



Washington State Auditor's Office

Troy Kelley

Integrity • Respect • Independence

**Financial Statements and Federal Single Audit
Report**

Valley Water District

Pierce County

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

Published September 29, 2014

Report No. 1012728





Washington State Auditor
Troy Kelley

September 29, 2014

Board of Commissioners
Valley Water District
Puyallup, Washington

Report on Financial Statements and Federal Single Audit

Please find attached our report on the Valley Water District's financial statements and compliance with federal laws and regulations.

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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Federal Summary

Valley Water District Pierce County January 1, 2013 through December 31, 2013

The results of our audit of the Valley Water District are summarized below in accordance with U.S. Office of Management and Budget Circular A-133.

FINANCIAL STATEMENTS

An unmodified opinion was issued on the basic financial statements.

Internal Control Over Financial Reporting:

- ***Significant Deficiencies:*** We reported no deficiencies in the design or operation of internal control over financial reporting that we consider to be significant deficiencies.
- ***Material Weaknesses:*** We identified no deficiencies that we consider to be material weaknesses.

We noted no instances of noncompliance that were material to the financial statements of the District.

FEDERAL AWARDS

Internal Control Over Major Programs:

- ***Significant Deficiencies:*** We reported no deficiencies in the design or operation of internal control over major federal programs that we consider to be significant deficiencies.
- ***Material Weaknesses:*** We identified no deficiencies that we consider to be material weaknesses.

We issued an unmodified opinion on the District's compliance with requirements applicable to its major federal program.

We reported no findings that are required to be disclosed under section 510(a) of OMB Circular A-133.

Identification of Major Programs:

The following was a major program during the period under audit:

<u>CFDA No.</u>	<u>Program Title</u>
66.468	Capitalization Grants for Drinking Water State Revolving Funds

The dollar threshold used to distinguish between Type A and Type B programs, as prescribed by OMB Circular A-133, was \$300,000.

The District did not qualify as a low-risk auditee under OMB Circular A-133.

**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***

**Valley Water District
Pierce County
January 1, 2013 through December 31, 2013**

Board of Commissioners
Valley Water District
Puyallup, 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 Valley Water District, Pierce County, Washington, as of and for the year ended December 31, 2013, 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 22, 2014.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

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

not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

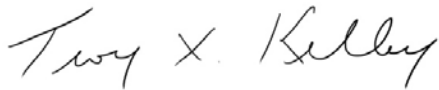
COMPLIANCE AND OTHER MATTERS

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

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

PURPOSE OF THIS REPORT

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



TROY KELLEY
STATE AUDITOR

September 22, 2014

Independent Auditor's Report on Compliance for Each Major Federal Program and on Internal Control over Compliance in Accordance with OMB Circular A-133

**Valley Water District
Pierce County
January 1, 2013 through December 31, 2013**

Board of Commissioners
Valley Water District
Puyallup, Washington

REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM

We have audited the compliance of the Valley Water District, Pierce County, Washington, with the types of compliance requirements described in the U.S. *Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2013. The District's major federal programs are identified in the accompanying Federal Summary.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination on the District's compliance.

Opinion on Each Major Federal Program

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2013.

REPORT ON INTERNAL CONTROL OVER COMPLIANCE

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program in order to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

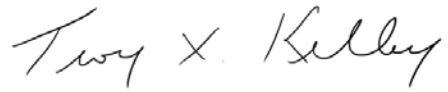
A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement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

Our consideration of internal control over compliance 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. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

PURPOSE OF THIS REPORT

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report 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.

A handwritten signature in cursive script that reads "Troy X. Kelley".

TROY KELLEY
STATE AUDITOR

September 22, 2014

Independent Auditor's Report on Financial Statements

**Valley Water District
Pierce County
January 1, 2013 through December 31, 2013**

Board of Commissioners
Valley Water District
Puyallup, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the Valley Water District, Pierce County, Washington, as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed on page 14.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Valley Water District, as of December 31, 2013, and the changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

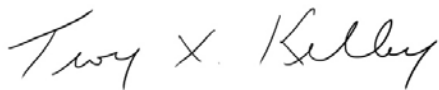
Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 15 through 19 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the 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.

Supplementary and Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the District's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. This schedule is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated September 22, 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

September 22, 2014

Financial Section

**Valley Water District
Pierce County
January 1, 2013 through December 31, 2013**

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2013

BASIC FINANCIAL STATEMENTS

Statement of Net Position – 2013

Statement of Revenues, Expenses and Changes in Fund Net Position – 2013

Statement of Cash Flows – 2013

Notes to Financial Statements – 2013

SUPPLEMENTARY AND OTHER INFORMATION

Schedule of Expenditures of Federal Awards and Notes – 2013

Valley Water District
Management's Discussion and Analysis
Year Ended December 31, 2013

Brief Discussion of the Basic Financial Statements

The District's financial statements include a Statement of Net Position, a Statement of Revenues, Expenses & Changes in Fund Net Position, a Statement of Cash Flows, and Notes to the Financial Statements. The financial statements are prepared using the accrual basis of accounting and conform to generally accepted accounting principles as applicable to proprietary funds of governments. The intent of the management's discussion and analysis is to provide highlights of the District's financial activities for the year ended December 31, 2013. Readers are encouraged to read this section in conjunction with the accompanying financial statements.

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

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

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

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

Condensed Comparative Statement of Net Position

The following condensed statement of net positions present the assets of the District and show the mix of liabilities and net assets used to acquire these assets:

	<u>2013</u>	<u>2012</u>
<u>Assets</u>		
Current Assets	\$ 2,080,071	\$ 2,166,355
Noncurrent Assets:		
Capital Assets - Net	14,491,946	13,645,887
Other	<u>24,435</u>	<u>121,073</u>
Total Assets	<u>\$ 16,596,452</u>	<u>\$ 15,933,315</u>
<u>Deferred Outflow of Resources</u>		
Deferred Loss on Refunding	\$ 48,588	\$ -

Valley Water District
Management's Discussion and Analysis
Year Ended December 31, 2013

Liabilities

Current Liabilities	\$ 877,499	\$ 1,229,447
Noncurrent Liabilities:		
Long-Term Debt	9,775,040	9,419,287
Other	<u>15,999</u>	<u>13,558</u>
Total Liabilities	<u>\$ 10,668,538</u>	<u>\$ 10,662,292</u>

Net Position

Net Investment in Capital Assets	\$ 4,047,627	\$ 3,681,849
Restricted for Capital Projects	117,258	113,334
Unrestricted	<u>1,811,617</u>	<u>1,475,840</u>
Total Net Position	<u>\$ 5,976,502</u>	<u>\$ 5,271,023</u>

Analysis of the Condensed Comparative Statement of Net Position

Assets

Current assets consist of cash and cash equivalents held in the maintenance, construction and revenue bond funds as well as inventory, prepaid expenses, accrued interest and accounts receivable. Current assets decreased by \$86,284 in 2013. The decrease was primarily due to a decrease in the construction fund. Cash balances in the various funds vary from year to year based on the income from operations, expenses paid for operations and construction costs, transfers into other funds, borrowings and debt service payments. Accounts receivable from customers increased by \$20,759, primarily due to increased revenue driven by increased billing rates. The remaining balances did not change significantly in 2013.

Noncurrent assets

Net Capital Assets, which include land, construction work in progress, utility plant, equipment & intangible assets, less accumulated depreciation, increased by \$846,059 in 2013. This increase was driven by an increase in capital spending.

Other noncurrent assets, which in 2012 included unamortized debt issue costs and for 2013 includes unamortized bond insurance decreased by \$96,638. The decrease was due from the accounting and reporting changes following GASB 65. See Note 11 for more information.

Liabilities

Current liabilities decreased by \$351,948. \$271,294 of this decrease was the result of a decrease in the construction accounts payable. The maintenance accounts payable also decreased by \$39,024.

Noncurrent liabilities

Long-term debt increased by \$355,753 in 2013. This increase was caused by a Public Work Trust Fund loan for \$997,173 in 2013 partially offset by principal payments on existing bonds and Public Work Trust Fund loans.

The District's compensated absences increased by \$2,441 over 2012. This varies from year to year based on the unused vacation & sick leave pay at the end of the year.

Valley Water District
Management's Discussion and Analysis
Year Ended December 31, 2013

Net Position

Net position consists of total assets minus total liabilities. Net position increased by \$844,137 in 2013. Over time, increases or decreases in the District's net position are an indicator of the District's overall financial growth. An increase in net position is a positive sign of the District's financial strength.

Condensed Comparative Statement of Revenues, Expenses & Changes in Net Assets

The following statements of revenues, expenses and changes in fund net position present the annual surplus or deficiency of revenues over expenses (the change in net position):

	<u>2013</u>	<u>2012</u>
<u>Revenues</u>		
Water Operating Revenues	\$ 2,505,238	\$ 2,111,813
Nonoperating Revenues	<u>71,897</u>	<u>1,630</u>
Total Revenues	<u>\$ 2,577,135</u>	<u>\$ 2,113,443</u>
<u>Expenses</u>		
Operating Expenses	\$ 1,247,334	\$ 946,034
Depreciation	456,709	467,844
Nonoperating Expenses	<u>323,223</u>	<u>336,269</u>
Total Expenses	<u>\$ 2,027,266</u>	<u>\$ 1,750,147</u>
Change in Net Position before Capital Contributions	\$ 549,869	\$ 363,296
Capital Contributions	<u>294,268</u>	<u>344,071</u>
Change in Net Position	844,137	707,367
<u>Total Net Position, January 1</u>	\$ 5,271,023	\$ 4,563,656
Change in Application of Accounting Principle	(138,658)	
<u>Total Net Position, December 31</u>	<u>\$ 5,976,502</u>	<u>\$ 5,271,023</u>

Analysis of the Condensed Comparative Statement of Revenues, Expenses & Changes in Fund Net Position

Revenues

Water operating revenues increased by \$393,425 in 2013 primarily due to a 5% rate increase enacted during the year as well as an increase in the customer base.

Interest income decreased by \$812 primarily due to lower fund balances held by the District during the year.

Valley Water District
Management's Discussion and Analysis
Year Ended December 31, 2013

Expenses

Operating expenses increased by \$301,300 in 2013. Water costs were higher by \$18,292 due to increased consumption caused by an increase in the customer base. Operating expenses also increased due to increases in business taxes of \$16,586, wages of \$70,058, benefits of \$79,484, power of \$21,082, repairs and maintenance of \$41,324 and a loan fee expense of \$10,970. The increase in operating expenses was also partially due to state auditor fees of \$17,556 primarily due to moving the District's state audit to a two year cycle. Other operating expenses remained consistent with the prior year.

Nonoperating expenses consist of interest expense on long-term debt, in 2012 it also included amortization of bond issue costs. Interest expense decreased by \$13,046 in 2013 primarily due to the bond issue costs being expensed in accordance with GASB 65.

Analysis of the Condensed Comparative Statement of Revenues, Expenses & Changes in Fund Net Position (Continued)

Capital Contributions

Capital contributions decreased by \$49,803 in 2013 due to a decrease in construction in the District during 2013. The amount of capital contributions varies from year to year depending on development projects in the District.

Change in Net Position

Net position increased by \$844,137 during 2013, reflecting the fact that total revenues exceeded total expenses. Other than the bond covenant restrictions on the use of cash and investments being held in the bond funds, there are no restrictions or commitments which would significantly affect availability of fund resources for future use.

Analysis of Overall Financial Condition

The District's overall financial condition improved in 2013, with an increase in net assets, adequate liquid assets and positive operating cash flow.

Capital Assets

Capital assets consist of land, construction in progress, utility plant and equipment. The total increase in the District's investment in capital assets for the current year was \$846,059. The principal projects included in the 2013 capital spending were the Ball Creek Crossing, McAlder Well purchase and Orting Valley acquisition, as well as various other smaller projects. Over the next five years it is anticipated that capital spending will be in the range of \$2,000,000. See Note 3 for more information.

Valley Water District
Management's Discussion and Analysis
Year Ended December 31, 2013

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

	<u>Balance</u> <u>12/31/13</u>	<u>Balance</u> <u>12/31/12</u>	<u>Change</u>
Land	\$ 845,964	\$ 845,964	\$ -
Construction in Progress	1,707,560	1,662,545	45,015
Utility Plant	16,091,939	14,939,324	1,152,615
Equipment	589,200	515,700	73,500
Intangibles	205,094	173,456	31,638
Accumulated Depreciation	<u>(4,947,811)</u>	<u>(4,491,102)</u>	<u>(456,709)</u>
Total Capital Assets, Net	<u>\$ 14,491,946</u>	<u>\$ 13,645,887</u>	<u>\$ 846,059</u>

Long-Term Debt

At December 31, 2013, the District had total Public Works Trust Fund loans outstanding of \$2,598,097, total revenue bonds outstanding, net of unamortized bond premium of \$7,691,558 and a Department of Agriculture loan in the amount of \$227,687. The total long-term debt of the District increased by \$355,753 during 2013. This is mainly due to a Public Work Trust Fund loan for \$997,173 in 2013 partially offset by principal payments in the amount of \$758,553 made on revenue bonds, Public Works Trust Fund loans and the Department of Agriculture loan. See Note 5 for more information.

Additional Comments

In 2013 there was a 5% increase in water rates. As the customer base is not expected to experience significant growth, revenue growth will likely be driven by rate increases.

The District does not plan on any debt borrowings in 2014

For more information please refer to the notes attached to the financial statements.

Valley Water District
Statement of Net Position
December 31, 2013

ASSETS

Current Assets

Cash & Cash Equivalents	\$ 1,489,046
Accrued Interest Receivable	54
Receivables:	
Customer Accounts Receivable	238,876
Accrued Utility Revenue	89,426
Receivable - Developers & Other	8,299
Restricted Assets:	
Cash & Cash Equivalents	153,232
Accrued Interest Receivable	7
Inventory	79,074
Prepaid Insurance	<u>22,057</u>
Total Current Assets	<u>\$ 2,080,071</u>

Noncurrent Assets

Unamortized Bond Insurance	\$ 24,435
Capital Assets Not Being Depreciated:	
Land and Land Rights	845,964
Construction Work in Progress	1,707,560
Capital Assets Being Depreciated:	
-Plant	16,091,939
-Machinery & Equipment	589,200
-Intangibles	205,094
Less Accumulated Depreciation	<u>(4,947,811)</u>
Total Capital Assets	<u>\$ 14,491,946</u>
Total Noncurrent Assets	<u>\$ 14,516,381</u>
Total Assets	<u>\$ 16,596,452</u>

DEFERRED OUTFLOW OF RESOURCES

Deferred Loss on Refunding	<u>\$ 48,588</u>
Total Deferred Outflow of Resources	<u>\$ 48,588</u>

See accompanying notes

Valley Water District
Statement of Net Position
December 31, 2013

LIABILITIES

Current Liabilities

Accounts Payable	\$ 50,139
Public Works Trust Fund Loans (Current Portion)	225,027
USDA Bond (Current Portion)	3,388
Department of Retirement	5,499
Accrued Interest - Public Works Trust Fund & USDA Loans	20,319
Accrued Wages Payable	12,857
Accrued Payroll Taxes	3,100
Due to Developers	7,309
Payable from Restricted Assets:	
Revenue Bonds Outstanding - Net of Unamortized Bond Premium (Current Portion)	513,887
Bond Interest Payable	<u>35,974</u>
 Total Current Liabilities	 <u>\$ 877,499</u>

Noncurrent Liabilities

Public Works Trust Fund Loans (Less Current Portion)	\$ 2,373,070
USDA Bond (Less Current Portion)	224,299
Compensated Absences	15,999
Payable from Restricted Assets:	
Revenue Bonds Outstanding - Net of Unamortized Bond Premium (Current Portion)	<u>7,177,671</u>
 Total Noncurrent Liabilities	 <u>\$ 9,791,039</u>
 Total Liabilities	 <u>\$ 10,668,538</u>

NET POSITION

Net Investment in Capital Assets	\$ 4,047,627
Restricted for Capital Projects	117,258
Unrestricted	<u>1,811,617</u>
 Total Net Position	 <u>\$ 5,976,502</u>

See accompanying notes

Valley Water District
Statement of Revenues, Expenses and Changes in Fund Net Position
Year Ended December 31, 2013

<u>Operating Revenues</u>	
Water Revenues	\$ 2,379,717
Late Charges	41,825
Termination Notice/Charge	18,625
Water Availability Letters	8,525
Bill to Customer - Labor	5,790
Miscellaneous Income	<u>50,756</u>
Total Operating Revenues	<u>\$ 2,505,238</u>
<u>Operating Expenses</u>	
Operation & Pumping Expenses (Schedule)	\$ 681,782
General & Administrative Expenses (Schedule)	565,552
Depreciation Expense	<u>456,709</u>
Total Operating Expenses	<u>\$ 1,704,043</u>
Operating Income	<u>\$ 801,195</u>
<u>Nonoperating Revenues (Expenses)</u>	
Interest Income	\$ 818
Non-Operating Revenue	71,079
Interest Expense	<u>(323,223)</u>
Total Non-Operating Revenues (Expenses)	<u>\$ (251,326)</u>
Income (Loss) Before Contributions	\$ 549,869
Capital Contributions	<u>294,268</u>
Change in Net Position	\$ 844,137
<u>Total Net Position - January 1</u>	\$ 5,271,023
Change in Application of Accounting Principle	<u>(138,658)</u>
<u>Total Net Position - December 31</u>	<u>\$ 5,976,502</u>

See accompanying notes

Valley Water District
Statement of Cash Flows
Year Ended December 31, 2013

<u>Cash Flows From Operating Activities</u>	
Cash Received From Customers	\$ 2,473,581
Cash Paid to Suppliers	(628,373)
Cash Paid to Employees	(651,489)
Non-Operating Revenue	<u>71,079</u>
Net Cash Provided by Operating Activities	<u>\$ 1,264,798</u>
 <u>Cash Flows From Capital & Related Financing Activities</u>	
Acquisition & Construction of Capital Assets	\$ (1,575,473)
Proceeds from Public Works Trust Fund Loans	986,203
Principal Paid on Revenue Bonds	(490,001)
Principal Paid on Public Works Trust Fund Loans	(265,312)
Principal Paid on USDA Bond	(3,242)
Interest Paid on Capital Debt	(337,901)
Cash Contributions in Aid of Construction	<u>294,268</u>
Net Cash Provided (Used) by Capital & Related Financing Activities	<u>\$ (1,391,458)</u>
 <u>Cash Flows From Investing Activities</u>	
Interest Received on Investments	<u>\$ 757</u>
Net Cash Provided by Investing Activities	<u>\$ 757</u>
 Net Increase (Decrease) in Cash & Cash Equivalents	 \$ (125,903)
 <u>Cash & Cash Equivalents - Beginning</u>	 <u>\$ 1,768,181</u>
 <u>Cash & Cash Equivalents - Ending</u>	 <u>\$ 1,642,278</u>
 <u>Noncash Investing, Capital & Financing Activities</u>	
Contributions of Capital Assets from Developers	<u>\$ -</u>
Book Value of Plant Removals	<u>\$ -</u>

See accompanying notes

Valley Water District
Statement of Cash Flows
Year Ended December 31, 2013

Reconciliation of Net Operating Income to
Net Cash Provided by Operating Activities

Net Operating Income \$ 801,195

Adjustments to Reconcile Net Operating Income
to Net Cash Provided by Operating Activities:

Depreciation \$ 456,709

Change in Assets & Liabilities

(Increase) Decrease in Accounts Receivable (20,759)

(Increase) Decrease in Accrued Utility Revenue (10,898)

(Increase) Decrease in Inventory (331)

(Increase) Decrease in Prepaid Insurance (3,928)

Increase (Decrease) in Accounts Payable (39,473)

Increase (Decrease) in Department of Retirement Payable 1,988

Increase (Decrease) in Accrued Wages Payable 2,283

Increase (Decrease) in Accrued Payroll Taxes 905

Increase (Decrease) in Accrued Compensated Absences 2,441

Increase (Decrease) in Non-Operating Revenue 71,079

Increase (Decrease) in Unamortized Bond Insurance 3,587

Total Adjustments \$ 463,603

Net Cash Provided by Operating Activities \$ 1,264,798

See accompanying notes

Valley Water District
Notes to Financial Statements
December 31, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Valley Water District conform to generally accepted accounting principles (GAAP) as applicable to proprietary funds of governments. The Governmental Accounting Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the most significant accounting policies of the District:

a. Reporting Entity

Valley Water District is a municipal corporation governed by an elected 3 member board. The District's primary activity is to provide water services to residential and commercial customers within the District's boundaries. As required by generally accepted accounting principles, management has considered all potential component units in defining the reporting entity. The District has no component units.

b. Basis of Accounting and Presentation

The accounting records of the District are maintained in accordance with methods prescribed by the Washington State Auditor under the authority of Chapter 43.09 RCW. The District uses the uniform system of accounts for water utilities as prescribed by the National Association of Regulatory Utility Commissioners.

The District uses the full-accrual basis of accounting where revenues are recognized when earned and expenses are recognized when incurred. Capital asset purchases are capitalized and long-term liabilities are accounted for in the appropriate funds. Unbilled utility service receivables are recorded at year end.

The District distinguishes between operating revenues and expenses and nonoperating revenues and expenses. Operating revenues and expenses result from providing services and producing and delivering goods in connection with the District's principal ongoing operations. The principal operating revenues of the District are charges to customers for water sales and related services. Operating expenses pertain to the furnishing of those services which include the cost of sales and services, administration expenses and depreciation expense. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

c. Cash and Cash Equivalents

For purposes of the statement of cash flows, the District considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents.

Valley Water District
Notes to Financial Statements
December 31, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

d. Capital Assets

Utility plant in service is recorded at cost. Donations by developers are recorded at the contract price. Depreciation is calculated on the straight-line method over the following estimated useful lives:

Utility Plant	5 - 75 years
Machinery & Equipment	5 - 40 years
Intangibles	5 years

Upon retirement of an asset, the cost of the asset and the related accumulated depreciation are removed from the property accounts and the gain or loss is reflected in the statement of revenues, expenses and changes in fund net position.

Repairs and maintenance are expensed as incurred, while major renewals, replacements and betterments are capitalized. The District has a policy that any capital expenditure under \$1,000 is expensed.

Preliminary planning and design costs incurred for proposed projects are deferred pending construction of the facility. Costs relating to projects which are ultimately constructed are transferred to capitalized utility plant. Costs relating to those projects abandoned are charged to expense when it is determined that they will not be completed. See Note 3.

e. Restricted Funds

In accordance with bond resolutions separate restricted funds are required to be established. The bond fund was the only restricted fund at the end of 2013.

f. Receivables

Receivables consist primarily of amounts due from water customers. All receivables are recorded when earned. There may also be amounts due from developers and other districts and municipalities. No allowance for uncollectible accounts is provided since the District has the power to record liens for its receivables and, generally, does not experience significant uncollectible amounts.

g. Inventories

Inventories are valued at average cost, which approximates market value. A physical inventory is taken at the end of each calendar year.

h. Investments

Investments are recorded at cost, which generally approximates market value. The investments are expected to be held to maturity. Any significant premium or discount existing at the time of purchase of the investment is amortized to the maturity date. See Note 2.

Valley Water District
Notes to Financial Statements
December 31, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

i. Compensated Absences

Compensated absences are absences for which employees will be paid, such as vacation and sick leave. The District records unpaid leave for compensated absences as an expense and liability when incurred. Following one year of employment, employees may accrue a maximum of 240 hours of vacation. Upon separation from employment after three years of continuous employment, an employee shall receive pay for 50% of any accrued sick leave over 288 hours at the hourly rate of pay on the date of separation.

j. Unamortized Bond Insurance

Bond insurance is deferred and amortized over the lives of the various bond issues.

k. Unemployment Insurance

The District is on the reimbursable method with the State of Washington for unemployment compensation. The District does not have a reserve account for this liability, should it occur.

l. Subsequent Events

Management has evaluated subsequent events through May 30, 2014, the date the financial statements were available to be issued.

NOTE 2 - DEPOSITS AND INVESTMENTS

The District's deposits and certificates of deposit 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).

The Pierce County Treasurer follows the state statutes which authorize the District to invest in obligations of the U.S. Government, Banker's Acceptances, or deposits with Washington State banks and savings and loan institutions.

Listed below are the District's cash and investments at December 31, 2013:

Cash on hand	\$ 1,100
Bank deposits	86,951
Cash on deposit with Pierce County Treasurer	203,007
Investment in State Investment Pool	<u>1,351,220</u>
Total Cash & Investments	<u>\$ 1,642,278</u>

Valley Water District
Notes to Financial Statements
December 31, 2013

NOTE 2 - DEPOSITS & INVESTMENTS (Continued)

Credit risk- As of December 31, 2013, the District's investment in the Pool was not rated by a nationally recognized statistical rating organization (NRSPO).

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

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

NOTE 3 - CAPITAL ASSETS

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

	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>
Capital assets not being depreciated:				
Land	\$ 845,964	\$ -	\$ -	\$ 845,964
Construction in Progress	<u>1,662,545</u>	<u>1,232,390</u>	<u>(1,187,375)</u>	<u>1,707,560</u>
<u>Total capital assets not being depreciated</u>	<u>2,508,509</u>	<u>1,232,390</u>	<u>(1,187,375)</u>	<u>2,553,524</u>
Capital assets being depreciated:				
Plant	14,939,324	1,152,615	-	16,091,939
Machinery & Equipment	515,700	73,500	-	589,200
Intangibles	<u>173,456</u>	<u>31,638</u>	<u>-</u>	<u>205,094</u>
<u>Total capital assets being depreciated</u>	<u>15,628,480</u>	<u>1,257,753</u>	<u>-</u>	<u>16,886,233</u>
Less accumulated depreciation for:				
Plant	3,945,709	423,505	-	4,369,214
Machinery & Equipment	372,813	32,326	-	405,139
Intangibles	<u>172,580</u>	<u>878</u>	<u>-</u>	<u>173,458</u>
<u>Total accumulated depreciation</u>	<u>4,491,102</u>	<u>456,709</u>	<u>-</u>	<u>4,947,811</u>
<u>Total capital assets being depreciated, net</u>	<u>11,137,378</u>	<u>801,044</u>	<u>-</u>	<u>11,938,422</u>
<u>TOTAL CAPITAL ASSETS, NET</u>	<u>\$ 13,645,887</u>	<u>\$ 2,033,434</u>	<u>\$ (1,187,375)</u>	<u>\$ 14,491,946</u>

Valley Water District
Notes to Financial Statements
December 31, 2013

NOTE 4 - CONSTRUCTION IN PROGRESS

Construction in progress represents expenses to date on projects whose authorizations total \$1,787,560. Of the committed balance of \$80,000, the District will not be required to raise future financing.

		Required		
	<u>Project</u>	<u>Expended</u>	<u>Committed</u>	<u>Future</u>
	<u>Authorization</u>	<u>to 12/31/13</u>		<u>Financing</u>
Master Meter Study	\$ 8,828	\$ 8,828	\$ -	\$ -
Winchester Looping	60	60	-	-
Chinook Treatment	1,775,520	1,695,520	80,000	-
South Prairie Transfer	<u>3,152</u>	<u>3,152</u>	<u>-</u>	<u>-</u>
	<u>\$ 1,787,560</u>	<u>\$ 1,707,560</u>	<u>\$ 80,000</u>	<u>\$ -</u>

NOTE 5 - LONG-TERM DEBT AND LIABILITIES

a. Revenue Bonds

A summary of bonds outstanding at December 31, 2013 is as follows:

2006 Water Revenue Refunding Bonds, 3.35% - 3.875%, maturing serially through 2018	\$ 1,180,000
2007 Water Improvement and Refunding Revenue Bonds, 4.0% - 4.5%, maturing serially through 2032	3,995,000
2011 Water Improvement and Refunding Revenue Bonds, 4.0% - 4.5%, maturing serially through 2031	920,000
2012 Water Revenue Bonds, 3.5%, maturing serially through 2032	<u>1,555,000</u>
	<u>\$ 7,650,000</u>

The District issued \$2,215,000 of Water Revenue Refunding Bonds dated March 7, 2006. The advance refunding was undertaken to reduce debt service payments over the next twelve years by \$97,622 and resulted in an economic gain of \$226,877. The District defeased certain bonds of the 1998 bond issue by placing investments acquired from the proceeds of the new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust accounts and the defeased bonds are not included in the District's financial statements. At December 31, 2006, \$2,080,000 of the 1998 water revenue bonds are considered defeased. The difference between the cost to defease outstanding debt and the carrying value of the bonds defeased by refunding

Valley Water District
Notes to Financial Statements
December 31, 2013

NOTE 5 - LONG-TERM DEBT AND LIABILITIES (Continued)

bonds is deferred and amortized over the shorter of the remaining term of the refunded bonds or the term of the new refunding bonds.

The District issued \$4,780,000 of Water Improvement and Refunding Revenue Bonds dated July 5, 2007. The bond was used to finance various system improvements and advance refund the callable portion of the District's outstanding 2002 Water Revenue Bonds.

On August 2, 2011 the District adopted resolution No. 2011-05 providing for the issuance of \$1,000,000 par value Water Improvement and Refunding Revenue Bonds, 2011, of the District for the purpose of paying for a part of the cost of constructing a new treatment plant for the District's Chinook water system, including related system upgrades and improvements and to repay a Public Works Trust Fund loan of the District.

On November 20, 2012 the District adopted resolution No. 2012-04 providing for the issuance of \$1,620,000 par value Water Revenue Bonds, 2012, of the District to purchase a private water system and construct improvements to an existing water plant.

Trustees hold direct obligations of the U.S. Government in irrevocable escrows for the defeasance of all refunded bonds. Cash flow from these escrowed investments matches the principal and interest payments of the defeased obligations.

The principal and interest on water revenue bonds are payable from and secured by a pledge of net operating revenues and collection of Utility Local Improvement District assessments, including interest thereon. In addition, bond resolutions require that bond funds, as shown in the accompanying statement of net assets, be established and accumulated for the payment of maturing principal and interest.

The annual requirements to amortize all revenue bonds outstanding as of December 31, 2013, including interest, are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 510,000	\$ 293,876	\$ 803,876
2015	520,000	277,262	797,262
2016	540,000	260,120	800,120
2017	560,000	242,100	802,100
2018	585,000	222,046	807,046
2019 - 2023	1,645,000	879,245	2,524,245
2024 - 2028	1,715,000	557,425	2,272,425
2029 - 2032	<u>1,575,000</u>	<u>165,350</u>	<u>1,740,350</u>
	<u>\$ 7,650,000</u>	<u>\$ 2,897,424</u>	<u>\$ 10,547,424</u>

Valley Water District
Notes to Financial Statements
December 31, 2013

NOTE 5 - LONG-TERM DEBT AND LIABILITIES (Continued)

b. Department of Agriculture Loan

The District has entered into an agreement with the United States Department of Agriculture to receive the following loan for the Warden Estates improvement.

2005 loan - payable at \$6,798 semiannually
(including interest at 4.5% per annum)
through the year 2045
Original debt: \$250,000

\$ 227,687

The annual requirements to amortize the Department of Agriculture loan outstanding as of December 31, 2013, including interest, are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 3,388	\$ 10,208	13,596
2015	3,542	10,054	13,596
2016	3,703	9,893	13,596
2017	3,871	9,725	13,596
2018	4,048	9,548	13,596
2019 - 2023	23,174	44,806	67,980
2024 - 2028	28,949	39,031	67,980
2029 - 2033	36,164	31,816	67,980
3034 - 2038	45,176	22,804	67,980
2039 - 2043	56,434	11,546	67,980
2044 - 2045	<u>19,238</u>	<u>1,156</u>	<u>20,394</u>
	<u>\$ 227,687</u>	<u>\$ 200,587</u>	<u>\$ 428,274</u>

c. Public Works Trust Fund Loans and State Revolving Fund Loan

The District has entered into agreements with the Department of Community, Trade and Economic Development of the State of Washington to receive the following Public Works Trust Fund Loans and State Revolving Fund Loan for various capital improvements:

1994 loan - payable at \$13,313 annually through
the year 2014, plus interest at 5% per annum
Original debt: \$250,000.

\$ 13,313

1996 loan - payable at \$28,933 annually through
the year 2016, plus interest at 1% per annum
Original debt: \$518,400.

86,798

1996 loan - payable at \$25,203 annually through
the year 2016, plus interest at 2% per annum
Original debt: \$496,800.

75,609

Valley Water District
Notes to Financial Statements
December 31, 2013

NOTE 5 - LONG-TERM DEBT AND LIABILITIES (Continued)

c. Public Works Trust Fund Loans and State Revolving Fund Loan (Continued)

1996 loan - payable at \$24,761 annually through the year 2016, plus interest at 3% per annum Original debt: \$509,400.	74,284
2001 loan - payable at \$31,609 annually through the year 2021, plus interest at ½% per annum Original debt: \$595,000.	252,875
2004 loan - payable at \$72,454 annually through the year 2024, plus interest at ½% per annum Original debt: \$1,220,600.	796,992
2002 loan - payable at \$15,239 annually through the year 2023, plus interest at 1½% per annum Original debt: \$275,400	152,389
2003 loan - payable at \$13,515 annually through the year 2024, plus interest at 1½% per annum Original debt: \$294,920.	148,664
2013 loan - payable at \$49,859 annually through the year 2034, plus interest at 0% per annum Original debt: \$997,173.	<u>997,173</u>
	<u>\$ 2,598,097</u>

The annual requirements to amortize all Public Works Trust Fund and State Revolving Fund loans outstanding as of December 31, 2013, including interest, are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 225,027	\$ 15,039	\$ 240,066
2015	261,573	49,267	310,840
2016	261,572	23,608	285,180
2017	182,676	20,372	203,048
2018	182,675	18,673	201,348
2019 - 2023	850,160	68,028	918,188
2024 - 2028	335,262	34,220	369,482
2029 - 2033	249,293	14,958	264,251
2034 - 2034	<u>49,859</u>	<u>747</u>	<u>50,606</u>
	<u>\$ 2,598,097</u>	<u>\$ 244,912</u>	<u>\$ 2,843,009</u>

Valley Water District
Notes to Financial Statements
December 31, 2013

NOTE 5 - LONG-TERM DEBT AND LIABILITIES (Continued)

d. Changes in Long-Term Liabilities

During the year ended December 31, 2013, the following changes occurred in long-term debt:

	<u>Balance</u> <u>1/1/13</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>12/31/13</u>	<u>Due Within</u> <u>One Year</u>
Revenue Bonds Payable	\$ 8,140,000	\$ -	\$ (490,000)	\$ 7,650,000	\$ 510,000
Unamortized Bond Premium	45,605		(4,047)	41,558	3,887
Department of Agriculture Loan	230,929	-	(3,242)	227,687	3,388
Public Works Trust Fund Loans	1,866,236	997,173	(265,312)	2,598,097	225,027
Compensated Absences	<u>13,558</u>	<u>2,441</u>	<u> </u>	<u>15,999</u>	<u>-</u>
Totals	<u>\$10,296,328</u>	<u>\$ 999,614</u>	<u>\$ (762,601)</u>	<u>\$10,533,341</u>	<u>\$ 742,302</u>

There are a number of limitations and restrictions contained in the various bond indentures. The District is in compliance with all significant limitations and restrictions.

NOTE 6 - PENSION PLAN

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 GASB Statements 27, *Accounting for Pensions by State and Local Government Employers* and 50, *Pension Disclosures, an Amendment of GASB Statements 25 and 27*.

NOTE 6 - PENSION PLAN (Continued)

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

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.

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, 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 or any retirement benefit, upon separation from PERS-covered employment.

Valley Water District
Notes to Financial Statements
December 31, 2013

NOTE 6 - PENSION PLAN (Continued)

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 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.

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:

Valley Water District
Notes to Financial Statements
December 31, 2013

NOTE 6 - PENSION PLAN (Continued)

- 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.

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

Valley Water District
Notes to Financial Statements
December 31, 2013

NOTE 6 - PENSION PLAN (Continued)

- 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.

PERS Plan 3 benefits are 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 as 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 Nonvested	44,273
Total	263,347

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 I 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.

Valley Water District
Notes to Financial Statements
December 31, 2013

NOTE 6 - PENSION PLAN (Continued)

Funding Policy (Continued)

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 were as follows:

	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 7.5% 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.

Both the 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	\$ -	\$ 30,980	\$ 1,871
2012	\$ -	\$ 24,398	\$ 1,635
2011	\$ -	\$ 19,939	\$ 1,313

NOTE 7 - DEFERRED COMPENSATION PLAN

The District began offering its employees a deferred compensation plan during 2012. The Plan is administered by the Washington Department of Retirement Services (DRS). The plan was created in accordance with Internal Revenue Code 457. The plan is 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 plan 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 plan but instead all amounts are the property of the employee. The plan was established to replace the participation of employees in the Social Security System.

Valley Water District
Notes to Financial Statements
December 31, 2013

NOTE 8 - RISK MANAGEMENT

The District is 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.

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

Coverage	Subject to Self-Insured Retention by Pool	Description
General Liability	\$200,000	Includes General Liability, Public Officials Liability and Automobile Liability;
Property Insurance	\$25,000	Except earthquake and flood which is subject to a deductible of 5% of the values at risk at the time of the loss subject to a minimum of \$100,000. Properties located in NFIP Flood Zones A and V are subject to a \$250,000 deductible.
Boiler & Machinery	\$25,000	Per occurrence
Crime	\$25,000	Per occurrence
Cyber	\$50,000 \$100,000	Per occurrence for members with TIV less than \$500,000 Per occurrence for members with TIV greater than \$500,000
Identity Theft	\$0	Reimbursement of up to \$25,000 for covered expenses

Valley Water District
Notes to Financial Statements
December 31, 2013

NOTE 8 - 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, 2012, written notice must be in the Pool possession by April 30, 2012). 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. In FY 2012-2013 the Pool engaged AssetWorks who performed appraisal services valued at \$26,861, for approximately one third of all member structures valued at \$250,000 or more.

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.

For years ending December 31, 2011, 2012, and 2013 the district had no claims in excess of their insurance coverage.

NOTE 9 - USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of 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.

NOTE 10 - CONTINGENT LIABILITIES

The District's financial statements include all material liabilities. There are no material contingent liabilities to record.

Valley Water District
Notes to Financial Statements
December 31, 2013

NOTE 11 -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 the financial statements, if practical, for all periods presented.”

Implementation of the standard requires the District to reclassify the applicable 2006, 2007, 2011 and 2012 unamortized bond issuance costs from an asset account to change in application of accounting principle in the amount of \$138,658.

Schedule of Expenditures of Federal Award
For the Year Ended December 31, 2013

1	2	3	4	5		
				EXPENDITURES FROM PASS- THROUGH AWARD	FROM DIRECT AWARDS	TOTAL
GRANTOR	FEDERAL PROGRAM NAME	FEDERAL CFDA NO.	OTHER ID NO.			
Environment Protection Agency/ Washington State Department of Commerce	Capital Grants for Drinking Water State Revolving funds	66.468	DM10-952-025	\$ 1,107,970.00		
Subtotal Federal Transit Formula Grant				\$ 1,107,970.00		
TOTAL				\$ 1,107,970.00		

The accompanying notes to the Schedule of Expenditures of Federal Awards are an integral part of this Schedule

Note 1 - Basis of Accounting

The Schedule is prepared on the same basis of accounting as Valley Water District's financial statements. This District uses the accrual method of accounting.

Note 2 - Program Costs

The amounts shown as current year expenses represent only Valley Water District's loan portion of the program costs. Entire program costs, including District's loan portion, is more than shown.

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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