pronouncements and eliminated the option for the District to apply Post-November 30, 1989 FASB statements and interpretations that do not conflict with statements issued by the Governmental Accounting Standards Board. All activities of the District are accounted for within a single proprietary (enterprise) fund.

Investments - Investments in the State of Washington Treasurer's Investment Pool are stated at share price which is equal to cost. Other investments are stated at fair value.

Accounts receivable - The District utilizes the allowance method of accounting for doubtful accounts. However, all accounts are considered fully collectible since nonpayment of an account can result in a lien assessment filed against the property. Therefore, no allowance for doubtful accounts has been provided in the financial statements.

Materials and supplies - Materials and supplies are inventories available for future use and are stated at the lower of cost (FIFO) or market.

Capital assets - Capital assets are stated at cost. For water and sewer systems installed by developers or customers and conveyed to the District by bill of sale, the District records the cost of the system at the contributing party's estimated cost. Expenditures for capital assets exceeding $5,000, including capital leases and major repairs that increase useful lives, are capitalized. Certain assets including meters, hydrants and titled motor vehicles and trailers are capitalized regardless of cost. Maintenance, repairs, and minor renewals are accounted for as expenses when incurred. Provision is made for depreciation of capital assets using the straight-line method over the estimated useful lives of the assets which, prior to 2010, generally were 3-50 years. In 2010, the District revised its estimates of the useful lives of capital assets. Effective January 1, 2010, the useful lives of the assets generally are 3-75 years. The change in estimated useful lives of assets existing prior to 2010 is being accounted for prospectively by depreciating the book value of the assets as of December 31, 2009 over the revised remaining useful lives.

1. **DESCRIPTION OF BUSINESS, NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES** (continued)

Capital assets (continued) - The effects on the 2010 financial statements resulting from the change in estimated useful lives were a decrease in depreciation expense and corresponding increases in operating income, income before capital contributions and change in net position in the amount of $1,154,281 ($532,306 sewer and $621,975 water) from what would have been reported using the estimated lives used before 2010.

Interest capitalization - Interest costs incurred for the construction of capital assets are subject to capitalization.

Total interest and amortization cost incurred for the years ended December 31, 2011 and 2010 was $168,184 and $186,455, respectively. Interest capitalized to Construction Work in Progress for the years ended December 31, 2011 and 2010 was $79,174 and $66,116, respectively.

Accrued compensated absences - The District accrues accumulated unpaid vacation and sick leave benefit amounts as earned. District employees accumulate vacation and sick leave hours, subject to certain restrictions, for subsequent use or payment upon termination, retirement or death.

Long-term debt - Long-term debt is reported net of discounts, issue costs and losses on refunding.

Discounts, premiums and issue costs on long-term debt are amortized by the interest method over the period the related debt is outstanding. Losses on refundings of long-term debt are amortized by the interest method over the life of the new debt issued or the debt refunded, whichever is shorter.

Net position - Net position is classified in the following three components: 1) Invested in capital assets, net of related debt - This component of net position consists of capital assets, net of accumulated depreciation, and reduced by the outstanding balances of any bonds, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of invested in capital assets, net of related debt. Rather, that portion of the debt is included in the same net position component as the unspent proceeds. 2) Restricted - This component of net position consists of restrictions placed on asset use by external creditors (such as through debt covenants), grantors, contributors or others, reduced by liabilities related to those assets. 3) Unrestricted net position - This component of net position consists of assets reduced by liabilities related to those assets, that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

1. DESCRIPTION OF BUSINESS, NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Net position (continued) - The District applies unrestricted and restricted resources to purposes for which both unrestricted and restricted net resources are available based on management's discretion.

Revenues and expenses - Revenues and expenses are distinguished between operating and non-operating items. Operating revenues result from providing products and services in connection with the District's water and sewer systems. Operating expenses include the costs associated with providing the District's products and services, general and administrative expenses and depreciation on capital assets. All revenues and expenses not meeting these definitions are classified as non-operating revenues and expenses.

Capital contributions - ULID assessments and contributions in aid of construction from property owners are recorded as capital contribution revenue.

Use of estimates in financial statement preparation - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Reclassifications - Certain reclassifications have been made to the 2010 financial statements to conform to the 2011 financial statement presentation.

2. DEPOSITS AND INVESTMENTS

Deposits - The District's 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.

Investments - As required by state law, all investments of the District's funds are obligations of the U.S. Government, U.S. agency issues, obligations of the state of Washington, certificates of deposit with Washington State Banks and the Local Government Investment Pool managed by the Washington State Treasurer's office.

2. DEPOSITS AND INVESTMENTS (continued)

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

	Fair value
2011:	
State Treasurer's Investment Pool	$10,220,549
2010:	
State Treasurer's Investment Pool	$11,712,348

Credit risk - As of December 31, 2011 and 2010, the District's investment in the Pool was not rated by a nationally recognized statistical rating organization (NRSRO).

Interest rate risk - The Pool is a 2a-7-like pool. Consequently, the District's investments in the Pool are not subject to interest rate risk as the weighted average maturity of the Pool's portfolio will not exceed 90 days.

3. RESTRICTED ASSETS

In accordance with the bond resolutions and other agreements, separate restricted accounts are required to be established. The assets held in these accounts are restricted for specific uses, including debt service, reserve and other requirements. Restricted assets were as follows:

	Revenue Bond Debt Service Account	Revenue Bond Reserve Account	180th Street Lift Station Latecomer Fees	Total
December 31, 2011:				
Current restricted assets:				
Cash	$356,750		$37,066	$393,816
Investments	4,572	$476,087		480,659
Interest receivable	2,769			2,769
Assessments receivable - current	8,587			8,587
	372,678	476,087	37,066	885,831
Noncurrent - restricted assets:				
Assessments receivable - long-term	36,187			36,187
	$408,865	$476,087	$37,066	$922,018

3. RESTRICTED ASSETS (continued)

	Revenue Bond Debt Service Account	Revenue Bond Reserve Account	180th Street Lift Station Latecomer Fees	Total
December 31, 2010:				
Current restricted assets:				
Cash	$356,725			$356,725
Investments	3,810	$476,087		479,897
Interest receivable	2,479			2,479
Assessments receivable - current	9,226			9,226
	372,240	476,087		848,327
Noncurrent - restricted assets:				
Assessments receivable - long-term	41,680			41,680
	$413,920	$476,087		$890,007

Terms of the revenue bond issues require the District to establish and maintain debt service and reserve accounts. The debt service accounts are to accumulate funds for payment of bond, principal and interest and the reserve accounts are to provide security for bond holders.

The required reserve account at December 31, 2011 and 2010 is $206,400 and $121,200, respectively. Both the debt service and reserve accounts are fully funded.

SILVER LAKE WATER AND SEWER DISTRICT

NOTES TO FINANCIAL STATEMENTS
(CONTINUED)

December 31, 2011 and 2010

4. CAPITAL ASSETS

Major classes of capital assets and capital asset activity was as follows:

	Balance, beginning of year	Additions	Disposals	Transfers	Balance, end of year
2011:					
Capital assets not being depreciated:					
Land and land rights	$ 3,756,904				$ 3,756,904
Construction in progress	1,923,133	$ 3,130,789	$ (330,862)	$ (474,559)	4,248,501
	5,680,037	3,130,789	(330,862)	(474,559)	8,005,405
Capital assets being depreciated:					
Water system	65,360,076	745,166		16,481	66,121,723
Sewer system	83,705,208	1,116,547		238,789	85,060,544
Office building and improvements	14,120,122			100,836	14,220,958
Equipment and other	2,369,134	143,590		118,453	2,631,177
	165,554,540	2,005,303		474,559	168,034,402
Accumulated depreciation:					
Water system	(12,594,807)	(815,941)			(13,410,748)
Sewer system	(20,273,448)	(1,260,863)			(21,534,311)
Office building and improvements	(2,080,361)	(358,557)			(2,438,918)
Equipment and other	(1,674,724)	(139,904)			(1,814,628)
	(36,623,340)	(2,575,265)			(39,198,605)
Net capital assets	$134,611,237	$ 2,560,827	$ (330,862)	$ -	$136,841,202

4. CAPITAL ASSETS (continued)

	Balance, beginning of year	Additions	Disposals	Transfers	Balance, end of year
2010:					
Capital assets not being depreciated:					
Land and land rights	$ 3,756,904				$ 3,756,904
Construction in progress	3,209,757	$ 1,465,802	$ (4,340)	$(2,748,086)	1,923,133
	6,966,661	1,465,802	(4,340)	(2,748,086)	5,680,037
Capital assets being depreciated:					
Water system	64,382,395	614,434	(8,694)	371,941	65,360,076
Sewer system	81,028,303	300,760		2,376,145	83,705,208
Office building and improvements	14,154,098		(33,976)		14,120,122
Equipment and other	2,685,782	80,982	(397,630)		2,369,134
	162,250,578	996,176	(440,300)	2,748,086	165,554,540
Accumulated depreciation:					
Water system	(11,793,823)	(803,957)	2,973		(12,594,807)
Sewer system	(19,016,697)	(1,256,751)			(20,273,448)
Office building and improvements	(1,752,518)	(354,346)	26,503		(2,080,361)
Equipment and other	(1,891,778)	(155,392)	372,446		(1,674,724)
	(34,454,816)	(2,570,446)	401,922		(36,623,340)
Net capital assets	$134,762,423	$ (108,468)	$ (42,178)	$ -	$134,611,237

5. LONG-TERM DEBT PAYABLE FROM UNRESTRICTED ASSETS

Long-term debt outstanding payable from unrestricted assets, consisted of the following Public Works Trust Fund loans secured by the revenue of the water and sewer systems issued for utility construction:

	2011	2010
1998 $101,144 loan, payable $5,323 annually through the year 2018, plus interest at 1.0 annual percentage rate.	$ 37,263	$ 42,587
1999 $6,208,160 loan, payable $346,486 annually through the year 2019, plus interest at 1.0 annual percentage rate.	2,771,889	3,118,375
2009 $150,040 loan, payable $37,510 annually through the year 2014, plus interest at .50 annual percentage rate.	112,530	112,530
2011 loan: $1,859,100 authorized, $0 drawn to December 31, 2011. Payable annually in equal principal payments, based on draws outstanding, through the year 2032, plus interest at .50 annual percentage rate. First draw of $1,380,971 received February 28, 2012.		
	2,921,682	3,273,492
Less current maturities	(389,319)	(379,942)
	$2,532,363	$2,893,550

Long-term debt service requirements to maturity, payable by the District from unrestricted assets are as follows:

	Principal	Interest	Total
2012	$ 389,319	$ 28,654	$ 417,973
2013	389,319	24,949	414,268
2014	389,319	21,243	410,562
2015	351,809	17,537	369,346
2016	351,809	14,019	365,828
2017-2019	1,050,107	20,949	1,071,056
	$2,921,682	$127,351	$3,049,033

5. LONG-TERM DEBT PAYABLE FROM UNRESTRICTED ASSETS (continued)

Long-term debt; payable from unrestricted assets activity was as follows:

	Balance, beginning of year	Additions	Reductions	Balance, end of year	Amounts due within one year
2011:					
1998 Loan	$ 42,587		$ 5,324	$ 37,263	$ 5,323
1999 Loan	3,118,375		346,486	2,771,889	346,486
2009 Loan	112,530	$ 37,510	37,510	112,530	37,510
	$3,273,492	$ 37,510	$ 389,320	$2,921,682	$ 389,319
2010:					
1998 Loan	$ 47,910		$ 5,323	$ 42,587	$ 5,323
1999 Loan	3,464,861		346,486	3,118,375	346,486
2009 Loan	112,530			112,530	28,133
	$3,625,301		$ 351,809	$3,273,492	$ 379,942

6. LONG-TERM DEBT PAYABLE FROM RESTRICTED ASSETS

Long-term debt outstanding payable from restricted assets, consisted of the following:

	2011	2010
Revenue Bonds:		
$360,000 issued March 1, 2002, for utility construction, due serially through the year 2016, with interest payable semi-annually at 5.2 annual percentage rate.	$ 150,000	$ 175,000
$4,260,000 issued June 11, 2009 for refunding, due serially through the year 2018, with interest payable semi-annually at 2.50 to 4.00 annual percentage rates.	3,260,000	3,670,000
	3,410,000	3,845,000
Less current maturities	(450,000)	(435,000)
Unamortized premiums, discounts, issue costs and refunding loss	3,978	1,344
	$2,963,978	$3,411,344

6. LONG-TERM DEBT PAYABLE FROM RESTRICTED ASSETS (continued)

Long-term debt service requirements to maturity, payable by the District from restricted assets are as follows:

	Principal	Interest	Total
2012	$ 450,000	$ 124,475	$ 574,475
2013	465,000	112,550	577,550
2014	475,000	97,940	572,940
2015	490,000	83,030	573,030
2016	510,000	65,370	575,370
2017-2018	1,020,000	63,600	1,083,600
	$3,410,000	$546,965	$3,956,965

Long-term debt, payable from restricted assets activity was as follows:

	Balance beginning of year	Additions	Reductions	Balance end of year	Amounts due within one year
2011:					
2002 Revenue Bonds	$ 175,000		$ 25,000	$ 150,000	$ 25,000
2009 Revenue Bonds	3,670,000	$ -	410,000	3,260,000	425,000
	$3,845,000	$ -	$435,000	$3,410,000	$450,000
2010:					
2002 Revenue Bonds	$ 200,000		$ 25,000	$ 175,000	$ 25,000
2009 Revenue Bonds	4,070,000	$ -	400,000	3,670,000	410,000
	$4,270,000	$ -	$425,000	$3,845,000	$435,000

7. PENSION PLAN

Substantially all of the 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 retirement plans. The Department of Retirement Systems (DRS), a department within the primary government of the State of Washington, issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for each plan. The DRS CAFR may be obtained by writing to: Department of Retirement Systems, Communications Unit, P.O. Box 48380, Olympia, WA 98504-8380; or it may be downloaded from the DRS website at www.drs.wa.gov. The following disclosures are made pursuant to GASB Statements No. 27, *Accounting for Pensions by State and Local Government Employers* and No. 50, *Pension Disclosures, an Amendment of GASB Statements No. 25 and No. 27.*

Plan description:
The Legislature established PERS in 1947. Membership in the system includes: elected officials; state employees; employees of the Supreme, Appeals, and Superior courts (other than judges currently in the Judicial Retirement System); employees of legislative committees; community and technical colleges, college and university employees not participating in higher education retirement programs; judges of district and municipal courts; and employees of local governments. PERS retirement benefit provisions are established in Chapters 41.34 and 41.40 RCW and may be amended only by the State Legislature.

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

PERS members who joined the system by September 30, 1977 are Plan 1 members. Those who joined on or after October 1, 1977 and by either, February 28, 2002 for state and higher education employees, or August 31, 2002 for local government employees, are Plan 2 members unless they exercised an option to transfer their membership to Plan 3. PERS members joining the system on or after March 1, 2002 for state and higher education employees, or September 1, 2002 for local government employees have the irrevocable option of choosing membership in either PERS Plan 2 or PERS Plan 3. The option must be exercised within 90 days of employment. An employee is reported in Plan 2 until a choice is made. Employees who fail to choose within 90 days default to PERS Plan 3. Notwithstanding, PERS Plan 2 and Plan 3 members may opt out of plan membership if terminally ill, with less than five years to live.

7. **PENSION PLAN** (continued)

PERS Plan 1 and Plan 2 defined benefit retirement benefits are financed from a combination of investment earnings and employer and employee contributions.

PERS Plan 1 members are vested after the completion of five years of eligible service. Plan 1 members are eligible for retirement after 30 years of service, or at the age of 60 with five years of service, or at the age of 55 with 25 years of service. The monthly benefit is 2 percent of the average final compensation (AFC) per year of service. (AFC is the monthly average of the 24 consecutive highest-paid service credit months.) The retirement benefit may not exceed 60 percent of AFC. The monthly benefit is subject to a minimum for PERS Plan 1 retirees who have 25 years of service and have been retired 20 years, or who have 20 years of service and have been retired 25 years. Plan 1 members retiring from inactive status prior to the age of 65 may receive actuarially reduced benefits. If a survivor option is chosen, the benefit is further reduced. A cost-of-living allowance (COLA) was granted at age 66 based upon years of service times the COLA amount. This benefit was eliminated by the Legislature, effective July 1, 2011. Plan 1 members may elect to receive an optional COLA that provides an automatic annual adjustment based on the Consumer Price Index. The adjustment is capped at 3 percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

PERS Plan 1 provides duty and non-duty disability benefits. Duty disability retirement benefits for disablement prior to the age of 60 consist of a temporary life annuity payable to the age of 60. The allowance amount is $350 a month, or two-thirds of the monthly AFC, whichever is less. The benefit is reduced by any workers' compensation benefit and is payable as long as the member remains disabled or until the member attains the age of 60. A member with five years of covered employment is eligible for non-duty disability retirement. Prior to the age of 55, the allowance amount is 2 percent of the AFC for each year of service reduced by 2 percent for each year that the member's age is less than 55. The total benefit is limited to 60 percent of the AFC and is actuarially reduced to reflect the choice of a survivor option. A cost-of-living allowance was granted at age 66 based upon years of service times the COLA amount. This benefit was eliminated by the Legislature, effective July 1, 2011. Plan 1 members may elect to receive an optional COLA that provides an automatic annual adjustment based on the Consumer Price Index. The adjustment is capped at 3 percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

PERS Plan 1 members can receive credit for military service. Members can also purchase up to 24 months of service credit lost because of an on-the-job injury.

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

7. PENSION PLAN (continued)

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

PERS Plan 2 members who have 30 or more years of service credit and are at least 55 years old can retire under one of two provisions:

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

PERS Plan 2 retirement benefits are also actuarially reduced to reflect the choice, if made, of a survivor option. There is no cap on years of service credit; and a cost-of-living allowance is granted (based on the Consumer Price Index), capped at 3 percent annually.

The surviving spouse or eligible child or children of a PERS Plan 2 member who dies after leaving eligible employment having earned ten years of service credit may request a refund of the member's accumulated contributions.

PERS Plan 3 has a dual benefit structure. Employer contributions finance a defined benefit component and member contributions finance a defined contribution component. The defined benefit portion provides a monthly benefit that is 1 percent of the AFC per year of service. (AFC is the monthly average of the 60 consecutive highest-paid service months.)

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

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

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

7. **PENSION PLAN** (continued)

PERS Plan 3 defined benefit retirement benefits are also actuarially reduced to reflect the choice, if made, of a survivor option. There is no cap on years of service credit and Plan 3 provides the same cost-of-living allowance as Plan 2.

PERS Plan 3 defined contribution retirement benefits are solely dependent upon contributions and the results of investment activities.

The defined contribution portion can be distributed in accordance with an option selected by the member, either as a lump sum or pursuant to other options authorized by the Director of the Department of Retirement Systems.

PERS Plan 2 and Plan 3 provide disability benefits. There is no minimum amount of service credit required for eligibility. The Plan 2 monthly benefit amount is 2 percent of the AFC per year of service. For Plan 3, the monthly benefit amount is 1 percent of the AFC per year of service.

These disability benefit amounts are actuarially reduced for each year that the member's age is less than 65, and to reflect the choice of a survivor option. There is no cap on years of service credit, and a cost-of-living allowance is granted (based on the Consumer Price Index) capped at 3 percent annually.

PERS Plan 2 and Plan 3 members may have up to ten years of interruptive military service credit; five years at no cost and five years that may be purchased by paying the required contributions. Effective July 24, 2005, a member who becomes totally incapacitated for continued employment while serving the uniformed services, or a surviving spouse or eligible children, may apply for interruptive military service credit. Additionally, PERS Plan 2 and Plan 3 members can also purchase up to 24 months of service credit lost because of an on-the-job injury.

PERS members may also purchase up to five years of additional service credit once eligible for retirement. This credit can only be purchased at the time of retirement and can be used only to provide the member with a monthly annuity that is paid in addition to the member's retirement benefit.

Beneficiaries of a PERS Plan 2 or Plan 3 member with ten years of service who is killed in the course of employment receive retirement benefits without actuarial reduction, if the member was not at normal retirement age at death. This provision applies to any member killed in the course of employment, on or after June 10, 2004, if found eligible by the Department of Labor and Industries.

7. PENSION PLAN (continued)

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

There are 1,197 participating employers in PERS. Membership in PERS consisted of the following as of the latest actuarial valuation date for the plans of June 30, 2010:

Retirees and beneficiaries receiving benefits	76,899
Terminated plan members entitled to but not yet receiving benefits	28,860
Active plan members vested	105,521
Active plan members non-vested	51,005
	262,285

Funding policy - Each biennium, the state Pension Funding Council adopts PERS Plan 1 employer contribution rates, PERS Plan 2 employer and employee contribution rates, and PERS Plan 3 employer contribution rates. Employee contribution rates for Plan 1 are established by statute at 6 percent for state agencies and local government unit employees, and at 7.5 percent for state government elected officials. The employer and employee contribution rates for Plan 2 and the employer contribution rate for Plan 3 are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. All employers are required to contribute at the level established by the Legislature. Under PERS Plan 3, employer contributions finance the defined benefit portion of the plan and member contributions finance the defined contribution portion. The Plan 3 employee contribution rates range from 5 percent to 15 percent, based on member choice. Two of the options are graduated rates dependent on the employee's age. As a result of the implementation of the Judicial Benefit Multiplier Program in January 2007, a second tier of employer and employee rates was developed to fund, along with investment earnings, the increased retirement benefits of those justices and judges that participate in the program.

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

7. PENSION PLAN (continued)

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

	2011			2010		
	PERS Plan 1	PERS Plan 2	PERS Plan 3	PERS Plan 1	PERS Plan 2	PERS Plan 3
Employer*	7.25%	7.25%	7.25%**	5.31%	5.31%	5.31%**
Employee	6.00%	4.64%	***	6.00%	3.90%	***

* The employer rates include the employer administrative expense fee currently set at 0.16% as of December 31, 2011 and 2010.
** Plan 3 defined benefit portion only.
*** Variable from 5.00% minimum to 15.00% maximum based on rate selected by the PERS 3 member.

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

	Required contributions	
	PERS Plan 1	PERS Plan 2
2011	$4,613	$101,434
2010	$3,796	$ 81,839
2009	$4,866	$ 98,064

8. DEFERRED COMPENSATION

The District offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. This plan is with the state of Washington. The Plan, available to all employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. The District made no contributions to the plan in 2011 or 2010.

9. COMMITMENTS AND CONTINGENCY

The District is obligated to the city of Everett to pay for a portion of certain city projects. The District does not record a liability and related asset for city project billings until billing has been received. As of December 31, 2011, the District's share of the projects is estimated to be as follows:

2012	$ 952,000
2013	$2,217,600
2014	$3,236,800
2015	$3,236,800
2016	$ -
2017-2021	$1,356,800

In October 2008, the Washington State Supreme Court confirmed in Lane v. City of Seattle, 164 Wn.2nd 875 (2008), that a city water utility may not include within rates charged to its retail water customers the expenses related to the provision of fire hydrants because that is a general governmental service that provides a benefit generally to the public, rather than a proprietary service providing a specific benefit to the customer. In that case, the Court stated the city must pay the costs associated with hydrants out of the city's general fund. The District is required by the land use agencies which enforce the International Fire Code within the District's service area to provide fire hydrants as part of its water system. The District pays for hydrants with District operating revenues, including revenues received from rates and charges. The District cannot predict at this time what effect this ruling may have if applied to water-sewer districts such as the District. The District does not expect the ruling to have a material adverse impact on the District's ability to meet its operational expenses.

10. RISK MANAGEMENT

The District is a member of the Washington Cities Insurance Authority (WCIA). Utilizing Chapter 48.62 RCW (self-insurance regulation) and Chapter 39.34 RCW (Interlocal Cooperation Act), nine cities originally formed WCIA on January 1, 1981. WCIA was created for the purpose of providing a pooling mechanism for jointly purchasing insurance, jointly self-insuring, and/or jointly contracting for risk management services. WCIA has a total of 150 members. New members initially contract for a three-year term, and thereafter automatically renew on an annual basis. A one-year withdrawal notice is required before membership can be terminated. Termination does not relieve a former member from its unresolved loss history incurred during membership.

10. RISK MANAGEMENT (continued)

Liability coverage is written on an occurrence basis, without deductibles. Coverage includes general, automobile, police, public officials' errors or omissions, stop gap, and employee benefits liability. Limits are $4 million per occurrence self insured layer, and $16 million per occurrence in the re-insured excess layer. The excess layer is insured by the purchase of reinsurance and insurance and is subject to aggregate limits. Total limits are $20 million per occurrence subject to aggregate sublimits in the excess layers. The Board of Directors determines the limits and terms of coverage annually.

Insurance coverage for property, automobile physical damage, fidelity, inland marine, and boiler and machinery are purchased on a group basis. Various deductibles apply by type of coverage. Property insurance and auto physical damage are self-funded from the members' deductible to $500,000, for all perils other than flood and earthquake, and insured above that amount by the purchase of insurance.

In-house services include risk management consultation, loss control field services, claims and litigation administration, and loss analyses. WCIA contracts for the claims investigation consultants for personnel issues and land use problems, insurance brokerage, and lobbyist services. WCIA is fully funded by its members, who make annual assessments on a prospectively rated basis, as determined by an outside, independent actuary. The assessment covers loss, loss adjustment, and administrative expenses. As outlined in the interlocal, WCIA retains the right to additionally assess the membership for any funding shortfall.

A Board of Directors governs WCIA, which is comprised of one designated representative from each member. The Board elects an Executive Committee and appoints a Treasurer to provide general policy direction for the organization. The WCIA Executive Director reports to the Executive Committee and is responsible for conducting the day to day operations of WCIA.

11. MAJOR SUPPLIERS

All sewage collected by the District is treated by the city of Everett and the Department of Natural Resources / King County, Washington.

Water purchased by the District is supplied by the city of Everett and the Clearview Water Supply Agency. In 2004, the District negotiated a 50 year supply contract for water with the Clearview Water Supply Agency.

12. LEASES

The District leases space for cell towers on certain reservoirs under noncancelable provisions of operating leases. Future rental income due to the District under the noncancelable portion of the leases is as follows:

Year ending December 31:

2012	$ 97,867
2013	57,338
2014	52,044
2015	54,414
2016	37,364
	$299,027

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 as an advocate for government accountability. 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.

The State Auditor's Office employees are located around the state to deliver services effectively and efficiently.

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 and fraud, whistleblower and citizen hotline investigations.

The results of our work are widely distributed through a variety of reports, which are available on our Web site and through our free, electronic subscription service.

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

State Auditor	**Troy Kelley**
Chief of Staff	**Doug Cochran**
Director of Performance and State Audit	**Chuck Pfeil, CPA**
Director of Local Audit	**Kelly Collins, CPA**
Deputy Director of State Audit	**Jan M. Jutte, CPA, CGFM**
Deputy Director of Local Audit	**Sadie Armijo**
Deputy Director of Local Audit	**Mark Rapozo, CPA**
Deputy Director of Quality Assurance	**Barb Hinton**
Deputy Director of Communications	**Thomas Shapley**
Local Government Liaison	**Mike Murphy**
Public Records Officer	**Mary Leider**
Main number	**(360) 902-0370**
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