Washington State Auditor's Office

Financial Statements Audit Report

Clark Regional Wastewater District

Clark County

Audit Period

January 1, 2013 through December 31, 2013

Report No. 1011815

Issue Date

May 12, 2014

Washington State Auditor
Troy Kelley

Independence • Respect • Integrity

Washington State Auditor
Troy Kelley

May 12, 2014

Board of Commissioners
Clark Regional Wastewater District
Vancouver, Washington

Report on Financial Statements

Please find attached our report on the Clark Regional Wastewater 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

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Clark County
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Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Clark Regional Wastewater District
Clark County
January 1, 2013 through December 31, 2013

Board of Commissioners
Clark Regional Wastewater District
Vancouver, 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 Clark Regional Wastewater District, Clark County, Washington, as of and for the years ended December 31, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated April 30, 2014. As discussed in Note 2 to the financial statements, during the year ended December 31, 2013, the District implemented Governmental Accounting Standards Board Statement No. 65, *Items Previously Reported as Assets and Liabilities*.

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

April 30, 2014

Independent Auditor's Report on Financial Statements

Clark Regional Wastewater District
Clark County
January 1, 2013 through December 31, 2013

Board of Commissioners
Clark Regional Wastewater District
Vancouver, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the Clark Regional Wastewater District, Clark County, Washington, as of and for the years ended December 31, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed on page 6.

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 Clark Regional Wastewater District, as of December 31, 2013 and 2012, 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

As discussed in Note 2 to the financial statements, in 2013, the District adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 65, *Items Previously Reported as Assets and Liabilities*. 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 7 through 12 and information on postemployment benefits other than pensions on page 47 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 April 30, 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 KELLEY
STATE AUDITOR

April 30, 2014

Financial Section

Clark Regional Wastewater District
Clark County
January 1, 2013 through December 31, 2013

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CLARK REGIONAL WASTEWATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS FOR
THE FISCAL YEAR ENDED DECEMBER 31, 2013

INTRODUCTION

As management of the Clark Regional Wastewater District (District), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities for the fiscal year ended December 31, 2013. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found on pages 1-7 of this report.

The following Management's Discussion and Analysis is intended to serve as an introduction to the District's basic financial statements, the notes to the financial statements and, if applicable, any other supplementary information required as part of the basic financial statements. Please refer to the accompanying notes to the financial statements regarding capital asset and long-term liability activity, which can be found on pages 27-58.

The District is not legally required to adopt a budget, however, does so as a measure of monitoring revenues and controlling expenses. The Board of Commissioners adopts an annual maintenance and operation budget and uses it as a financial plan for the District. The District has not reported budgetary comparison schedules herein as required supplementary information.

The District's financial statements present a Special Purpose District organized under the laws of the State of Washington, Revised Code of Washington (RCW), Title 57, to provide sanitary sewer service to specific areas in Clark County, Washington. The District is not a segment of any other local (Clark County) government nor is it a component unit thereof. The financial statements are presented in a manner similar to a private-sector business.

The District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities (i.e. sewer service). The District reports its activities as an enterprise fund, which is a type of proprietary fund. Enterprise funds are used to report the same functions presented as business-type activities; as such, the District uses the enterprise fund to account for all its activities.

The *Comparative Statement of Net Position* presents information on all the District's assets and liabilities with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The *Comparative Statement of Revenues, Expenses and Changes in Fund Net Position* display the change in the District's net position during the most recent fiscal year. All changes in net position are reported as soon as the underlying event occurs regardless of the timing of related cash flows.

The *Comparative Statement of Cash Flows* presents the cash flow from operations, non-capital financing and from capital and related financing, as well as from investing activities.

CLARK REGIONAL WASTEWATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS FOR
THE FISCAL YEAR ENDED DECEMBER 31, 2013

Financial Highlights

- The District requested $913,361 in Public Works Trust Fund (PWTF) loan draws in 2013. Draw proceeds were used to fund design and pre-construction activities of the Discovery Corridor Wastewater Transmission System (DCWTS) project, a $25.0 million dollar project anticipated for completion by fiscal year end 2017.

- For 2013, the assets of the District exceeded its liabilities by $142,570,364. Of this amount, $37,157,623 is classified as unrestricted and may be used to meet the District's ongoing obligations. The District does not have any restricted funds at December 31, 2013.

- The District's change in net position was $2,066,977 and $5,292,952 for 2013 and 2012, respectively. The increases are attributable to capital contributions from developers and connection charges amounting to $5,618,773 and $9,241,739 for 2013 and 2012, respectively.

- The change in total liabilities decreased by $1,941,665 from 2012 to 2013 and decreased by $13,951,394 from 2011 to 2012. During 2012, the District paid off its contractual obligation to Clark County for the Salmon Creek Treatment Plant (SCTP) Phase III project which simultaneously decreased the District's deferred revenues by $4,353,763 from 2011 to 2012. Partially offsetting these decreases in liabilities was an increase of $5,417,645 in liabilities for the issued 2012 revenue bonds.

- Throughout 2013 the District made regular principal payments on its outstanding sewer revenue bonds of $1,093,665, PWTF loans of $1,207,311 and State Revolving Fund (SRF) loan of $46,198. In addition, the District increased its PWTF loan liabilities by $913,361 for the DCWTS project.

Assets, Liabilities and Net Position

December 31	2013	Restated 2012	2013 to 2012 Change	%	Restated 2011	2012 to 2011 Change	%
Assets							
Current and other assets	$ 40,626,955	$ 39,151,478	$ 1,475,477	3.8%	$ 45,191,335	$ (6,039,857)	-13.4%
Capital assets (net of depreciation) and construction work in progress	135,725,542	137,075,707	(1,350,165)	-1.0%	139,694,293	(2,618,586)	-1.9%
Total assets	176,352,497	176,227,185	125,312		184,885,628	(8,658,443)	
Liabilities							
Long-term liabilities	29,001,844	30,381,806	(1,379,962)	-3.5%	39,775,974	(9,394,168)	-23.6%
Other liabilities	4,780,289	5,341,992	(561,703)	-5.7%	9,899,218	(4,557,226)	-46.0%
Total liabilities	33,782,133	35,723,798	(1,941,665)		49,675,192	(13,951,394)	
Net position							
Net invested in capital assets	105,412,741	105,309,986	102,755	0.1%	97,647,088	7,662,898	7.8%
Restricted	-	-	-		2,122,351	(2,122,351)	-100.0%
Unrestricted	37,157,623	35,193,401	1,964,222	5.5%	35,440,997	(247,596)	-0.7%
Total net position	$ 142,570,364	$ 140,503,387	$ 2,066,977		$ 135,210,436	$ 5,292,952	

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

Investment in capital assets includes land, buildings, pump stations, collection and transmission lines, machinery and equipment, construction in progress on collection and transmission systems and intangible assets. The District's total net capital assets as of December 31, 2013 were $135.7 million. This decrease of $1,350,165 or 1.0% from 2012 is due to depreciation and amortization exceeding capital additions. Major capital assets events during the fiscal year included the following:

- The District completed work on four Septic Elimination Projects (SEP), LaLonde, Erin Way, Glenmar and NW 11th/NW 16th Avenue, in 2013. Two of the four SEP projects were started in 2012 and two were started and completed in 2013.

- During 2013, the District installed snow and ice safety clips on the roof of the district office and maintenance shop buildings, increasing the value of the District's buildings and structures by $24,725. The District expanded the existing telemetry system to prepare for monitoring of the Ridgefield service area and made provisions for DCWTS, increasing the District's communication equipment value by $79,800.

- The District continued to replace pumps nearing their useful lives with newer technology pumps which subsequently lead to greater efficiency and effectiveness in pump station functionality. The District completed work and brought on line the Meadows Terrace Pump Station. These additions along with some minor work done at the 110th Street Pump Station resulted in an increase in collections infrastructure value of $522,390.

- The District upgraded its Supervisory Control and Data Acquisition (SCADA) software, used for pump station monitoring, to a newer version during 2013. The cost for the upgrade increased intangible assets, including future treatment capacity rights, value by $33,658.

- For further explanations of the capital asset activity of the District, please refer to Note 4, Capital Assets, pages 35-37.

Long-Term Liabilities

- During 2013 the District increased its PWTF loans liabilities by $913,361 for the DCWTS project.

- On November 28, 2012, the District issued $5,417,645 in sewer revenue bonds. The outstanding balance owed at year end 2013 is $4,923,980.

- On December 22, 2005, the District issued $14.0 million in sewer revenue bonds. The total proceeds, including the premium on the issuance, amounted to $14,380,554. The outstanding balance at year end 2013 on the bonds plus premium totals was $10,057,696.

- Loans payable of $15,331,125 at year end includes $316,418 for PWTF loans granted for the construction of the District's Glenwood and Hockinson pump stations and $13,377,623 for Phase IV construction of the Salmon Creek Wastewater Management System (SCWMS). The amount also includes $723,723, the remaining balance on the SRF loan used for Phase IV construction of the SCWMS and the $913,361 of 2013 PWTF loan draws for the DCWTS project.

- Please refer to the Long-Term Liabilities, Note 3, pages 31-34, for more detailed information regarding long-term debt activity.

Revenues and Expenses

	2013	Restated 2012	2013 to 2012 Change	%	Restated 2011	2012 to 2011 Change	%
OPERATING REVENUES							
Charges for services	$ 15,343,633	$ 14,543,675	$ 799,958	5.5%	$ 14,327,747	$ 215,928	1.5%
Permits	70,190	43,925	26,265	59.8%	35,800	8,125	22.7%
Miscellaneous	479,837	372,531	107,306	28.8%	339,839	32,692	9.6%
Interest and investment income	104,321	201,405	(97,084)	-48.2%	289,494	(88,089)	-30.4%
Non-operating	15,444	10,878	4,566	42.0%	779,450	(768,572)	-98.6%
Total revenues	16,013,425	15,172,414	841,011		15,772,330	(599,916)	
Operating expenses	18,880,888	17,053,387	1,827,501	10.7%	16,695,257	358,130	2.1%
Non-operating expenses	15,742	38,500	(22,758)	-	746,648	(708,148)	-94.8%
Interest expense	668,591	2,471,265	(1,802,674)	-72.9%	1,468,083	1,003,182	68.3%
Total expenses	19,565,221	19,563,152	2,069		18,909,988	653,164	
EXCESS (DEFICIENCY) BEFORE CONTRIBUTIONS	(3,551,796)	(4,390,738)	838,942	-19.1%	(3,137,658)	(1,253,080)	39.9%
CAPITAL CONTRIBUTIONS	5,618,773	9,241,739	(3,622,966)	-39.2%	3,893,612	5,348,127	137.4%
CHANGE IN NET POSITION	2,066,977	4,851,001	(2,784,024)	-57.4%	755,954	4,095,047	541.7%
NET POSITION, January 1	140,503,387	135,210,436	5,292,951	3.9%	134,804,828	405,608	0.3%
PRIOR PERIOD ADJUSTMENTS		562,720	(562,720)	-100.0%	(350,346)	913,066	-260.6%
CHANGE IN APPLICATION OF ACCOUNTING PRINCIPLE		(120,770)	120,770	-100.0%	-	(120,770)	100%
NET POSITION, December 31	$ 142,570,364	$ 140,503,387	$ 2,066,977		$ 135,210,436	$ 5,292,951	

- Service revenues increased in 2013 and 2012 by $799,958 or 5.5% and $215,928 or 1.5%, respectively. These increases are in large part due to increases in single-family residential revenues and partially from completed development projects that are now connected to our system. Sewer service rates increased in 2013 to $35.00/month per equivalent residential unit (ERU) from $34.00/month (ERU) in 2012, supporting approximately 53% of the increase in service revenues in 2013 over 2012.

- Actual ERU growth in customers was 675 and 455 ERUs for 2013 and 2012, respectively. The District saw a revenue increase of 59.8% in permitting for 2013, compared to 2012. The District expects growth in 2014 to increase at a rate consistent with what the District experienced in 2013.

- Interest and investment income in 2013 decreased by 48.2% from 2012. The main drivers for this decrease are that the District started the year with fewer investments than it held throughout 2012 and the District didn't increase its percent of investment held outside of the investment pools until late in the fiscal year. In addition, the investment pool rates, where the District holds 70.5% of its short term investments, remain relatively low.

- In 2012 the District's Regional Facility Charge (RFC) and General Facility Charge (GFC) were repealed and replaced with a single System Development Charge (SDC), based on a tiered system, in an effort to support economic development within the District service area. The revenue from this charge will be used for new infrastructure and capital projects. Connection fee revenues (SDCs) for 2013 totaled $3,010,250 compared to connection fee revenues (RFC and GFC) of totaling $7,178,366 in 2012. The fee per connection to the Vancouver Treatment Plant decreased from $1,898 to $1,720, and the fee per connection to the Salmon Creek Treatment Plant (SCTP) decreased from $6,342 to $4,708, with about 90% of the Districts permits for new connections going to the SCTP.

- Operating expenses for 2013 increased over 2012 by $1,827,501 or 10.7%. Depreciation and amortization costs increased by $124,832 over 2012. Labor costs overall reflect an increase of $483,449 for 2013 due to an increase in the number of FTE employees working throughout the year. Personnel benefit costs also increased $72,587 in 2013 over 2012 due to the increase in FTE employees working and slight increases in health insurance premiums and OPEB liability. Interest expense totaled $668,591 and $2,471,265 for 2013 and 2012, respectively. The decrease in interest expense is mainly a result of paying off our debt obligation to Clark County in 2012.

Cash Flows

With the adoption of an update to Clark County's Growth Management Act in 2007, the District saw an additional nine (9) square miles added to its service area. The District correspondingly completed an update to its Comprehensive Sewer Plan in 2007 to begin planning for infrastructure to service this additional area. Growth in sewer service customers and potential service charge increases will help fund the next phase of capital expansion to the County's SCWMS. Growth and scheduled increases in rates will provide the needed annual cash flow from operating activities to fund the District's capital needs in the future.

Economic Factors and 2014 Budget

The District experienced a negative operating income for 2013, continuing to spend down some cash reserves, while at the same time, servicing debt for Phase IV capital expansion of the SCWMS. The District increased rates in 2013 and 2014 by $1.00/month per ERU each year. These rate increases are primarily used to fund capital expansion and provide the cash flow for the related debt service.

The District has been fortunate in qualifying for $20 million in low cost (0.5%) financing from the State of Washington Public Works Trust Fund (PWTF) loan program and $1 million in low cost (2.6%) financing from the State of Washington State Revolving Fund (SRF) loan program. This has allowed the District to keep its current rates steady for its ratepayers. The District will continue to work to stabilize future rate impacts, while at the same time pay for its ongoing operating, capital and replacement and restoration needs by providing a rate structure that will accommodate all three aspects of disbursements into the future. The District continues to experience healthy financial results, but future rate development and review remains a continued priority for District staff as we plan for the future with 20-year forecast modeling.

Sewer service revenues are projected to increase by $1.9 million, the primary drivers being an increase in the District's customer base of approximately 2,000 residential and commercial customers as of January 1, 2014, and a 2.9% increase in the monthly rate charged per ERU per month. Effective 2013, the board adopted a tiered SDC based on where a customers flow is treated (Salmon Creek, City of Vancouver or City of Ridgefield Treatment Plant).

Requests for Information

This financial report is designed and intended to provide a general overview of the District's financial position. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Clark Regional Wastewater District, Finance Director, PO Box 8979, Vancouver, WA 98668-8979 or www.crwwd.com.

CLARK REGIONAL WASTEWATER DISTRICT
COMPARATIVE STATEMENT OF NET POSITION

ASSETS

	DECEMBER 31, 2013	Restated 2012
CURRENT ASSETS		
Unrestricted current assets		
Cash and cash equivalents	$ 27,242,881	$ 28,901,612
Investments (at fair value)	-	500,072
Receivables		
Customer accounts	1,420,698	1,540,394
Contracts (current and delinquent)	153,825	909,721
Special assessment receivable	3,521	86,405
Interest	33,834	26,347
Due from other governments	39,775	-
Prepaid expenses	204,317	180,144
Total unrestricted current assets	29,098,851	32,144,695
Total current assets	29,098,851	32,144,695
NONCURRENT ASSETS		
Investments (at fair value)	10,991,647	6,496,228
Contracts receivable	481,700	421,674
Planning/engineering study and unamortized bond insurance, net	54,757	88,881
Total long-term assets	11,528,104	7,006,783
Capital assets not being depreciated:		
Land and land rights	578,745	578,745
Construction work in progress	3,731,267	3,130,751
	4,310,012	3,709,496
Capital assets being depreciated:		
Buildings	3,727,071	3,702,346
Improvements other than buildings	117,765,621	112,311,323
Equipment	2,533,507	3,112,929
Less: accumulated depreciation	(36,876,017)	(35,035,790)
	87,150,182	84,090,808
Capital assets being amortized:		
Intangible assets, including future treatment capacity rights	85,738,827	85,642,754
Less: accumulated amortization	(41,473,479)	(36,367,351)
	44,265,348	49,275,403
Total noncurrent assets	147,253,646	144,082,490
Total assets	$ 176,352,497	$ 176,227,185

The notes to the financial statements are an integral part of this statement.

CLARK REGIONAL WASTEWATER DISTRICT
COMPARATIVE STATEMENT OF NET POSITION

LIABILITIES AND NET POSITION

	DECEMBER 31, 2013	DECEMBER 31, Restated 2012
CURRENT LIABILITIES		
Warrants payable	$ 792,416	$ 1,697,920
Accounts payable	864,225	639,852
Loans payable	1,306,648	1,253,510
Interest payable	82,123	88,465
Revenue collected in advance	428,525	405,755
Construction deposits	126,034	113,738
Compensated absences	31,218	29,980
Sewer revenue bonds, net of unamortized bond premium	1,149,100	1,112,772
Total current liabilities	4,780,289	5,341,992
NONCURRENT LIABILITIES		
Compensated absences	315,650	303,129
Other postemployment benefits (OPEB)	829,141	679,238
Loans payable	14,024,477	14,417,763
Sewer revenue bonds, net of unamortized bond premium	13,832,576	14,981,676
Total noncurrent liabilities	29,001,844	30,381,806
Total liabilities	33,782,133	35,723,798
NET POSITION		
Net investment in capital assets	105,412,741	105,309,986
Unrestricted	37,157,623	35,193,401
Total net position	$ 142,570,364	$ 140,503,387

The notes to the financial statements are an integral part of this statement.

CLARK REGIONAL WASTEWATER DISTRICT
COMPARATIVE STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION

	YEAR ENDED DECEMBER 31, 2013	Restated 2012
OPERATING REVENUES		
Charges for services	$ 15,343,633	$ 14,543,675
Permits	70,190	43,925
Other operating revenue	479,837	372,531
Total utility operating revenues	15,893,660	14,960,131
OPERATING EXPENSES		
Salaries and wages	3,069,925	2,586,476
Personnel benefits	1,364,002	1,291,415
Supplies	525,958	490,097
Professional services	331,344	253,808
Insurance	110,852	110,877
Treatment contract services	4,793,747	3,899,600
Taxes	410,671	296,849
Other operating expense	648,332	623,040
Depreciation and amortization	7,626,057	7,501,225
Total operating expenses	18,880,888	17,053,387
OPERATING INCOME (LOSS)	(2,987,228)	(2,093,256)
NON-OPERATING REVENUES (EXPENSES)		
Interest and investment revenue	104,321	201,405
Other non-operating revenue	15,444	10,878
Other non-operating expense	(15,742)	(38,500)
Interest expense	(668,591)	(2,471,265)
Total non-operating revenue (expenses)	(564,568)	(2,297,482)
INCOME BEFORE CONTRIBUTIONS	(3,551,796)	(4,390,738)
CAPITAL CONTRIBUTIONS	5,618,773	9,241,739
CHANGE IN NET POSITION	2,066,977	4,851,001
TOTAL NET POSITION, January 1	140,503,387	135,210,436
PRIOR PERIOD ADJUSTMENT	-	562,720
CHANGE IN APPLICATION OF ACCOUNTING PRINCIPLE	-	(120,770)
TOTAL NET POSITION, December 31	$ 142,570,364	$ 140,503,387

The notes to the financial statements are an integral part of this statement.

CLARK REGIONAL WASTEWATER DISTRICT
COMPARATIVE STATEMENT OF CASH FLOWS

	YEAR ENDED DECEMBER 31,	
	2013	Restated 2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers and users	$ 16,011,796	$ 15,140,721
Payments to suppliers	(7,220,248)	(5,598,429)
Payments to employees	(4,257,941)	(3,629,949)
Other reimbursements	(49,812)	(39,130)
Other revenues	142,835	36,957
Net cash from operating activities	4,626,630	5,910,170
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Payments made for other agencies	-	-
Receipts collected for other agencies	-	-
Net cash from noncapital financing activities	-	-
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from capital grants	896,385	665,990
Capital contributed by assessments	2,158	4,694
Receipts for future system improvements	3,103,898	2,900,852
Proceeds from bond issuance	-	5,379,145
Proceeds from capital loans	913,361	-
Principal paid on long-term debt	(2,347,174)	(12,561,020)
Interest paid on long-term debt	(694,040)	(2,627,800)
Acquisition and construction of capital assets	(4,261,434)	(2,982,942)
Net cash from capital and related financing	(2,386,846)	(9,221,081)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	(8,567,388)	(8,984,626)
Proceeds from maturing or called investments	4,500,063	10,000,000
Interest on investments	139,998	190,158
Interest on assessments	370	512
Interest on contracts	28,442	22,810
Net cash from investing activities	(3,898,515)	1,228,854
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(1,658,731)	(2,082,057)
CASH AND CASH EQUIVALENTS, January 1	28,901,612	30,983,669
CASH AND CASH EQUIVALENTS, December 31	$ 27,242,881	$ 28,901,612

The notes to the financial statements are an integral part of this statement.

CLARK REGIONAL WASTEWATER DISTRICT
COMPARATIVE STATEMENT OF CASH FLOWS

	YEAR ENDED DECEMBER 31,	
	2013	Restated 2012
RECONCILIATION OF OPERATING INCOME TO NET CASH FROM OPERATING ACTIVITIES		
Utility operating income (loss)	$ (2,987,228)	$ (2,093,256)
Adjustments to reconcile operating income to net from operating activities		
Depreciation and amortization expense	7,626,057	7,501,225
(Increase) decrease in accounts receivable	119,696	169,932
(Increase) decrease in due from other governments	(39,775)	-
(Increase) decrease in prepaid expenses	(24,173)	(4,367)
Increase (decrease) in warrants payable	(587,220)	128,470
Increase (decrease) in accounts payable	236,669	(60,303)
Increase (decrease) in accrued employee benefits	163,663	246,933
Increase (decrease) in revenue collected in advance	22,770	10,658
Non-operating revenues	96,171	10,878
Total adjustments	7,613,858	8,003,426
Net cash from operating activities	$ 4,626,630	$ 5,910,170
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES		
Contributions of capital assets from developers or governments	2,314,360	1,048,701
Increase (decrease) in fair value of investments	(47,157)	13,879
Debt issue cost paid by trustee	-	(38,500)
Issuance (receipt) of capital contract receivable	(695,870)	432,804
Capital contributions earned, received in prior years	-	4,353,763
Receivable used for payment of Clark County Contract	-	(3,119,000)

The notes to the financial statements are an integral part of this statement.

Note 1 – General Description of the District and Summary of Significant Accounting Policies

The Hazel Dell Sewer District (District) was formed May 22, 1958, as a Special Purpose District to provide sanitary sewers in the collection, transport and treatment of wastewater within its legal boundaries. The District operates under an independent, three-member elected Board of Commissioners as provided by Revised Code of Washington (RCW) Title 57, with the General Manager responsible for the daily management of operational and administrative activities of the District. The District changed its legal name to Clark Regional Wastewater District effective January 1, 2006.

The accounting policies of the District conform to Generally Accepted Accounting Principles (GAAP) as applicable to proprietary funds of governments. The following is a summary of the most significant policies (including identification of those policies which result in material departures from GAAP):

Reporting entity – The District is a municipal corporation and a political subdivision of the State of Washington. The Governmental Accounting Standards Board (GASB) has established the GAAP, which qualifies a Special Purpose District to be the primary government. The District meets all three criteria:

1. An independent, elected governing body that is directly accountable to its citizens within the District;

2. A separate legal entity having legal autonomy to act within its statutory purpose; and

3. Financial accountability is focused on the independent elected governing body and such governing body has the autonomy, authority to approve and modify its budget or to set rates or charges to maintain its fiscal independence.

As required by GAAP, management has considered all potential component units in defining the reporting entity. Utilizing the criteria set forth by GASB for component units, the District has evaluated all legal entities that would potentially qualify as a component unit and be included in the financial statements of the District. The District concludes it has no component units. The District's financial statements include the financial position and results of operation of a single enterprise that the District manages and has custodial responsibility over the assets and liabilities therein.

Basis of accounting and presentation – The accounting records of the District are maintained in accordance with methods prescribed by the State Auditor under authority chapter 43.09. The District uses the Uniform Chart of Accounts as prescribed within the Budgeting, Accounting and Reporting System (BARS) Manual for Water and Sewer Districts reporting in conformity with GAAP. The District's financial statements have been prepared in conformity with GAAP.

The District uses the full-accrual basis of accounting where revenues are recognized when earned and expenses are recognized when incurred. Assets are capitalized based upon the District's capitalization policy and long-term liabilities are accounted for in the appropriate accounts.

Of the eleven fund types established by GAAP, two are classified as proprietary funds. These are the enterprise funds and the internal service funds. The District accounts for its operations within an enterprise fund, which is similar to a private business enterprise.

Note 1 – General Description of the District and Summary of Significant Accounting Policies (Continued)

The District provides for the collection, transport and treatment of sewer services to the public on a continuing basis and this activity is funded through a variety of user, connection and capital construction charges and is recorded within the enterprise fund. Debt may be used at various times to fund capital construction costs and the financing costs are secured through these same charges. The District uses the enterprise fund to capture the cost of providing its services and its capital improvements by using the economic resources measurement focus. This means the District's assets and liabilities are segregated between current and non-current, with its equity reported as capital contributions and changes in net position. The operating statement of the District presents the revenues, expenses and the change in fund net position.

The District distinguishes between operating revenues and expenses from non-operating items. Operating revenues are derived from the sewer services provided to the ratepayers of the District. Operating expenses include the cost of providing sewer services (i.e. maintenance, engineering, treatment and administration), as well as depreciation and amortization of capital assets. All revenues and expenses not meeting the above criteria are reported as non-operating revenues and expenses, such as interest income and expense.

Cash and cash equivalents – For the purposes of the Comparative Statements of Net Position and Cash Flows, the District considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. All amounts held in the Local Government Investment Pool (LGIP) and Clark County Investment Pool (CCIP) accounts are considered to be cash equivalents. Investments purchased with an original maturity of more than three months are classified as investments.

Investments – Investments are reported at fair value on quoted market prices for securities purchased by the District and as reported by the County and State local government investment pools in which the District participates. All investments held have readily available market prices. The change in fair value is reported in the Comparative Statement of Revenues, Expenses and Changes in Net Position as investment earnings. Realized gains or losses on the maturity or disposition of securities are not separately disclosed.

Receivables – Accounts receivables represent user charges for sewer services, which are recognized as earned. All accounts receivables are due from users within the service area of the District. Since the District records liens on the property served and, ultimately, may foreclose on such property, payments on delinquent accounts are eventually received.

Contracts and special assessment receivables are related to construction costs, as well as any applicable financing costs corresponding to such sanitary sewer construction for a particular property or group of properties. Contracts and special assessments are provided under state statutes and direct the process in which the District extends sanitary sewer and services to properties. Contracts and special assessments are recorded as an enforceable lien on the property when they are levied. These receivables consist of current, delinquent and deferred billed principal with related interest and penalties. As of December 31, 2013 and 2012, delinquent contract and special assessment receivables were $51,485 and $52,563, respectively.

Note 1 - General Description of the District and Summary of Significant Accounting Policies (Continued)

Capital assets – The District's capital assets include but are not limited to land, buildings, treatment capacity rights, construction work in progress, machinery, equipment, furniture and software. See Note 4 on pages 35 through 37 for detailed information about the District's capital assets.

Compensated absences – Accumulated but unpaid compensated absences (vacation and sick leave) are recorded as liabilities as earned. Vacation may accumulate up to a maximum of 360 hours or, for those restricted to contracts, the contract amount, although the maximum compensable payout allowed is 240 hours. Sick leave earned, vested and unused by District employees is compensable at 50% of its value upon voluntary termination, retirement or death and is also recorded as a District liability. Sick leave may accumulate beyond 960 hours for an employee; however, 50% of 960 hours is the maximum payout allowed. Total accrued unpaid compensated absences (vacation and sick leave) amounted to $346,868 and $333,109 at December 31, 2013 and 2012, respectively.

Prepaid expenses – The District uses the consumption method to account for prepaid expenses.

Intangible assets – The District currently recognizes its future treatment capacity rights in Clark County's Salmon Creek Treatment Plant as a component of the District's net capital assets, in compliance with GASB Statement No. 51, "Accounting and Financial Reporting for Intangible Assets." Intangible assets, software and future treatment capacity rights, are amortized over periods of 5 years and 20 years, respectively, using the straight line method.

Note 2 – Accounting and Reporting Changes

The District implemented GASB 65, *Items Previously Reported as Assets and Liabilities*. This standard states in part, "Debt issuance costs, except any portion related to prepaid insurance costs, should be recognized as an expense in the period incurred. Prepaid insurance costs should be reported as an asset and recognized as an expense in systematic and rational manner over the duration of the related debt."

This statement also states in part, "Accounting changes adopted to conform to the provisions of this statement should be applied retroactively by restating financial statements, if practical, for all periods presented." The District presents Comparative Financial Statements and appropriately applied the adjustments to the 2012 Financial Statements.

Implementation of the standard requires the District to restate the 2012 Financial Statements by reclassifying our 2005 applicable unamortized bond issuance costs from an asset account, prepaid expense, to change in application of accounting principle in the amount of $120,770 and a reduction of $8,998 in 2012 amortization expense. In addition, our 2012 applicable unamortized bond issuance costs of $38,500 were reclassified from an asset account, prepaid expense, to a non-operating expense.

Note 3 – Long-Term Liabilities

Bonds – Revenue bonds are authorized and adopted by the Board of Commissioners for construction of capital additions. Sewer revenues of the District provide the security for repayment of District debt.

Loans – The State of Washington has a low-cost financing program that allows public entities in the state to finance public works (i.e. roads, bridges, building and sewer treatment; collection transmission facilities). This program is administered by the State of Washington Public Works Trust Fund (PWTF) Board, who has approved seven loans to the District through 12/31/2013, all with twenty annual repayment periods.

The District funded construction through use of these loans as follows:

- Glenwood and Hockinson pump station projects with PWTF loans, issued notices of completion and final draws have been executed.
- Salmon Creek Treatment Plant loans, notices of completion have been filed for each of the 2003, 2004, 2005 and 2008 PWTF loans, totaling $20,000,000, and the funds are fully drawn down. The total loan amounts expended were for design (pre-construction) and construction activities of $2,000,000 and $18,000,000, respectively. Loans from the state PWTF will be repaid over a period not to exceed 20 years at the stated interest rates.
- Discovery Corridor Wastewater Transmission System is anticipated for completion in 2017. The District was directly approved for a $10,000,000 loan that will fund design (pre-construction) and construction activities. The initial loan draw was made in June 2013. As of 12/31/2013 the District has drawn $913,361 from this loan.

Below is a schedule of a description of each loan, its use, and outstanding balance as of December 31, 2013:

Trust Fund Loans	Loan Number	Notice of Completion	Approved Loan Amount	Balance	Interest Rate
Glenwood Pump Station	PW-5-95-791-010	September 1998	$ 2,185,960	$ 232,808	1.0%
Hockinson Pump Station	PW-5-96-791-018	September 1999	502,670	83,610	1.0%
Salmon Creek Treatment Plant - Preconstruction (Phase IV)	PW-03-691-PRE-107	October 2003	1,000,000	526,316	0.5%
Salmon Creek Treatment Plant - Construction (Phase IV)	PW-04-691-033	May 2004	10,000,000	5,903,939	0.5%
Salmon Creek Treatment Plant - Preconstruction (Phase IV)	PW-05-691-PRE-116	June 2005	1,000,000	631,579	0.5%
Salmon Creek Treatment Plant - Construction (Phase IV)	PC-08-951-009	March 2008	8,000,000	6,315,789	0.5%
Discovery Corridor Wastewater Transmission System	PC-13-961-040	N/A	10,000,000	913,361	0.5%
				$ 14,607,402	

Note 3 – Long-Term Liabilities (Continued)

For 2013, the District paid $1,284,122 ($1,207,311 principal and $76,810 interest) on these PWTF loans. The annual debt service requirements for the PWTF loans payable are as follows:

State of Washington - Public Works Trust Fund Loans

	Glenwood Pump Station		Hockinson Pump Station		SCWMS*		DCWTS**		Total		
Year	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Payments
2014	$116,404	$ 2,328	$ 27,870	$ 836	$ 1,063,038	$ 66,889	$ 51,922	$ 2,850	$ 1,259,233	$ 72,904	$ 1,332,137
2015	116,404	1,164	27,870	557	1,063,038	61,573	$ 51,922	4,673	1,259,233	67,967	1,327,201
2016	-	-	27,870	279	1,063,038	56,257	$ 51,922	4,413	1,142,829	60,949	1,203,779
2017	-	-	-	-	1,063,038	50,942	$ 51,922	4,154	1,114,959	55,096	1,170,055
2018	-	-	-	-	1,063,038	45,627	$ 51,922	3,894	1,114,959	49,521	1,164,481
2019-2023	-	-	-	-	5,315,188	148,409	259,610	15,577	5,574,797	163,986	5,738,783
2024-2028	-	-	-	-	2,747,248	35,052	259,610	9,086	3,006,858	44,138	3,050,996
2028-2032	-	-	-	-	-	-	134,532	2,596	134,532	2,596	137,128
Total	$232,808	$ 3,492	$ 83,610	$ 1,673	$ 13,377,623	$ 464,749	$ 913,361	$ 47,244	$ 14,607,402	$ 517,157	$ 15,124,559

* Salmon Creek Wastewater Management System
** Discovery Corridor Wastewater Transmission System

In 2006, the District was granted a $1,000,000 Washington State Revolving Fund (SRF) loan which was fully drawn and expended in 2007. Below is a schedule with a description of the loan and its use.

State Revolving Fund	Loan Number	Notice of Completion	Approved Loan Amount	Balance	Interest Rate
Salmon Creek Treatment Plant - Construction (Phase IV)	L0700014	March 2007	$ 1,000,000	$ 723,723	2.6%

Debt service on this loan for 2013 totaled $66,025 ($46,198 principal and $19,827 interest). The annual debt service requirements for this SRF loan payable are as follows:

State of Washington - State Revolving Fund Loan

Year	Principal	Interest	Payments
2014	$ 47,414	$ 18,611	$ 66,025
2015	48,661	17,364	66,025
2016	49,942	16,083	66,025
2017	51,256	14,769	66,025
2018	52,604	13,421	66,025
2019-2023	284,526	45,598	330,124
2024-2026	189,320	8,755	198,075
Total	$ 723,723	$ 134,600	$ 858,323

Note 3 – Long-Term Liabilities (Continued)

Revenue Bonds – The District issued sewer revenue bonds totaling $14,000,000 in 2005 to help finance Phase IV capital construction costs of the Salmon Creek Wastewater Management System. The bond proceeds were fully drawn and expended by 2007 to fund construction costs. These bonds have an interest rate of 4.4357%. In compliance with bond covenants of this issuance an arbitrage rebate calculation was performed by AMTEC in 2010. The results of the analysis determined that the District was not required to rebate any arbitrage profit to the IRS.

Debt service on the loan for 2013 totaled $1,091,655 ($600,000 principal and $491,665 interest). The annual debt service requirements for these sewer revenue bonds are as follows:

	2005 Sewer Revenue Bonds		
Year	Principal	Interest	Total Debt Service
2014	$ 625,000	$ 467,665	$ 1,092,665
2015	660,000	436,415	1,096,415
2016	685,000	406,715	1,091,715
2017	715,000	379,315	1,094,315
2018	750,000	343,565	1,093,565
2019-2023	4,350,000	1,119,260	5,469,260
2024-2025	2,045,000	143,686	2,188,686
Total	$ 9,830,000	$ 3,296,621	$ 13,126,621

The District issued sewer revenue bonds totaling $5,417,645 in November 2012. Debt service on the loan for 2013 totaled $599,404 ($493,665 principal and $105,739 interest). These bonds have an interest rate of 1.98%. Proceeds were used to reimburse the District for reserves used to retire Clark County's 2001 sewer revenue bonds. The annual debt service requirements for these 2012 sewer revenue bonds are as follows:

	2012 Sewer Revenue Bonds		
Year	Principal	Interest	Total Debt Service
2014	$ 504,993	$ 95,007	$ 600,000
2015	515,041	84,959	600,000
2016	525,289	74,711	600,000
2017	535,741	64,259	600,000
2018	546,402	53,598	600,000
2019-2022	2,296,514	103,486	2,400,000
Total	$ 4,923,980	$ 476,020	$ 5,400,000

Note 3 – Long-Term Liabilities (Continued)

Changes in long-term liabilities as a summary for the year ended December 31, 2013:

	Balance Jan. 1, 2013	Additions	Reductions	Balance Dec. 31, 2013	Due Within One Year
Compensated absences	$ 333,109	$ 13,759	$ -	$ 346,868	$ 31,218
Other post employment benefits	679,238	149,903	-	829,141	-
Loans payable	15,671,273	913,361	1,253,509	15,331,125	1,306,648
Sewer revenue bonds					
2005 sewer revenue bonds	10,430,000	-	600,000	9,830,000	625,000
For issuance and premium	246,803	-	19,107	227,696	19,107
2012 sewer revenue bonds	5,417,645	-	493,665	4,923,980	504,993
Total long-term liabilities	$ 32,778,068	$ 1,077,023	$ 2,366,281	$ 31,488,810	$ 2,486,966

Changes in long-term liabilities as a summary for the year ended December 31, 2012:

	Balance Jan. 1, 2012	Additions	Reductions	Balance Dec. 31, 2012	Due Within One Year
Compensated absences	$ 256,367	$ 76,742	$ -	$ 333,109	$ 29,980
Other post employment benefits	509,047	170,191	-	679,238	-
Loans payable	16,923,599	-	1,252,325	15,671,273	1,253,509
Deferred revenues - regional facilities	4,353,763	-	4,353,763	-	-
Sewer revenue bonds					
2005 sewer revenue bonds	11,000,000	-	570,000	10,430,000	600,000
For issuance and premium	265,910		19,107	246,803	19,107
2012 sewer revenue bonds	-	5,417,645	-	5,417,645	493,665
Contract obligation payable - Clark County	13,857,695	-	13,857,695	-	-
Total long-term liabilities	$ 47,166,381	$ 5,664,578	$ 20,052,890	$ 32,778,068	$ 2,396,261

Note 4 – Capital Assets

Capital assets are stated at historical cost. Whenever historical cost is not known, assets are recorded based upon engineering study estimates. Projects constructed or donated by developers, local governments or customers are stated at estimated fair value at the time contributed.

Major additions, improvements and replacements are capitalized if the District's capitalization threshold is met – a purchase or construction cost greater than $5,000 and with a useful life of two or more years. Normal maintenance and repairs are charged to operations as incurred. Gains or losses realized from the sale or disposition of capital assets are reflected in the Comparative Statement of Revenues, Expenses and Changes in Fund Net Position.

Estimating the useful lives of capital assets requires the exercise of management judgment and actual lives may differ from these estimates. Changes to these initial estimates are made when appropriate.

Depreciation is computed on capital assets when the assets are placed into service using the straight-line method over their estimated useful life as follows:

Buildings	50 years
Improvements other than buildings	50 years
Machinery, furniture and equipment	5 - 15 years

The District records the preliminary project costs, as well as construction disbursements, in a work-in-progress account until final completion is determined before transferring these costs to a utility plant in service account.

The following schedule of capital assets is recorded at historical costs with any related additions due to purchases or utility plant brought into service. In 2013, the District incurred $3,826,702 of construction work-in-process project costs (i.e. pump stations, pump station improvements, force mains and treatment plant expansion) and transferred $3,226,186 from construction work-in-process into service. The District and the City of Battle Ground, through an Interlocal Agreement, own 100% of the treatment capacity rights of the Salmon Creek Treatment Plant, owned by Clark County, with the District having the majority share. This intangible asset, per GASB Statement No. 51, "*Accounting and Financial Reporting for Intangible Assets,*" is recognized in our capital assets as "future treatment capacity rights," at a value at December 31, 2013 and 2012 of $44,202,755 and $49,231,708, respectively.

Note 4 – Capital Assets (Continued)

Capital assets activity for the year ended December 31, 2013, is as follows:

	Balance Jan. 1, 2013	Additions & Transfers	Retirements & Transfers	Balance Dec. 31, 2013
CAPITAL ASSETS - NONDEPRECIABLE:				
Land and land rights	$ 578,745	$ -	$ -	$ 578,745
Construction work in progress	3,130,751	3,826,702	3,226,186	3,731,267
Total capital assets - nondepreciable	3,709,496	3,826,702	3,226,186	4,310,012
CAPITAL ASSETS - DEPRECIABLE:				
Collection and transmission system	102,821,095	4,917,838	-	107,738,933
Buildings	3,702,346	24,725	-	3,727,071
Pumping stations	9,490,228	536,460	-	10,026,688
Machinery, furniture and equipment	3,112,929	144,496	723,918	2,533,507
Intangible assets, including future treatment capacity rights	85,642,754	96,073	-	85,738,827
Total capital assets - depreciable	204,769,352	5,719,591	723,918	209,765,026
LESS ACCUMULATED DEPRECIATION:				
Collection and transmission system	(29,589,501)	(2,129,961)	-	(31,719,462)
Buildings	(1,087,516)	(80,539)	-	(1,168,055)
Pumping stations	(1,807,510)	(215,671)	-	(2,023,181)
Machinery, furniture and equipment	(2,551,263)	(122,231)	(708,175)	(1,965,319)
Intangible assets, including future treatment capacity rights	(36,367,351)	(5,106,128)	-	(41,473,479)
Total accumulated depreciation	(71,403,141)	(7,654,530)	(708,175)	(78,349,496)
Total capital assets - depreciable, net	133,366,211	(1,934,939)	15,743	131,415,530
Total capital assets, net	$ 137,075,707	$ 1,891,763	$ 3,241,929	$ 135,725,542

Note 4 – Capital Assets (Continued)

Capital assets activity for the year ended December 31, 2012 is as follows:

	Balance Jan. 1, 2012	Additions & Transfers	Retirements & Transfers	Balance Dec. 31, 2012
CAPITAL ASSETS - NONDEPRECIABLE:				
Land and land rights	$ 578,745	$ -	$ -	$ 578,745
Construction work in progress	2,476,781	3,040,695	2,386,725	3,130,751
Total capital assets - nondepreciable	3,055,526	3,040,695	2,386,725	3,709,496
CAPITAL ASSETS - DEPRECIABLE:				
Collection and transmission system	100,668,003	2,153,093	-	102,821,095
Buildings	3,530,034	172,312	-	3,702,346
Pumping stations	8,282,710	1,207,517	-	9,490,228
Machinery, furniture and equipment	3,055,749	57,180	-	3,112,929
Intangible assets, including future treatment capacity rights	85,600,937	41,817	-	85,642,754
Total capital assets - depreciable	201,137,433	3,631,920	-	204,769,352
LESS ACCUMULATED DEPRECIATION:				
Collection and transmission system	(27,541,021)	(2,048,480)	-	(29,589,501)
Buildings	(1,011,902)	(75,614)	-	(1,087,516)
Pumping stations	(1,623,580)	(183,930)	-	(1,807,510)
Machinery, furniture and equipment	(2,428,251)	(123,011)	-	(2,551,263)
Intangible assets, including future treatment capacity rights	(31,331,191)	(5,036,160)	-	(36,367,351)
Total accumulated depreciation	(63,935,946)	(7,467,195)	-	(71,403,141)
Total capital assets - depreciable, net	137,201,487	(3,835,276)	-	133,366,211
Total capital assets, net	$ 140,257,013	$ (794,581)	$ 2,386,725	$ 137,075,707

Note 5 – Cash and Cash Equivalents and Investments

The District is legally authorized to invest in the types of investments included in the Revised Code of Washington (RCW) 36.29.020. All of the investments and deposits held at December 31, 2013, comply with the provisions of that code section and with the District's investment policy found within District Code Chapter 3.20. The District's deposits and investments are managed daily by the District Finance Director.

Cash and Cash Equivalents – The District deposits and certificates of deposit are entirely insured by the Federal Depository Insurance Corporation (FDIC) or by collateral held in a municipal financial institution collateral pool administered by the Washington Public Deposit Protection Commission (WPDPC) or through the Securities Investor Protection Corporation (SIPC). The District Code 3.20.010 provides that whenever there are more than sufficient funds or cash balances to meet current expenses payable, a portion of such funds or balances as deemed expedient may be invested as either short term or long term investments.

For short term investments, cash equivalents, the District utilizes both the Washington State Local Government Investment Pool (LGIP) and Clark County Investment Pool (CCIP). The LGIP is classified as an unrated 2a-7 investment pool per the Securities and Exchange Commission. The CCIP is also an unrated fund. The weighted average maturities of the LGIP and CCIP are less than three (3) months and approximately one (1) year, respectively, with cash available to the District on demand. The on demand availability of these funds defines them as cash equivalent liquid investments and not subject to interest rate risk. Cash investments are not subject to interest rate risk or any market value reporting requirement as defined by GASB 31. All LGIP investments are either obligations of the United States government, government-sponsored enterprises, or insured demand deposit accounts and certificates of deposits, meaning credit risk is very limited. The investments are either fully insured or fully held by a third party custody provider in the name of the LGIP. The LGIP is audited by the Washington State Auditor's Office and regulated by Washington RCWs and the LGIP Advisory Committee. The CCIP is overseen by the Clark County Finance Committee and is audited annually by the Washington State Auditor's Office and regulated by Washington RCWs.

As of December 31, 2013 and 2012, the District's cash and cash equivalents are as follows:

	2013	2012
Cash and cash equivalents:		
Bank depository and checking accounts	$ 1,014,322	$ 536,203
Petty cash / cash drawers	1,000	1,000
Washington state local government investment pool	6,950,838	28,364,408
Clark County investment pool	19,276,720	-
Total cash and cash equivalents and investments	$ 27,242,881	$ 28,901,612

Note 5 – Cash and Cash Equivalents and Investments (Continued)

Investments – The District Code 3.20.010 provides that whenever there are more than sufficient funds or cash balances to meet current expenses payable, a portion of such funds or balances as deemed expedient may be invested as either short term or long term investments.

It is the District's policy to invest funds in a manner that:

1. Provides maximum security that the investment proceeds will be returned upon maturity;

2. Provides adequate liquidity to meet cash needs; and

3. Provides the greatest return on investment.

The District's investment policy limits to twenty-five percent (25%) any one type of issuer of security, but excludes this limitation in relation to obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government, as well as the Washington State Local Government Investment Pool (LGIP) and Clark County Investment Pool. Investments in securities issued by U.S. government-sponsored enterprises, repurchase agreements, banker's acceptances, certificates of deposits and notes of designated public depositories are held to this limitation.

Custodial credit risk is the risk that in event of a failure of the counterparty to an investment transaction the District would not be able to recover the value of the investment or collateral securities. The level of custodial credit risk relates to the level of insurance a financial institution will provide if financial difficulties were to occur that would affect District deposits. The amount of collateral a financial institution will pledge as security for the deposits and the level of creditworthiness the financial institution has with regard to such security will determine the level of custodial credit risk that exists. The District at year-end did not have any security lending or reverse repurchase agreements. District deposits and investments are either insured or held by an agent in the District's name.

Interest rate risk relates to how the fair value of an investment may adversely be affected by changes in interest rates. With regard to interest rate risk, the District's investment policy requires that investments be matched to anticipated cash flow requirements to the extent possible. Unless matched to a specified time period with regard to cash flows, investments in securities shall be five (5) years or less from the date of purchase providing that the average maturity of the portfolio shall not exceed two and one-half (2-1/2) years. This policy assists the District in limiting its exposure to changes in the fair value of its investments.

As to credit risk, which is a risk that an issuer of an investment will not fulfill its obligations, the District's investment policy states the Finance Director is empowered to invest in the security instruments authorized in Washington RCW 36.29.020. The District invests in no more than twenty-five percent (25%) of any one type of issuer except as stated above. All investments held by the District at year-end 2013 and 2012 had a credit quality rating of AA+ by Standard and Poor's.

In following GASB Statement No. 40, "*Deposit and Investment Risk Disclosures,*" the District has chosen to use the segmented time distribution format and include the credit ratings of the security issuers with regard to its investments as of December 31, 2013 and 2012.

Note 5 – Cash and Cash Equivalents and Investments (Continued)

December 31, 2013

Investment Type	Fair Value	Investment Maturities (in Years) Less than 1	1 - 5	6 - 10	More than 10
Washington State Local Government Investment pool	$ 6,950,838	$ 6,950,838	$ -	$ -	$ -
Clark County Investment Pool	19,276,720	19,276,720	-	-	-
Federal National Mortgage Association	4,458,406	-	4,458,406	-	-
Federal Farm Credit Bank	1,487,614	-	1,487,614	-	-
Federal Home Loan Bank	2,555,531	-	2,555,531	-	-
Freddie Mac	500,707	-	500,707	-	-
Federal Home Loan Mortgage Corporation	1,989,390	-	1,989,390	-	-
	$ 37,219,205	$ 26,227,558	$ 10,991,647	$ -	$ -
Maximum investment by maturity		70%	30%	0%	0%

December 31, 2012

Investment Type	Fair Value	Investment Maturities (in Years) Less than 1	1 - 5	6 - 10	More than 10
Washington State Local Government Investment pool	$ 28,364,408	$ 28,364,408	$ -	$ -	$ -
Federal National Mortgage Association	4,493,288	-	4,493,288	-	-
Federal Farm Credit Bank	499,697	-	499,697	-	-
Freddie Mac	503,062	-	503,062	-	-
Federal Home Loan Bank	1,500,253	500,072	1,000,181	-	-
	$ 35,360,708	$ 28,864,480	$ 6,496,228	$ -	$ -
Maximum investment by maturity		82%	18%	0%	0%

Note 5 – Cash and Cash Equivalents and Investments (Continued)

Investments by investment type, issuer and carrying costs as of December 31, 2013 and 2012:

December 31, 2013

Investment Type	Credit Quality	Percent	Carrying Cost
Washington State Local Government Investment pool	Not Rated	19%	$ 6,950,838
Clark County Investment Pool	Not Rated	52%	$ 19,276,720
Federal National Mortgage Association	AAA	12%	4,458,406
Federal Farm Credit Bank	AAA	4%	1,487,614
Federal Home Loan Bank	AAA	7%	2,555,531
Freddie Mac	AAA	1%	500,707
Federal Home Loan Mortgage Corporation	AAA	5%	1,989,390
		100%	$ 37,219,205

December 31, 2012

Investment Type	Credit Quality	Percent	Carrying Cost
Washington State Local Government Investment pool	Not Rated	80%	$ 28,364,408
Federal National Mortgage Association	AAA	13%	4,493,288
Federal Farm Credit Bank	AAA	1%	499,697
Freddie Mac	AAA	1%	503,062
Federal Home Loan Bank	AAA	4%	1,500,253
		100%	$ 35,360,708

A reconciliation of cash and cash equivalents and investments (as stated at fair value) as reported in the Comparative Statement of Net Position at December 31 is as follows:

	2013	2012
Cash and cash equivalents	$ 27,242,881	$ 28,901,612
Investment securities (at fair value)	10,991,647	6,996,300
Total	$ 38,234,528	$ 35,897,912

Note 6 – Risk Management

The District is a member of the Water and Sewer Risk Management Pool (Pool). Chapter 48.62 RCW authorizes the governing body of any one or more governmental entities to form together or join a pool or organization for the joint purchasing of insurance, and/or joint self-insuring, and/or joint hiring or contracting for risk management services to the same extent that they may individually purchase insurance, self-insurance, or hire or contract for risk management services. An agreement to form a pooling arrangement was made pursuant to the provisions of Chapter 39.34 RCW, the Interlocal Cooperation Act. The Pool was formed in November 1987 when water and sewer districts in the State of Washington joined together by signing an Interlocal Governmental Agreement to pool their self-insured losses and jointly purchase insurance and administrative services. The Pool currently has 70 members. The Pool's fiscal year is November 1 through October 31.

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

Members make an annual contribution to fund the Pool. The Pool purchases insurance policies from unrelated underwriters which are subject to a per occurrence deductible or self-insured retention as follows:

TYPE OF COVERAGE	MEMBER DEDUCTIBLE	SELF-INSURED RETENTION	EXCESS LIMITS
Property Loss:			
Buildings and Contents	$1,000 - $10,000	$25,000	$1,000,000,000
Flood	See (A) below	$25,000	$50,000,000
Earthquake	See (B) below	$25,000	$75,000,000
Terrorism	$1,000 - $10,000	$25,000	$100,000,000
Boiler & Machinery	$1,000 - $10,000	$25,000 - $350,000	$100,000,000
Auto - Physical Damage	$25,000	$200,000	$10,000,000
Liability:			
Comprehensive General Liability	$1,000 - $10,000 (C)	$200,000	$10,000,000
Auto Liability	$1,000 - $10,000	$200,000	$10,000,000
Public Officials Errors and Omissions	$1,000 - $10,000	$200,000	$10,000,000
Employment Practices/Benefits	$1,000 - $10,000	$200,000	$10,000,000
Crime	$1,000 - $10,000	$25,000	$2,000,000
Terrorism	$1,000 - $10,000	$200,000	$100,000,000
Identity Fraud	$0	$25,000	$0

A. $100,000 member deductibles, per occurrence, in Flood Zones except Zones A&V; $250,000 member deductible per occurrence, in Flood Zones A&V.

B. Member deductible for earthquakes is 5% subject to $100,000 minimum Earthquake Shock. If the stated deductible is a flat dollar amount, the deductible will apply on a per occurrence basis, unless otherwise stated. If the stated deductible is on a percentage basis, the deductible will apply per occurrence on a per unit basis, as defined in the policy form, subject to the stated minimum.

C. Cyber liability has a 10% co-insurance for Public Relations Consultancy and Credit File Monitoring. Cyber liability retention is $50,000 per occurrence for each insured/member with TIV up to $500,000,000 at the time of loss. $100,000 per occurrence for each insured/member with TIV greater than $500,000,000 at the time of loss. 8 hour waiting period for first party claims.

Note 6 – Risk Management (Continued)

Pool members are responsible for a deductible on each coverage and the Pool is responsible for the remainder of the self-insured retention listed in the table above. The insurance carriers then cover the loss to the maximum limit of the policy. Each member is responsible for the full deductible applicable to the perils of earthquake and flood (the Pool is not responsible for any deductible or self-insured retention for earthquake and flood claims).

Upon joining, the members contract to remain in the Pool for one full policy period. Following completion of one full policy period, members must give six months' notice before terminating participation (e.g. to withdraw from the Pool on November 1, 2014, written notice must be in the Pool possession by April 30, 2014). The Interlocal Governmental Agreement is renewed automatically each year. Even after termination, a member is still responsible for contributions to the Pool for any unresolved, unreported, and in process claims for the period that the District was a signatory to the Interlocal Governmental Agreement.

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

The Pool is governed by a Board of Directors, which is comprised of one designated representative from each participating member. An Executive Committee is elected at the annual meeting, and is responsible for overseeing the business affairs of the Pool and providing direction to the Pool's Executive Director.

The following schedule depicts the property claims filed by the District with the Pool for the years 2013, 2012 and 2011 and the amounts covered by insurance.

Years	Claims Settlements	Insurance Coverage	Excess of Claim Cost Over Coverage
2013	$ 60,564	$ 56,564	$ 4,000
2012	50,423	47,423	3,000
2011	9,380	6,850	2,530

As of 12/31/2013 there was one outstanding claim filed with the Pool against the District for approximately $7,000. This claim was settled in January 2014 with a District paid deductible of $1,000 at the end of 2013. The District recognizes no potential liability for any additional settlements for outstanding future claims. The amount of settlements did not exceed insurance coverage in each of the past three years.

The District is self-insured for employee unemployment claims and has set aside funds to cover the actual cost of unemployment insurance. This unemployment reserve was established as required by Washington State Law for a reimbursable employer.

Note 7 – Pension Plans

Substantially all District 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 the GASB Statement 27, *Accounting for Pensions by State and Local Government Employers* and the GASB Statement 50*, Pension Disclosures, an Amendment of GASB Statements No. 25 and No. 27.*

Public Employees' Retirement System (PERS) Plans 1, 2, and 3 Plan Descriptions – The Legislature established PERS in 1947. Membership in the system includes: elected officials; state employees; employees of the Supreme, Appeals, and Superior courts; employees of legislative committees; employees of district and municipal courts; and employees of local governments. Membership also includes higher education employees not participating in higher education retirement programs. Approximately 49% of PERS salaries are accounted for by 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.

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 Plan 3. The option must be exercised within 90 days of employment. Employees who fail to choose within 90 days default to Plan 3.

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 2013,

Note 7 – Pension Plans (Continued)

the rate was 5½% 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 from active status at any age with at least 30 years of service, at age 55 with 25 years of service or at the age of 60 with at least 5 years of service. Plan 1 members retiring from inactive status prior to the age of 65 may receive actuarially reduced benefits.

The monthly benefit is 2% of the Average Final Compensation (AFC) per year of service, but the benefit may not exceed 60% of the AFC. The AFC is the monthly average of the 24 consecutive highest-paid service credit months.

PERS Plan 1 retirement benefits are actuarially reduced to reflect the choice, if made, of a survivor option.

Plan 1 members may elect to receive an optional Cost of Living Adjustment (COLA) that provides an automatic annual adjustment based on the Consumer Price Index. The adjustment is capped at 3% 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% of the AFC for each year of service reduced by 2% for each year that the member's age is less than 55. The total benefit is limited to 60% 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% annually. To offset the cost of this annual adjustment, the benefit is reduced.

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 5 years of service. The monthly benefit is 2% 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% 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.

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, if hired prior to May 1, 2013:

Note 7 – Pension Plans (Continued)

- With a benefit that is reduced by 3% 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 members hired on or after May 1, 2013 have the option to retire early by accepting a reduction of 5% for each year of retirement before age 65. This option is available only to those who are age 55 or older and have at least 30 years of service.

PERS Plan 2 retirement benefits are actuarially reduced to reflect the choice, if made, of a survivor option.

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% to 15% of salaries, based on member choice. Members who do not choose a contribution rate default to a 5% rate. 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 contributions are invested in the Retirement Strategy Fund that assumes the member will retire at age 65.

For DRS' fiscal year 2013, PERS Plan 3 employee contributions were $99.0 million, and plan refunds paid out were $69.4 million.

The defined benefit portion of PERS Plan 3 provides members a monthly benefit that is 1% 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 10 years of service; or after 5 years of service, if 12 months of that service are earned after age 44; or after 5 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.

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.

Note 7 – Pension Plans (Continued)

- If they have 30 service credit years and are at least 55 years old, and were hired before May 1, 2013, they have the choice of a benefit that is reduced by 3% 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.

- If they have 30 service credit years, are at least 55 years old, and were hired after May 1, 2013, they have the option to retire early by accepting a reduction of 5% for each year before age 65.

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% of the AFC per year of service. For Plan 3, the monthly benefit amount is 1% 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% annually.

PERS members meeting specific eligibility requirements have options available to enhance their retirement benefits. Some of these options are available to their survivors.

A one-time duty-related death benefit is provided to the beneficiary or the estate of a PERS member who dies 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.

From January 1, 2007 through December 31, 2007, judicial members of PERS were given the choice to elect participation in the Judicial Benefit Multiplier (JBM) Program enacted in 2006. Justices and judges in PERS Plan 1 and Plan 2 were able to make an irrevocable election to pay increased contributions that would fund a retirement benefit with a 3.5% multiplier. The benefit would be capped at 75% of AFC. Judges in PERS Plan 3 could elect a 1.6% of pay per year of service benefit, capped at 37.5% of AFC.

Newly elected or appointed justices and judges who chose to become PERS members on or after January 1, 2007, or who had not previously opted into PERS membership, were required to participate in the JBM Program.

There are 1,176 participating employers in PERS. Membership in PERS consisted of the following as of the latest actuarial valuation date for the plans of June 30, 2012:

Retirees and Beneficiaries Receiving Benefits	82,242
Terminated Plan Members Entitled to But Not Yet Receiving Benefits	30,515
Active Plan Members Vested	106,317
Active Plan Members Non-vested	44,273
Total	**263,347**

Note 7 – Pension Plans (Continued)

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% for state agencies and local government unit employees, and at 7.5 % 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% to 15%.

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.

The required contribution rates expressed as a percentage of current-year covered payroll, as of December 31, 2013, are as follows:

Members Not Participating in Judicial Benefit Multiplier Program:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
Employer*	9.21%**	9.21%**	9.21%***
Employee	6.00%****	4.92%****	*****

* The employer rates include the employer administrative expense fee currently set at 0.18%.
** The employer rate for state elected officials is 13.73% for Plan 1 and 9.21% for Plan 2 and Plan 3.
*** Plan 3 defined benefit portion only.
**** The employee rate for state elected officials is 7.50% for Plan 1 and 4.92% for Plan 2.
***** Variable from 5.0% minimum to 15.0% maximum based on rate selected by the PERS 3 member.

Members Not Participating in Judicial Benefit Multiplier Program:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
Employer-State Agency*	11.71%	11.71%	11.71%**
Employer-Local Gov't Units*	9.21%	9.21%	9.21%**
Employee-State Agency	9.76%	9.80%	7.50%***
Employee-Local Gov't Units	12.26%	12.30%	7.50%***

* The employer rates include the employer administrative expense fee currently set at 0.18%.
** Plan 3 defined benefit portion only.
***Minimum rate.

Note 7 – Pension Plans (Continued)

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

	PERS Plan 1	PERS Plan 2	PERS Plan 3
2013	0	247,664	7,885
2012	0	183,883	1,501
2011	0	155,946	3,406

Note 8 – Deferred Compensation Plan

The District offers its employees two deferred compensation plans created in accordance with Internal Revenue Code Section 457. The International City Managers Association (ICMA) and the Washington Department of Retirement Services (DRS) each administer one of the two plans. The plans are available to all District employees, which allow a deferral of a portion of their taxable wages until future years. A distribution from the deferred compensation plans to an employee is allowed at termination of employment, retirement, death, or under certain emergencies. The District does not administer or manage the deferred compensation plans but instead all amounts are the property of the employee.

Note 9 – Commitments

Capital Projects – The District has construction commitments resulting from active consultant and construction projects, including restoration and replacement projects, as of December 31, 2013.

Project	Total Awarded Contract Commitment	Spent to Date
Salmon Creek Interchange Force Main	$ 47,799	$ 3,644
Condition Assessment of Mainlines and Laterals	109,639	82,212
Environmental Mitigation Monitoring	10,000	4,102
Hazel Dell Avenue South	44,793	44,550
NE 119 Street East CRP	105,078	59,680
St Johns Trunk Restoration	126,896	-
Discovery Corridor Wastewater Transmission System	1,432,219	1,177,101
NE 152 Avenue Pump Station	75,050	47,592
St Johns Woods Pump Station	61,700	36,562
District Campus Exterior Painting	36,188	20,288
Spot Repair NW 88th Street	8,493	-
	$ 2,057,855	$ 1,475,731

Long-term Interlocal Agreement – In 1995, Clark Regional Wastewater District entered into a Joint Interlocal (three-way) agreement with Clark County, Washington and the City of Battle Ground regarding costs associated with sanitary sewer treatment services at the Salmon Creek Treatment Plant and its related facilities called the Salmon Creek Wastewater Management System (SCWMS). The SCWMS is owned and operated by Clark County. However, pursuant to the three-way agreement, the District is obligated as guarantor to pay all the associated costs, which include the operations, maintenance, repair, replacement and debt service costs thereof. The District is the County's sole wholesale customer and provides the security needed for the issuance and payment of the debt (i.e. sewer revenue bonds) when needed for expansions. Through a (two-way) agreement with the City of Battle Ground, the District recovers its costs from the City of Battle Ground for their flow into the SCWMS. The City of Battle Ground is the District's sole wholesale customer. The operations, maintenance and funding for equipment and facility replacement is allocated to each party within the two-way agreement based upon wastewater flow. The three-way and two-way agreements address capital improvement obligations issued in Clark County's name for the benefit of both parties (i.e. the District and the City of Battle Ground). Under each phase of capital improvements for the SCWMS, the District and the City of Battle Ground determine their future capacity (measured in million gallons per day) needs. Their share of the future capacity in turn determines their share of the capital costs that are ultimately paid by their respective ratepayers. The two most recent capital expansions of the plant are Phase III, which was completed and placed in service in 1998, and Phase IV, which was completed and placed in service in 2010.

Note 10 – Other Post Employee Benefits (OPEB)

Plan Description – The District participates in a cost sharing multiple-employer defined benefit Other Post-Employment Benefit (OPEB) plan. This plan is administered by the Health Care Authority (HCA) per RCW 41.05.065, the Public Employees Benefits Board (PEBB) created within the HCA, is authorized to design benefits and determine the terms and conditions of employee and retired employee participation and coverage, including establishment of eligibility criteria for both active and retired employees. PEBB programs include medical, dental, life and long-term disability. Benefits are offered to retirees at a subsidized rate.

The benefits are provided in accordance with a substantive plan, in which the plan terms are understood by the employers and plan member, but not formalized in a contract or plan document. The PEBB retiree OPEB plan is available to employees who elect to continue coverage and pay the administratively established premiums at the time they retire under the provisions of the retirement system to which they belong.

As of year-end 2013 and 2012, there were no District employees that had retired and were receiving these benefits.

This OPEB plan does not issue a stand-alone financial report but it is included in the report of the State of Washington, Office of Financial Management. This report can be obtained from the following website: http://www.ofm.wa.gov/cafr/.

Funding Policy – This plan is currently not funded. The District was required to contribute $149,903 and $170,191 at December 31, 2013 and 2012, respectively; however, no funds have been contributed to date. The amount contributed differs from the Annual Required Contribution (ARC) because the plan is financed on a pay-as-you-go-basis. The difference between the OPEB Costs and the required contribution is called the Net OPEB Obligation (NOO). This amount of $829,141 and $679,238 is the actuarial accrued liability recognized on the *Comparative Statement of Net Position* at December 31, 2013 and 2012, respectively.

The total Unfunded Actuarial Accrued Liability (UAAL) is $962,341 at December 31, 2013. The covered payroll (annual payroll of active employees covered by the plan) was $3,197,084 and the ratio of the UAAL to the covered payroll was 30.1%.

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation is as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Costs Contributed	Net OPEB Obligation
2013	$ 149,903	0%	$ 829,141
2012	170,191	0%	679,238
2011	158,701	0%	509,047

Annual OPEB Cost and Net OPEB Obligation – The District's annual other postemployment benefit (OPEB) cost (expense) is determined based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the alternative measurement method permitted under GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis,

Note 10 – Other Post Employee Benefits (OPEB) (Continued)

is projected to cover normal cost each year and amortize any unfunded liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the District's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the District's net OPEB obligation.

	2013	2012
Actuarial Required Contribution (ARC)	$ 161,036	$ 178,535
Interest on Net OPEB Obligation (NOO)	30,566	22,907
Adjustment to NOO	(41,699)	(31,251)
Annual OPEB Cost	149,903	170,191
Employer Contributions	-	-
Increase (Decrease) in NOO	149,903	170,191
Net OPEB Obligation January 1	679,238	509,047
Net OPEB Obligation December 31	$ 829,141	$ 679,238

Actuarial Methods and Assumptions – The actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Examples include assumptions about retirement ages, mortality and the healthcare cost trend. The actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. The required schedule of funding progress, presented as required supplementary information immediately following the notes to the financial statements presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Additionally, calculations are based on the types of benefits provided under the terms of the plan at the time of each valuation and on the pattern of sharing of costs between the employer and plan members to that point. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations on the pattern of cost sharing between the employer and plan members in the future. Actuarial calculations reflect a long-term perspective. The specific actuarial methods and significant assumptions used to determine the ARC for the current year are as follows:

Valuation Date	12/31/2013
Actuarial Cost Method	Projected Unit Credit
Method used to determine the actuarial value of assets	N/A
Interest Discount Rate - No Pre-Funding	4.5%
Projected Payroll Growth	1.25%
Investment Return	4.5%
Medical Inflation Trend Rate - Initial	7.0%
Medical Inflation Trend Rate - Ultimate	5.0%
Non-Medical Inflation Trend Rate	3.5%
Amortization Period - Open	30

Note 10 – Other Post Employee Benefits (OPEB) (Continued)

A single retirement age of 62.20 was assumed for all active members to determine the AAL and normal cost. Retirement, disablement, termination, and mortality rates were assumed to follow the PERS 2 rates used in the June 30, 2010 actuarial valuation report issued by the Office of the State Actuary (OSA). Healthcare costs and trends were determined by Milliman and used by OSA in the state-side PEBB study performed in 2011. The results were based on grouped data with 4 active groupings and 4 inactive groups. The actuarial cost method used to determine the AAL was Projected Unit Credit. The AAL and NOO are amortized on an open basis as a level dollar over 30 years. These assumptions are individually and collectively reasonable for the purposes of this valuation.

Note 11 – Capital Contributions

Capital contributions – Capital contributions recognized annually included in changes in net position include assets constructed by developers then donated to the District, connections fees charged for capital improvements and reimbursement for local facility improvements previously funded by the District.

	2013	2012
Capital contributions from developers, governments and other sources	$ 2,455,847	$ 1,950,565
Capital contributions from system development charges	3,010,250	7,178,366
Capital contributions from local facility reimbursements	152,676	112,808
Total	$ 5,618,773	$ 9,241,739

Note 12 – Joint Venture/Related Party Transactions

Discovery Clean Water Alliance (Alliance) – In 2012, Clark County, Clark Regional Wastewater District (District) and the Cities of Battle Ground and Ridgefield reached agreement on the optimum form for a regional wastewater transmission/treatment entity to meet the needs of the agencies and community for the next generation. The Interlocal Formation Agreement (IFA), signed on September 27, 2012, represents the culmination of five years of study and provided the foundation to create a new regional utility entity, the Alliance, under the empowerment of RCW 39.106 – the Joint Municipal Utility Services Act (JMUSA). The Alliance was incorporated with the Washington Secretary of State on January 4, 2013. The Alliance is governed by a four member board, one elected official from each entity, and was established to provide wastewater transmission/treatment services to the citizenry of the respective participating members.

As the managing partner or "Administrative Lead" for the Alliance, the task of implementing the vision of the partner agencies falls largely to the District. A two year transition work program was initiated in 2013 and will continue through 2014. A series of initial resolutions and agreements were approved by the Alliance Board at its first official meeting on January 18, 2013, to establish the legal framework for the Alliance. District staff has registered the Alliance with a series of state and federal regulatory agencies and has registered the new Alliance logo. A checking account has been established, regional service charges are being billed to the partners and invoices are being paid for Administrative Lead and legal counsel services.

The District will continue to develop and implement the transition work program. Activities planned for 2014 include development of operator, franchise and asset transfer agreements, transfer of operating and access permits, adoption of a capital plan, adoption of a capital and operating budget, and development of administrative code. These activities will be completed prior to and in support of the January 1, 2015, full operational date for the Alliance.

During 2013 the District paid $306,725 to the Alliance for regional service charges, as supported through the District and Alliance budgeted amounts. The District billed the Alliance $79,848 for Administration Lead services provided, as well as reimbursement of $21,257 in professional consulting, IT support, insurance and various utilities expenses. The Alliance will be receiving its first Washington State Auditor's Office audit in 2015, covering financial activities of fiscal years 2013 and 2014. More information about the Alliance can be can be found on their website at http://discoverycwa.org/.

Note 13 – Subsequent Events

City of Ridgefield Collection System Transfer – The regional study efforts over the last several years identified an opportunity for optimizing the local collection system services for the public. In particular, the District and the City of Ridgefield wastewater collection systems were found to have mutually beneficial characteristics that resulted in the highest services levels at the lowest cost over the long term, if the two systems could be integrated in to a single operating unit.

Work has been ongoing over the last two years to develop a comprehensive interlocal agreement allowing for the transfer of Ridgefield's wastewater collection system to the District. The final transfer agreements were signed in June 2013, with the Ridgefield collection system officially transferring to the District as of January 1, 2014. The collection system transfer is defined in GASB 69 as a transfer of operations type of government combination. The District will ensure to comply with GASB 69 when accounting for the transfer of operations within the 2014 financial statements. The District and the City of Ridgefield are working closely together to ensure accuracy of all financial data. The District estimates increasing net assets and liabilities by approximately $14.6 million and $3.6 million, respectively.

Note 14 – Prior Period Adjustment

The District recorded $562,720 in non-operating expenses in prior periods. These expenditures, however, should have been recorded to a Construction Work In Progress (CWIP) account. We have reclassified these expenditures to a CWIP account and recorded an equal positive prior period adjustment to properly reflect our increase in net position.

REQUIRED SUPPLEMANTRY INFORMATION
RETIREE MEDICAL BENEFITS - SCHEDULE
OF FUNDING PROGRESS

Actuarial Valuation Date	Fiscal Year Ended	Actuarial Value of Assets	Actuarial Accrued Liabilities Entry Age	Unfunded Actuarial Accrued Liabilities (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
12/31/08	12/31/08	$ -	$ 726,741	$ 726,741	0.0%	$ 2,318,547	31.3%
12/31/08	12/31/09	-	726,741	726,741	0.0%	2,561,772	28.4%
12/31/08	12/31/10	-	726,741	726,741	0.0%	2,629,587	27.6%
01/01/12	12/31/11	-	1,033,018	1,033,018	0.0%	2,541,977	40.6%
01/01/12	12/31/12	-	1,094,651	1,094,651	0.0%	2,586,476	42.3%
12/31/2013	12/31/13	-	962,341	962,341	0.0%	3,197,084	30.1%

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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.

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