Washington State Auditor's Office
Troy Kelley
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Financial Statements Audit Report

Woodinville Water District

King County

For the period January 1, 2013 through December 31, 2013

Published September 29, 2014

Report No. 1012681

Washington State Auditor
Troy Kelley

September 29, 2014

Board of Commissioners
Woodinville Water District
Woodinville, Washington

Report on Financial Statements

Please find attached our report on the Woodinville Water District's financial statements.

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

Sincerely,

TROY KELLEY
STATE AUDITOR

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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*

Woodinville Water District
King County
January 1, 2013 through December 31, 2013

Board of Commissioners
Woodinville Water District
Woodinville, 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 Woodinville Water District, King 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 September 18, 2014. As discussed in Note 1 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

September 18, 2014

Independent Auditor's Report on Financial Statements

Woodinville Water District
King County
January 1, 2013 through December 31, 2013

Board of Commissioners
Woodinville Water District
Woodinville, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the Woodinville Water District, King 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 9.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our 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 Woodinville Water 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 1 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 10 through 16 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated September 18, 2014 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Troy X. Kelley

TROY KELLEY
STATE AUDITOR

September 18, 2014

Financial Section

Woodinville Water District
King County
January 1, 2013 through December 31, 2013

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2013 and 2012

BASIC FINANCIAL STATEMENTS

Statement of Net Position – 2013 and 2012
Statement of Revenues, Expenses and Changes in Net Position – 2013 and 2012
Statement of Cash Flows – 2013 and 2012
Notes to Financial Statements – 2013 and 2012

WOODINVILLE WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2013 AND 2012

INTRODUCTION

Woodinville Water District was founded in 1959 to provide water and sewer services to customers residing within the District boundaries.

The District's service boundaries encompass both rural and urban areas in a moderately growing portion of King County, Washington. The District serves approximately 14,070 water customers and 2,873 sewer customers as of December 31, 2013.

Our mission is to provide safe and reliable service to all our customers at a reasonable cost. Within this mission, we strive to provide potable drinking water at acceptable flows and pressures to all customers; provide sanitary sewer service to all customers requesting service who are located within the Urban Growth Area (UGA) as established by King County; and educate customers in the efficient use of water and safe disposal of wastewater.

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of management's discussion and analysis presents our review of the District's financial position as of December 31, 2013 and 2012 and our financial performance for the years then ended. Please read these comments in conjunction with the District's financial statements, which follow this section.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

The statement of net position presents total assets and deferred outflows of resources and total liabilities and deferred inflows of resources with the difference between the two totals reported as net position. It provides information about the nature and amounts of investments in resources (assets), consumption of resources that are applicable to future periods (deferred outflows), obligations to District creditors (liabilities) and the acquisition of resources that are applicable to a future reporting period (deferred inflows). It provides a basis for evaluating the capital structure of the District and assessing its liquidity and financial flexibility. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial condition of the District is improving or deteriorating.

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

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

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

WOODINVILLE WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2013 AND 2012

CONDENSED STATEMENTS OF NET POSITION AT DECEMBER 31

	2013	Restated * 2012	Restated * 2011
Capital assets	$ 84,220,580	$ 80,805,818	$ 79,828,899
Other assets	20,873,287	23,178,934	13,143,915
Total assets	$ 105,093,867	$ 103,984,752	$ 92,972,814
Deferred outflows of resources	$ -	$ 99,921	$ 128,518
Long-term liabilities	$ 11,314,797	$ 12,122,188	$ 5,351,424
Other liabilities	2,567,566	4,426,662	1,892,983
Total liabilities	$ 13,882,363	$ 16,548,850	$ 7,244,407
Deferred inflows of resources	$ -	$ -	$ -
Net investment in capital assets	$ 79,442,957	$ 74,525,120	$ 73,946,067
Restricted amounts	973,133	849,676	50,394
Unrestricted amounts	10,795,414	12,161,027	11,860,464
Total net position	$ 91,211,504	$ 87,535,823	$ 85,856,925

CONDENSED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION FOR THE YEAR ENDED DECEMBER 31

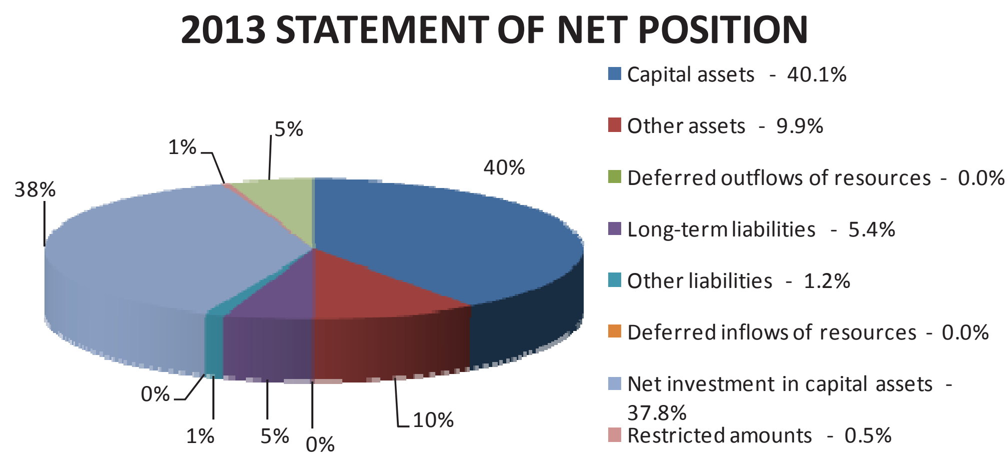
	2013	Restated * 2012	Restated * 2011
Sewer service revenue	$ 4,426,459	$ 4,083,332	$ 3,995,728
Water service revenue	11,929,165	10,741,903	9,486,052
Other sewer operating revenues	27,351	4,200	3,440
Other water operating revenues, including cell tower revenue	278,329	274,693	231,794
Total operating revenues	16,661,304	15,104,128	13,717,014
Sewer operating expenses	4,018,078	3,867,304	3,807,735
Water operating expenses	8,682,395	7,638,302	7,214,399
Depreciation and amortization, sewer	545,747	523,108	500,083
Depreciation and amortization, water	2,337,545	2,124,447	2,295,272
Total operating expenses	15,583,765	14,153,161	13,817,489
Operating income (loss)	1,077,539	950,967	(100,475)
Non-operating revenue, principally interest	77,369	247,917	89,475
Non-operating expenses:			
Interest and amortization	(165,803)	(62,973)	5,562
Bond issue costs	-	(97,801)	-
Loss on early extinguishment of debt	(97,385)	-	-
Miscellaneous	(66,539)	-	-
Income (loss) before capital contributions	825,181	1,038,110	(5,438)
Capital contributions	2,850,500	640,788	405,083
Increase in net position, as restated	$ 3,675,681	$ 1,678,898	$ 399,645

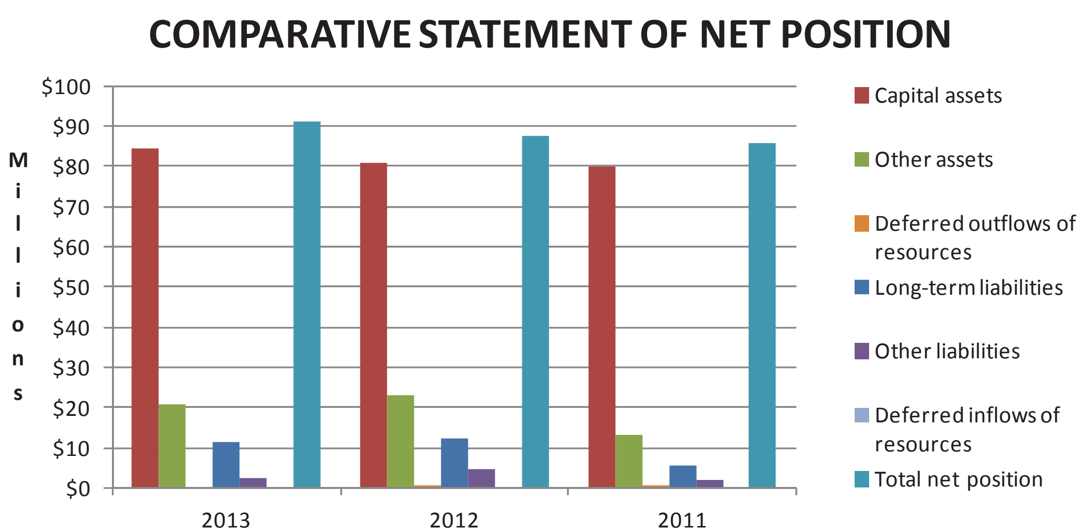
***** *Restatement due to implementation of GASB Statement No. 65. Refer to note 1 of the notes to the financial statements for additional information.*

FINANCIAL POSITION

The District's overall financial position continues to be strong and provides sufficient liquidity to support stable, ongoing operations. Capital assets have continued to increase as new connections have been added to our water and sewer system and investments continue to be made to upgrade and replace necessary capital infrastructure and facilities.

The following charts indicate the components of financial position:

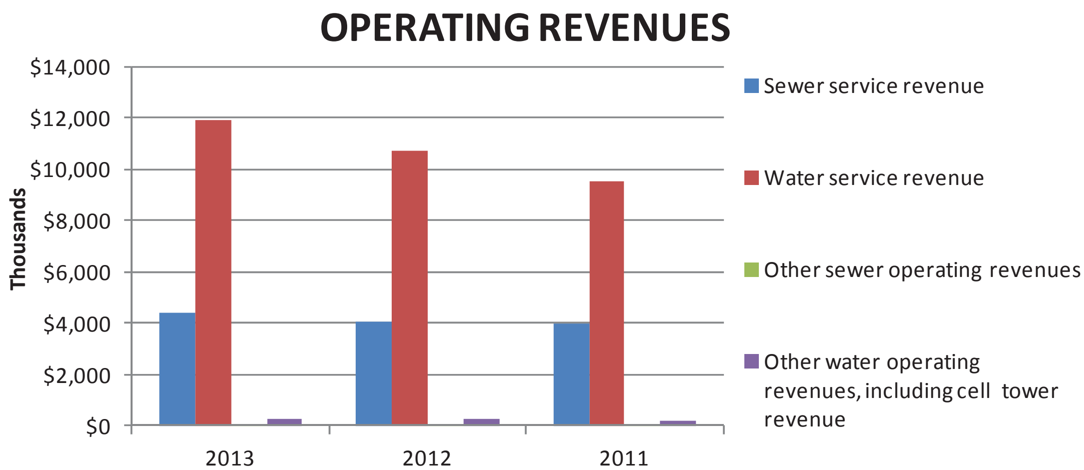




RESULTS OF OPERATIONS

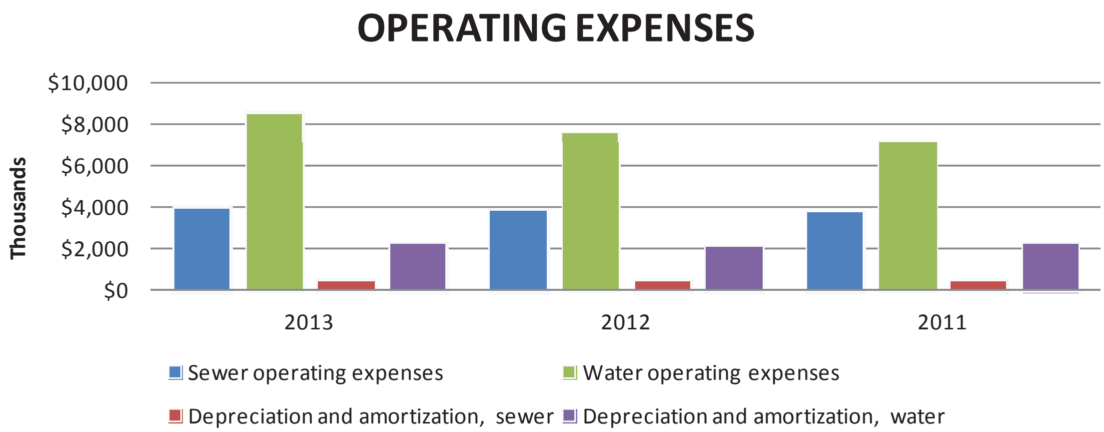
The District primarily receives operating revenues from two sources: water service (including street lights) and sewer service.

The following chart indicates operating revenue over the last three years:



District operating revenues over this period were impacted by annual rate increases, modest growth in the number of customers and changes in annual water use volumes, largely due to varying summer weather conditions and related outdoor water use. Specifically, weather conditions during the summer of 2013 and 2012 included an extended period of warmer than average temperatures and little measurable rainfall during the peak summer outdoor watering months resulting in a substantial increase in the volume of water sold in that year. Water rate increases of 4.5% and 7.2% were effective on February 1, 2013 and 2012, respectively. Overall increases in sewer rates of 4.5% and 9.3% were effective February 1, 2013 and 2012, respectively. Rate increases in those years were needed to pay for higher wholesale water and wholesale sewage treatment rates; to cover inflationary increases in other operating expenses; and to provide increased funding for capital improvement purposes.

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



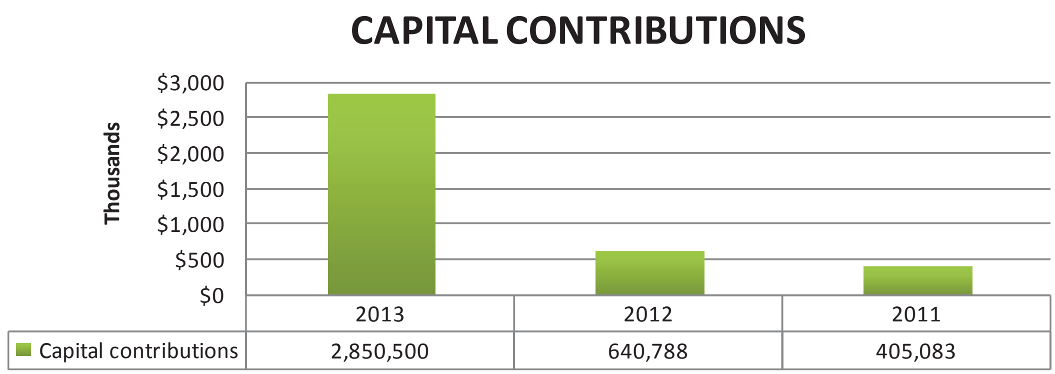
Similar to operating revenues, the variation in water operating expenses over the period was primarily due to the varying summer weather conditions and related outdoor water use. Additional impacts on water operating expenses resulted from inflation on the annual cost of District operations.

Sewer operating costs increased in 2013 primarily due to an increase in wholesale treatment rates charged to the District. Sewer operating costs in 2012 were comparable to 2011.

The District operated at a profit in 2013 and 2012 and loss in 2011. The 2011 operating loss was mainly due to the District not providing for the full amount of depreciation in its rates and significant variation in the volume of water sold. When annual water sales decline, most remaining operating expenses continue at a similar level causing an additional shortfall between the amount of those expenses and revenue generated to cover them. The District maintains reserve funds to address this issue and help cover operating shortfalls in low water sales years. The District is continuing to increase water rates on an annual basis to achieve full funding of annual depreciation expense and strengthen the District's future financial position. Funds provided through these increases will also help finance annual upgrades and replacement of District infrastructure.

The District collects capital contributions from new customers. Capital contributions consisted of System Development Charges (connection charges) paid by new properties connecting to the water or sewer system and the value of new utility infrastructure constructed and donated to the District under approved Developer Extension Agreements.

The following chart indicates capital contributions over the last three years:



These contributions are a result of continuing growth in the number of District customers. They include donated systems totaling $2,458,391, $433,063, and $254,584 for the years ended December 31, 2013, 2012 and 2011, respectively. The increase in capital contributions in 2013 and 2012 was consistent with the business climate, as construction activity began to rebound during those years.

CAPITAL ASSETS AND LONG-TERM DEBT

The District's capital assets have increased over the prior two years due to system improvements and growth in the customer base. Significant capital asset additions during 2013 and 2012 included the following:

2013		2012	
Donated Systems	$2,458,391	Donated Systems	$433,063
Kingsgate Pump Station Design	411,068	Kingsgate Pump Station Design	89,493
Site Improvements - All Reserviors	77,287	Site Improvements - All Reserviors	675,600
Reservoir Lighting & Security, Phase III	73,599	Reservoir Lighting & Security, Phase II	72,370
Automated Meter Reading	1,685,110	Automated Meter Reading	70,296
Woodinville-Duvall Road AC Replacement	88,620	Woodinville-Duvall Road AC Replacement	56,723
NE 154th St. AC Main Replacement	111,613	Reintree AC Main Replacement	1,484,402
Hollywood School AC Replacement	980,229	Sammamish River Bridge AC Water Replacement	73,197
		Hollywood School AC Replacement	106,239
		NE 195th St. & 176th Ave NE Water Main	89,581
		Woodinville-Redmond Road at NE 160th St. Sewer Main Bursting	185,398

The decrease in long term-debt in 2013 was due to principal payments. The increase in long-term debt in 2012 was due to issuance of Water and Sewer Revenue Bonds, the proceeds of which will be used for utility construction.

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

As of December 31, 2013, the District has $11,486,082 of cash and investments set aside in construction accounts of which $87,680 is committed under existing contracts.

ADDITIONAL COMMENTS

The District purchases all water to supply our customer needs from the City of Seattle on a wholesale basis. Treatment of sewage collected from District customers is provided by King County Wastewater Treatment Division (KCWTD/METRO). In December 2004, a new long-term contract was signed with the City of Seattle to ensure adequate water supply for District customer needs for the foreseeable future. As costs for these wholesale products and services continue to increase in future years, the District is committed to adjusting rates as necessary to pass through related cost increases to our rate-payers in an equitable manner.

WOODINVILLE WATER DISTRICT
STATEMENT OF NET POSITION
December 31, 2013 and 2012

ASSETS	2013	Restated 2012
Current assets:		
Unrestricted:		
Cash and cash equivalents	$ 10,257,506	$ 10,718,208
Accounts receivable - customers	636,821	744,629
Accounts receivable - customers unbilled	1,245,285	1,262,136
Accounts receivable - miscellaneous	6,207	24,808
Connection charges receivable	4,951	5,919
Interest receivable	4,090	4,874
Inventory	88,711	214,771
Prepaid expenses	120,463	123,009
Due from developers	109,864	148,320
	12,473,898	13,246,674
Restricted:		
Cash and cash equivalents	8,396,095	9,911,729
Interest receivable	3,294	4,430
	8,399,389	9,916,159
Total current assets	20,873,287	23,162,833
Non-current assets:		
Unrestricted:		
Prepaid bond insurance	-	16,101
Capital assets not being depreciated:		
Land and land rights	2,168,534	1,243,555
Construction in progress	5,280,113	4,182,081
Capital assets being depreciated:		
Plant in service	121,562,952	117,347,852
Less accumulated depreciation	(44,791,019)	(41,967,670)
Net capital assets	84,220,580	80,805,818
Total non-current assets	84,220,580	80,821,919
Total assets	105,093,867	103,984,752
DEFERRED OUTFLOWS OF RESOURCES		
Deferred loss on refunding of debt	-	99,921
Total deferred outflows of resources	-	99,921
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	$ 105,093,867	$ 104,084,673

See accompanying notes to the financial statements

WOODINVILLE WATER DISTRICT
STATEMENT OF NET POSITION
(CONTINUED)
December 31, 2013 and 2012

LIABILITIES	2013	Restated 2012
Current liabilities:		
Payable from unrestricted assets:		
Accounts payable	$ 1,054,232	$ 406,119
Retainage payable	140,230	251,823
Accrued vacation and sick leave	377,909	343,270
Developer advances	85,568	62,573
Lease deposit	12,000	12,000
Accrued interest	8,545	9,862
Long-term debt - current maturities	378,504	378,504
	2,056,988	1,464,151
Payable from restricted assets:		
Accrued interest	100,578	122,511
Long-term debt - current maturities	410,000	2,840,000
	510,578	2,962,511
Total current liabilities	2,567,566	4,426,662
Non-current liabilities:		
Long-term debt payable from unrestricted assets, net of current maturities	2,177,413	2,555,918
Long-term debt payable from restricted assets, net of current maturities	9,137,384	9,566,270
Total non-current liabilities	11,314,797	12,122,188
Total liabilities	13,882,363	16,548,850
DEFERRED INFLOWS OF RESOURCES	-	-
Total liabilities and deferred inflows of resources	13,882,363	16,548,850
NET POSITION		
Net investment in capital assets	79,442,957	74,525,120
Restricted for impaired investments	45,287	43,824
Restricted for debt service	927,846	805,852
Unrestricted	10,795,414	12,161,027
Total net position	91,211,504	87,535,823
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES AND NET POSITION	$ 105,093,867	$ 104,084,673

See accompanying notes to the financial statements

WOODINVILLE WATER DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
Years Ended December 31, 2013 and 2012

	2013	Restated 2012
Operating revenues:		
Water sales	$ 11,929,165	$ 10,741,903
Sewer services	4,426,459	4,083,332
Street lights	131,420	126,784
Other revenue	174,260	152,109
	16,661,304	15,104,128
Operating expenses:		
Water purchased	3,595,615	3,191,190
Metro charges	3,011,135	2,833,290
Power for street lights	119,633	116,234
Personnel expense	3,677,571	3,353,525
Plant expense	2,107,356	1,801,846
Professional services	189,163	209,521
Depreciation and amortization	2,883,292	2,647,555
	15,583,765	14,153,161
Income from operations	1,077,539	950,967
Non-operating revenue:		
Investment income, net of service fees	64,516	242,851
Other interest	426	194
Miscellaneous income	10,257	4,872
Gain on disposal of assets	2,170	-
	77,369	247,917
Non-operating expense:		
Loss on early extinguishment of debt	97,385	-
Bond issue costs	-	97,801
Interest on long-term debt, net of amount capitalized	166,052	38,628
Amortization of bond insurance, (premiums) and loss on refunding	(249)	24,345
Miscellaneous expense	66,539	-
	329,727	160,774
Income before capital contributions	825,181	1,038,110
Capital contributions	2,850,500	640,788
Change in net position	3,675,681	1,678,898
Net position, January 1, as previously reported	87,535,823	85,871,480
Restatement - change in accounting principle	-	(14,555)
Net position, January 1, as restated	87,535,823	85,856,925
Net position, December 31	$ 91,211,504	$ 87,535,823

See accompanying notes to the financial statements

WOODINVILLE WATER DISTRICT
STATEMENT OF CASH FLOWS
Years Ended December 31, 2013 and 2012

	2013	Restated 2012
Cash flows from operating activities:		
Cash received from customers	$ 16,725,914	$ 15,088,381
Cash paid to vendors	(8,850,582)	(8,399,528)
Cash paid to and for employees and commissioners, net of amount capitalized	(3,642,932)	(3,311,368)
Cash received (paid) to developers	61,451	70,441
Interest received	426	194
Net cash provided by operating activities	4,294,277	3,448,120
Cash flows from capital financing activities:		
Contributions in aid of construction	392,109	207,725
Collections on connection charge receivables	968	461
Expenditures for plant in service and construction, including capitalized interest	(3,325,319)	(3,080,958)
Proceeds from sale of assets	3,000	-
Proceeds from issuance of long-term debt	-	9,845,000
Principal paid on long-term debt	(3,218,505)	(678,505)
Interest paid on long-term debt, net of amount capitalized	(189,302)	-
Premium received on issuance of long-term debt	-	150,998
Issue costs paid on issuance of long-term debt	-	(97,801)
Net cash provided by (used in) capital financing activities	(6,337,049)	6,346,920
Cash flows from investing activities:		
Interest received on investments	66,436	238,443
Net cash provided by investing activities	66,436	238,443
Net increase (decrease) in cash and cash equivalents	(1,976,336)	10,033,483
Cash and cash equivalents, beginning of year	20,629,937	10,596,454
Cash and cash equivalents, end of year	$ 18,653,601	$ 20,629,937
Cash and cash equivalents balance is comprised of the following at December 31:		
Cash and cash equivalents - current assets	$ 10,257,506	$ 10,718,208
Cash and cash equivalents - restricted current assets	8,396,095	9,911,729
	$ 18,653,601	$ 20,629,937

See accompanying notes to the financial statements

WOODINVILLE WATER DISTRICT
STATEMENT OF CASH FLOWS
(CONTINUED)
Years Ended December 31, 2013 and 2012

	2013	Restated 2012
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	$ 1,077,539	$ 950,967
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	2,883,292	2,647,555
Interest income	426	194
Miscellaneous income (expense)	(56,282)	4,872
(Increase) decrease in assets:		
Accounts receivable - customers	124,659	(16,599)
Accounts receivable - miscellaneous	18,601	(3,951)
Inventory	126,060	(15,641)
Prepaid expenses	2,546	(7,012)
Due from developers	38,456	43,137
Increase (decrease) in liabilities:		
Accounts payable	21,346	(224,863)
Developer advances	22,995	27,304
Accrued vacation and sick leave	34,639	42,157
Net cash provided by operating activities	$ 4,294,277	$ 3,448,120
Supplemental schedule of significant non-cash financing and investing activities:		
Utility plant donations received	$ 2,458,391	$ 433,063

See accompanying notes to the financial statements

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

Description of business, nature of operations and reporting entity - Woodinville Water District, a municipal corporation organized under the laws of the state of Washington, was created for the purpose of constructing, maintaining and operating a water and sewer system within its boundaries, which encompass the city of Woodinville and nearby portions of unincorporated King County. The District has no component units.

Basis of presentation and accounting - These financial statements are prepared utilizing the full accrual basis of accounting. All activities of the District are accounted for within a single proprietary (enterprise) fund.

Change in accounting principle - The District implemented Governmental Accounting Standards Board Statement No. 65, *Items Previously Reported as Assets and Liabilities* (GASB 65). This statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes certain items that were previously reported as assets and liabilities as expenses in the period incurred. The cumulative impact of implementation of GASB 65 resulted in a $14,555 reduction of net position as of January 1, 2012 as a result of recording as expenses in the proper period items previously recorded as unamortized bond issue costs. The 2012 financial statements have been restated to reclassify prepaid bond insurance as a non-current unrestricted asset, reclassify a deferred loss on refunding of debt as a deferred outflow of resources, expense bond issue costs incurred in 2012 in the amount of $97,801 and reduce amortization expense in the amount of $8,636.

Cash and cash equivalents - The District considers investments in the King County Investment Pool to be cash equivalents. These investments are stated at the fair value of the pool's underlying assets.

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

Inventory - Inventory consists primarily of water meters and supplies used in the construction and repair of water and sewer lines and the other related system components. Inventory is stated at the lower of cost (weighted average) or market.

Capital assets - Capital assets are stated at cost. For water and sewer systems installed by developers or customers and conveyed to the District by bill of sale, the District records the cost of the system at the contributing party's estimated cost. Expenditures for capital assets exceeding $2,500, including capital leases and repairs that increase useful lives, are capitalized. Maintenance, repairs, and minor renewals are accounted for as expenses when incurred. When capital assets are retired or otherwise disposed of, the cost and accumulated depreciation are removed from the accounts and any resulting gain or loss is recognized in income for the period. Provision is made for depreciation of capital assets using the straight-line method over the estimated useful lives of the assets which range from 3 to 50 years.

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

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

Total interest and amortization cost incurred for the years ended December 31, 2013 and 2012 was $270,472 and $220,051, respectively. Interest capitalized in 2013 and 2012 was $104,669 and $157,078, respectively.

Deferred outflows/inflows of resources - Deferred outflows of resources represent a consumption of net position that applies to future periods and will not be recognized as an outflow of resources (expense) until that time. The District has a deferred loss on refunding of debt resulting from a difference in the carrying value of refunded debt and its reacquisition price. Losses on refunding of debt are amortized by the interest method over the life of the refunded or refunding debt, whichever is shorter.

Deferred inflows of resources represent an acquisition of net position that applies to future periods and will not be recognized as an inflow of resources (revenue) until that time. The District does not have any items that qualify for reporting in this category.

Accrued compensated absences - The District accrues accumulated unpaid vacation and sick leave benefits at year-end at the employee's current salary. District employees accumulate vacation and sick hours for subsequent use or for payment, subject to certain restrictions, upon termination, retirement or death.

District policy regarding sick leave stipulates a five-year cliff vesting of unused sick leave. If an employee leaves the District in good standing after five years of service, the District will compensate the employee for not more than 480 hours of accrued sick leave at his or her current salary.

Long-term debt - Long-term debt is reported net of premiums and discounts. Premiums and discounts on long-term debt are amortized by the interest method over the period the related debt is outstanding.

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

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

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

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

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

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

Reclassifications - Certain reclassfications have been made to prior year amounts to conform to the current year presentation.

2. DEPOSITS AND INVESTMENTS

Deposits - The District's deposits are entirely covered by federal depository insurance (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (PDPC).

Investments - In accordance with State law, the District's governing body has entered into a formal interlocal agreement with the district *ex officio* treasurer, King County, to have all its funds not required for immediate expenditure to be invested in the King County Investment Pool (Pool). Investments in the Pool are stated at the fair value of the Pool's underlying assets. The stated value per share is $1. The King County Executive Finance Committee provides oversight of the Pool.

2. DEPOSITS AND INVESTMENTS (continued)

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

Investment type	Fair value	Average effective duration
2013:		
King County Investment Pool:		
Main Pool	$18,587,314	1.23 years
Impaired Pool	$ 45,287	
2012:		
King County Investment Pool:		
Main Pool	$20,567,113	1.36 years
Impaired Pool	$ 43,824	

Impaired investments - As of December 31, 2013 and 2012, all impaired commercial paper investments had completed enforcement events. The King County Impaired Investment Pool (Impaired Pool) held one commercial paper asset where the Impaired Pool accepted an exchange offer and is receiving the cash flows from the investment's underlying securities. The Impaired Pool also held the residual investments in four commercial paper assets that were part of completed enforcement events, where the Impaired Pool accepted the cash out option. The District's share of the impaired investment pool principal was $76,460 and $89,217 at December 31, 2013 and 2012, respectively. The District's unrealized loss for these investments is $31,173 and $45,393 at December 31, 2013 and 2012, respectively.

Interest rate risk - As a means of limiting its exposure to rising interest rates, securities purchased in the Pool must have a final maturity, or weighted average life, no longer than five years. While the Pool's market value is calculated on a monthly basis, unrealized gains and losses are not distributed to participants. The Pool distributes earnings monthly using an amortized cost methodology.

Credit risk - As of December 31, 2013 and 2012, the District's investment in the Pool was not rated by a nationally recognized statistical rating organization (NRSRO). In compliance with state statutes, Pool policies authorize investments in U.S. treasury securities, U.S. agency securities and mortgage-backed securities, municipal securities (rated at least "A" by two NRSROs), commercial paper (rated at least equivalent of "A-1" by two NRSROs), certificates of deposits issued by qualified public depositories, repurchase agreements, and the Local Government Investment Pool managed by the Washington State Treasurer's office.

3. RESTRICTED ASSETS

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

	Current restricted assets		
	Cash & cash equivalents	Interest receivable	Total
December 31, 2013:			
Current restricted assets:			
Revenue bond fund	$ 104,243	$ 41	$ 104,284
Revenue bond reserve fund	923,780	361	924,141
Construction funds	7,322,785	2,892	7,325,677
Impaired investment pool	45,287		45,287
Total restricted assets	$8,396,095	$ 3,294	$8,399,389
December 31, 2012:			
Current restricted assets:			
Revenue bond fund	$ 3,724	$ 2	$ 3,726
Revenue bond reserve fund	924,224	413	924,637
Construction funds	8,939,957	4,015	8,943,972
Impaired investment pool	43,824		43,824
Total restricted assets	$9,911,729	$ 4,430	$9,916,159

Terms of the revenue bond issue require the District to establish and maintain sinking fund and reserve accounts. The sinking fund account is to accumulate funds for payment of bonds, principal and interest and the reserve account is to provide security for bond holders.

The required reserve for the 2012 revenue bonds at December 31, 2013 and 2012 was $614,956. The required reserve for the 2003 bonds at December 31, 2012 was funded by insurance as allowed by the bond resolution. Both the sinking fund and reserve accounts were fully funded.

4. CAPITAL ASSETS

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

	Balance, beginning of year	Additions	Reductions	Transfers	Balance, end of year
2013:					
Capital assets not being depreciated:					
Land	$ 1,243,555			$ 924,979	$ 2,168,534
Construction in progress	4,182,081	$ 3,724,653		(2,626,621)	5,280,113
	5,425,636	3,724,653		(1,701,642)	7,448,647
Capital assets being depreciated:					
Annexations and comprehensive plans	318,913		$(53,661)		265,252
Pumping stations	2,406,062	437,184			2,843,246
Reservoirs	8,928,730			113,324	9,042,054
Mains, valves, hydrants	90,748,325	2,080,208		1,245,773	94,074,306
Meters and services	3,128,829				3,128,829
Office buildings	7,688,780				7,688,780
Office equipment	1,893,969	56,838	(7,111)	342,545	2,286,241
Transportation equipment	1,229,836				1,229,836
Shop and radio equipment	575,424				575,424
Maps	66,767				66,767
Monitoring	362,217				362,217
	117,347,852	2,574,230	(60,772)	1,701,642	121,562,952
Accumulated depreciation:					
Pumping stations	(1,089,554)	(87,482)			(1,177,036)
Reservoirs	(6,033,211)	(243,083)			(6,276,294)
Mains, valves, hydrants	(26,616,378)	(1,795,816)			(28,412,194)
Meters and services	(2,759,697)	(200,161)			(2,959,858)
Office buildings	(2,430,260)	(241,526)			(2,671,786)
Office equipment	(1,163,027)	(184,282)	6,282		(1,341,027)
Transportation equipment	(1,028,794)	(53,422)			(1,082,216)
Shop and radio equipment	(418,483)	(23,370)			(441,853)
Maps	(66,767)				(66,767)
Monitoring	(361,499)	(489)			(361,988)
	(41,967,670)	(2,829,631)	6,282		(44,791,019)
Net capital assets	$ 80,805,818	$ 3,469,252	$(54,490)	$ 0	$ 84,220,580

4. CAPITAL ASSETS (continued)

	Balance, beginning of year	Additions	Reductions	Transfers	Balance, end of year
2012:					
Capital assets not being depreciated:					
Land	$ 1,243,555				$ 1,243,555
Construction in progress	7,028,342	$ 3,179,539		$ (6,025,800)	4,182,081
	8,271,897	3,179,539		(6,025,800)	5,425,636
Capital assets being depreciated:					
Annexations and comprehensive plans	405,175		$(86,262)		318,913
Pumping stations	2,406,062				2,406,062
Reservoirs	8,928,730				8,928,730
Mains, valves, hydrants	84,447,684	433,062		5,867,579	90,748,325
Meters and services	3,128,829				3,128,829
Office buildings	7,645,442			43,338	7,688,780
Office equipment	1,773,992	5,094		114,883	1,893,969
Transportation equipment	1,223,058	6,778			1,229,836
Shop and radio equipment	575,424				575,424
Maps	66,767				66,767
Monitoring	362,217				362,217
	110,963,380	444,934	(86,262)	6,025,800	117,347,852
Accumulated depreciation:					
Pumping stations	(952,284)	(137,270)			(1,089,554)
Reservoirs	(5,640,018)	(393,193)			(6,033,211)
Mains, valves, hydrants	(25,323,935)	(1,292,443)			(26,616,378)
Meters and services	(2,550,699)	(208,998)			(2,759,697)
Office buildings	(2,178,203)	(252,057)			(2,430,260)
Office equipment	(975,549)	(187,478)			(1,163,027)
Transportation equipment	(974,341)	(54,453)			(1,028,794)
Shop and radio equipment	(396,976)	(21,507)			(418,483)
Maps	(66,985)	218			(66,767)
Monitoring	(347,388)	(14,111)			(361,499)
	(39,406,378)	(2,561,292)			(41,967,670)
Net capital assets	$ 79,828,899	$ 1,063,181	$(86,262)	$ 0	$ 80,805,818

5. LONG-TERM DEBT PAYABLE FROM UNRESTRICTED ASSETS

Long-term debt outstanding at December 31, payable from unrestricted assets, secured by the revenue of the system, consisted of the following Public Works Trust Fund loans issued for utility construction:

	2013	2012
1995 - $570,100 Public Works Trust Fund Loan		
Payable $14,115 annually through the year 2015, plus interest at 1.0 annual percentage rate	$ 28,231	$ 42,346
1995 - $753,000 Public Works Trust Fund Loan		
Payable $42,026 annually through the year 2015, plus interest at 1.0 annual percentage rate	84,052	126,078
1998 - $280,917 Public Works Trust Fund Loan		
Payable $12,320 annually through the year 2018, plus interest at 1.0 annual percentage rate	61,599	73,919
2000 - $1,833,510 Public Works Trust Fund Loan		
Payable $98,310 annually through the year 2020, plus interest at 1.0 annual percentage rate	688,169	786,479
2001 - $3,254,000 Public Works Trust Fund Loan		
Payable $174,321 annually through the year 2021, plus interest at .5 annual percentage rate	1,394,571	1,568,893
2001 - $672,000 Public Works Trust Fund Loan		
Payable $37,412 annually through the year 2021, plus interest at .5 annual percentage rate	299,295	336,707
	2,555,917	2,934,422
Less current maturities	378,504	378,504
	$2,177,413	$2,555,918

WOODINVILLE WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
(CONTINUED)
DECEMBER 31, 2013 AND 2012

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

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

	Principal	Interest	Total
2014	$ 378,504	$ 17,090	$ 395,594
2015	378,504	14,364	392,868
2016	322,363	11,637	334,000
2017	322,363	9,472	331,835
2018	322,363	7,307	329,670
2019-2021	831,820	9,301	841,121
	$2,555,917	$69,171	$2,625,088

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

	Balance, beginning of year	Additions	Reductions	Balance, end of year	Amounts due within one year
2013:					
Public Works Trust Fund Loan	$ 42,346		$ (14,115)	$ 28,231	$ 14,115
Public Works Trust Fund Loan	126,078		(42,026)	84,052	42,026
Public Works Trust Fund Loan	73,919		(12,320)	61,599	12,320
Public Works Trust Fund Loan	786,479		(98,310)	688,169	98,310
Public Works Trust Fund Loan	1,568,893		(174,322)	1,394,571	174,321
Public Works Trust Fund Loan	336,707		(37,412)	299,295	37,412
	$2,934,422		$(378,505)	$2,555,917	$378,504

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

	Balance, beginning of year	Additions	Reductions	Balance, end of year	Amounts due within one year
2012:					
Public Works Trust Fund Loan	$ 56,461		$ (14,115)	$ 42,346	$ 14,115
Public Works Trust Fund Loan	168,104		(42,026)	126,078	42,026
Public Works Trust Fund Loan	86,237		(12,318)	73,919	12,320
Public Works Trust Fund Loan	884,789		(98,310)	786,479	98,310
Public Works Trust Fund Loan	1,743,216		(174,323)	1,568,893	174,321
Public Works Trust Fund Loan	374,119		(37,412)	336,707	37,412
	$3,312,926		$(378,504)	$2,934,422	$378,504

6. LONG-TERM DEBT PAYABLE FROM RESTRICTED ASSETS

Long-term debt outstanding at December 31, payable from restricted assets, consisted of the following revenue bonds:

	2013	2012
$5,015,000 Dated March 15, 2003 Issued for Refunding		
Due serially through the year 2019, with interest payable semiannually at 3.60 to 4.125 annual percentage rates; called for redemption in full on July 1, 2013		$2,410,000
$9,845,000 Dated August 8, 2012 Issued for Utility Construction		
Due serially through the year 2032, with interest payable semiannually at 2.00 to 2.50 annual percentage rates	$9,415,000	9,845,000
	9,415,000	12,255,000
Less current maturities	(410,000)	(2,840,000)
Unamortized bond premiums (discounts)	132,384	151,270
	$9,137,384	$9,566,270

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

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

	Principal	Interest	Total
2014	$ 410,000	$ 201,156	$ 611,156
2015	420,000	192,956	612,956
2016	430,000	184,556	614,556
2017	435,000	175,956	610,956
2018	445,000	167,256	612,256
2019-2023	2,365,000	698,881	3,063,881
2024-2028	2,605,000	452,619	3,057,619
2029-2032	2,305,000	145,057	2,450,057
	$9,415,000	$2,218,437	$11,633,437

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

	Balance, beginning of year	Additions	Reductions	Balance, end of year	Amounts due within one year
2013:					
2003 Revenue bonds	$2,410,000		$(2,410,000)	-	-
2012 Revenue bonds	9,845,000	-	(430,000)	$ 9,415,000	$ 410,000
	$12,255,000	$ -	$(2,840,000)	$ 9,415,000	$ 410,000
2012:					
2003 Revenue bonds	$2,710,000		$(300,000)	$ 2,410,000	$2,410,000
2012 Revenue bonds	-	$9,845,000	-	9,845,000	430,000
	$2,710,000	$9,845,000	$(300,000)	$12,255,000	$2,840,000

7. PENSION PLAN

Substantially all of the District's full-time and qualifying part-time employees participate in one of the following statewide retirement systems administered by the Washington State Department of Retirement Systems, under cost-sharing multiple-employer public employee defined benefit retirement plans. The Department of Retirement Systems (DRS), a department within the primary government of the State of Washington, issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for each plan. The DRS CAFR may be obtained by writing to: Department of Retirement Systems, Communications Unit, P.O. Box 48380, Olympia, WA 98504-8380; or it may be downloaded from the DRS website at www.drs.wa.gov. The following disclosures are made pursuant to GASB Statements 27, *Accounting for Pensions by State and Local Government Employers* and 50*, Pension Disclosures, an Amendment of GASB Statements 25 and 27*.

Plan description:
The Legislature established PERS in 1947. Membership in the system includes: elected officials; state employees; employees of the Supreme, Appeals, and Superior courts; 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 percent 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.

7. PENSION PLAN (continued)

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 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, the rate was five and one-half percent compounded quarterly. Members in PERS Plan 1 and Plan 2 can elect to withdraw total employee contributions and interest thereon, in lieu of any retirement benefit, 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 from active status at any age with at least 30 years of service, at age 55 with 25 years of service, or at age 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 percent of the average final compensation (AFC) per year of service, but the benefit may not exceed 60 percent of the AFC. The AFC is the monthly average of the 24 consecutive highest-paid service credit months.

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 COLA that provides an automatic annual adjustment based on the Consumer Price Index. The adjustment is capped at 3 percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

7. PENSION PLAN (continued)

PERS Plan 1 provides duty and non-duty disability benefits. Duty disability retirement benefits for disablement prior to the age of 60 consist of a temporary life annuity. The benefit amount is $350 a month, or two-thirds of the monthly AFC, whichever is less. The benefit is reduced by any workers' compensation benefit and is payable as long as the member remains disabled or until the member attains the age of 60, at which time the benefit is converted to the member's service retirement amount.

A member with five years of covered employment is eligible for non-duty disability retirement. Prior to the age of 55, the benefit amount is 2 percent of the AFC for each year of service reduced by 2 percent for each year that the member's age is less than 55. The total benefit is limited to 60 percent of the AFC and is actuarially reduced to reflect the choice of a survivor option. Plan 1 members may elect to receive an optional COLA amount (based on the Consumer Price Index), capped at 3 percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

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

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

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:

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

PERS Plan 2 members hired on or after May 1, 2013 have the option to retire early by accepting a reduction of 5 percent for each year of retirement before age 65. This option is available only to those who are age 55 or older and have at least 30 years of service.

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

7. PENSION PLAN (continued)

PERS Plan 3 has a dual benefit structure. Employer contributions finance a defined benefit component and member contributions finance a defined contribution component. As established by Chapter 41.34 RCW, employee contribution rates to the defined contribution component range from 5 percent to 15 percent of salaries, based on member choice. Members who do not choose a contribution rate default to a 5 percent 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 percent of the AFC per year of service. The AFC is the monthly average of the 60 consecutive highest-paid service months. There is no cap on years of service credit, and Plan 3 provides the same cost-of-living allowance as Plan 2.

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

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

- If they have at least ten service credit years and are 55 years old, the benefit is reduced by an ERF that varies with age, for each year before age 65.
- If they have 30 service credit years and are at least 55 years old, and were hired before May 1, 2013, they have a choice of a benefit that is reduced by 3 percent for each year before age 65; or a benefit with a smaller (or no) reduction factor (depending on age) that imposes stricter return-to-work rules.
- 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 percent for each year before age 65.

7. PENSION PLAN (continued)

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

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

PERS 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.

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
	263,347

7. PENSION PLAN (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 percent for state agencies and local government unit employees, and at 7.5 percent for state government elected officials. The employer and employee contribution rates for Plan 2 and the employer contribution rate for Plan 3 are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. Under PERS Plan 3, employer contributions finance the defined benefit portion of the plan and member contributions finance the defined contribution portion. The Plan 3 employee contribution rates range from 5 percent to 15 percent.

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

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

	2013			2012		
	PERS Plan 1	PERS Plan 2	PERS Plan 3	PERS Plan 1	PERS Plan 2	PERS Plan 3
Employer*	9.21%	9.21%	9.21%**	7.21%	7.21%	7.21%**
Employee	6.00%	4.92%	***	6.00%	4.64%	***

* The employer rates include the employer administrative expense fee set at 0.18% and 0.16% as of December 31, 2013 and 2012, respectively.
** Plan 3 defined benefit portion only.
*** Variable from 5.00% minimum to 15.00% maximum based on rate selected by the PERS 3 member.

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

	Required contributions		
	PERS Plan 1	PERS Plan 2	PERS Plan 3
2013	$ 4,671	$191,625	$23,602
2012	$ 3,853	$167,997	$10,266
2011	$ 3,304	$144,825	$ 6,104

8. DEFERRED COMPENSATION PLAN

The District offers its employees two deferred compensation plans created in accordance with Internal Revenue Code Section 457. The plans are with the International City Managers Association and Nationwide Retirement. The plans, available to all employees, permit them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency. In addition to voluntary employee deferrals, in 2013, the District began offering a matching contribution. The District matches 100% of eligible employee deferrals up to 2% of the participating employees' salaries. Employee deferrals totaled $101,498 and $81,439 in 2013 and 2012, respectively. District matching contributions totaled $38,505 and $-0- in 2013 and 2012, respectively.

9. RISK MANAGEMENT

Woodinville Water 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 into 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 1st through October 31st.

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 coverages are on an "occurrence" basis.

9. RISK MANAGEMENT (continued)

Members make an annual contribution to fund the Pool. The Pool purchases insurance policies from unrelated underwriters as follows:

TYPE OF COVERAGE	MEMBER DEDUCTIBLE	SELF-INSURED RETENTION	EXCESS LIMITS
Property Loss:			
Buildings and Contents	$1,000	$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	$25,000	$100,000,000
Boiler & Machinery	$1,000	$25,000 - $350,000	$100,000,000
Auto - Physical Damage	$25,000	$200,000	$10,000,000
Liability:			
Comprehensive General Liability	$1,000 (C)	$200,000	$10,000,000
Auto Liability	$1,000	$200,000	$10,000,000
Public Officials Errors and Omissions	$1,000	$200,000	$10,000,000
Employment Practices/Benefits	$1,000	$200,000	$10,000,000
Crime	$1,000	$25,000	$2,000,000
Terrorism	$1,000	$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% coinsurance 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.

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).

9. RISK MANAGEMENT (continued)

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 of relationship with the Pool, 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 Services.

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 policy direction to the Pool's Executive Director.

10. MAJOR SUPPLIERS

All sewage treatment and water purchased by the District is provided by King County Wastewater Treatment Division (Metro) and the City of Seattle, respectively.

11. COMMITMENTS AND CONTINGENCY

The District is obligated under various contracts for construction in progress in the combined amount of $867,101 of which $779,421 has been expended as of December 31, 2013.

12. LEASES

The District leases space for a cell tower under a noncancelable operating lease. Future rental income due to the District under the noncancelable portion of the lease is as follows for each of the years ending December 31:

2014	$15,657
2015	$16,127

The lease contains one additional five year renewal option.

ABOUT THE STATE AUDITOR'S OFFICE

The State Auditor's Office is established in the state's Constitution and is part of the executive branch of state government. The State Auditor is elected by the citizens of Washington and serves four-year terms.

We work with our audit clients and citizens to achieve our vision of government that works for citizens, by helping governments work better, cost less, deliver higher value, and earn greater public trust.

In fulfilling our mission to hold state and local governments accountable for the use of public resources, we also hold ourselves accountable by continually improving our audit quality and operational efficiency and developing highly engaged and committed employees.

As an elected agency, the State Auditor's Office has the independence necessary to objectively perform audits and investigations. Our audits are designed to comply with professional standards as well as to satisfy the requirements of federal, state, and local laws.

Our audits look at financial information and compliance with state, federal and local laws on the part of all local governments, including schools, and all state agencies, including institutions of higher education. In addition, we conduct performance audits of state agencies and local governments as well as fraud, state whistleblower and citizen hotline investigations.

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

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

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