



Washington State Auditor's Office

Troy Kelley

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Financial Statements Audit Report

Sammamish Plateau Water and Sewer District

King County

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

Published October 27, 2014

Report No. 1012834





Washington State Auditor Troy Kelley

October 27, 2014

Board of Commissioners
Sammamish Plateau Water and Sewer District
Sammamish, Washington

Report on Financial Statements

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

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

Sincerely,

TROY KELLEY
STATE AUDITOR

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King County
January 1, 2013 through December 31, 2013**

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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*

**Sammamish Plateau Water and Sewer District
King County
January 1, 2013 through December 31, 2013**

Board of Commissioners
Sammamish Plateau Water and Sewer District
Sammamish, 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 Sammamish Plateau Water and Sewer 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 October 20, 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.

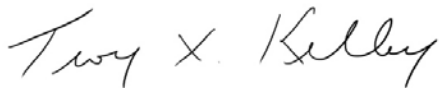
COMPLIANCE AND OTHER MATTERS

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 KELLEY
STATE AUDITOR

October 20, 2014

Independent Auditor's Report on Financial Statements

Sammamish Plateau Water and Sewer District King County January 1, 2013 through December 31, 2013

Board of Commissioners
Sammamish Plateau Water and Sewer District
Sammamish, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the Sammamish Plateau Water and Sewer 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 Sammamish Plateau Water and Sewer 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

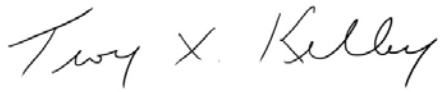
Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 10 through 17 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 October 20, 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.

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

TROY KELLEY
STATE AUDITOR

October 20, 2014

Financial Section

**Sammamish Plateau Water and Sewer 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

**SAMMAMISH PLATEAU WATER AND SEWER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2013 AND 2012**

INTRODUCTION

Sammamish Plateau Water and Sewer District was founded in 1948 and provides water and sewer services to customers residing within the District boundaries.

The District is located adjacent to Lake Sammamish approximately 15 miles east of the City of Seattle and within the boundaries of King County. The District boundaries include areas within the City of Sammamish, City of Issaquah, and unincorporated King County and encompasses approximately 30 square miles.

Our mission is to provide safe, efficient and reliable water and sewer services by being a leader in the planning and practice of fiscal and environmental stewardship.

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.

**SAMMAMISH PLATEAU WATER AND SEWER 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	\$ 162,213,363	\$ 160,587,418	\$ 164,323,929
Other assets	52,052,235	39,770,912	32,633,850
Total assets	<u>\$ 214,265,598</u>	<u>\$ 200,358,330</u>	<u>\$ 196,957,779</u>
Deferred outflows of resources	\$ 848,407	\$ 496,085	\$ 679,933
Long-term liabilities	\$ 19,064,398	\$ 17,475,909	\$ 19,786,596
Other liabilities	5,971,332	5,412,289	6,165,314
Total liabilities	<u>\$ 25,035,730</u>	<u>\$ 22,888,198</u>	<u>\$ 25,951,910</u>
Deferred inflows of resources	\$ -	\$ -	\$ -
Net investment in capital assets	\$ 145,307,430	\$ 142,643,035	\$ 144,221,468
Restricted amounts	6,607,798	4,484,318	4,989,208
Unrestricted amounts	38,163,047	30,838,864	22,475,126
Total net position	<u>\$ 190,078,275</u>	<u>\$ 177,966,217</u>	<u>\$ 171,685,802</u>

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

	2013	Restated * 2012	Restated * 2011
Water distribution revenue	\$ 10,910,378	\$ 10,473,744	\$ 9,035,244
Sewer service revenue	11,085,505	9,873,680	9,210,012
Other revenues	1,221,955	937,636	778,654
Total operating revenues	<u>23,217,838</u>	<u>21,285,060</u>	<u>19,023,910</u>
Water and sewer operating expenses	17,130,066	15,574,296	14,981,179
Depreciation and amortization	3,874,064	6,641,869	5,908,898
Total operating expenses	<u>21,004,130</u>	<u>22,216,165</u>	<u>20,890,077</u>
Operating income (loss)	2,213,708	(931,105)	(1,866,167)
Non-operating revenue:			
Interest	201,208	537,777	278,705
Rental and other income	379,753	333,004	321,099
Non-operating expenses:			
Interest and amortization	(573,686)	(651,033)	(538,048)
Bond issue costs	(111,928)	-	-
Net loss on disposition and abandonment of assets and preliminary studies	<u>(67,956)</u>	<u>(180,861)</u>	<u>(191,643)</u>
Income (loss) before capital contributions	2,041,099	(892,218)	(1,996,054)
Capital contributions	10,070,959	7,172,633	8,759,039
Increase in net position, as restated	<u>\$ 12,112,058</u>	<u>\$ 6,280,415</u>	<u>\$ 6,762,985</u>

* Restatement due to implementation of GASB Statement No. 65 and prior period adjustments. Refer to notes 1 and 15 of the notes to the financial statements for additional information.

**SAMMAMISH PLATEAU WATER AND SEWER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2013 AND 2012**

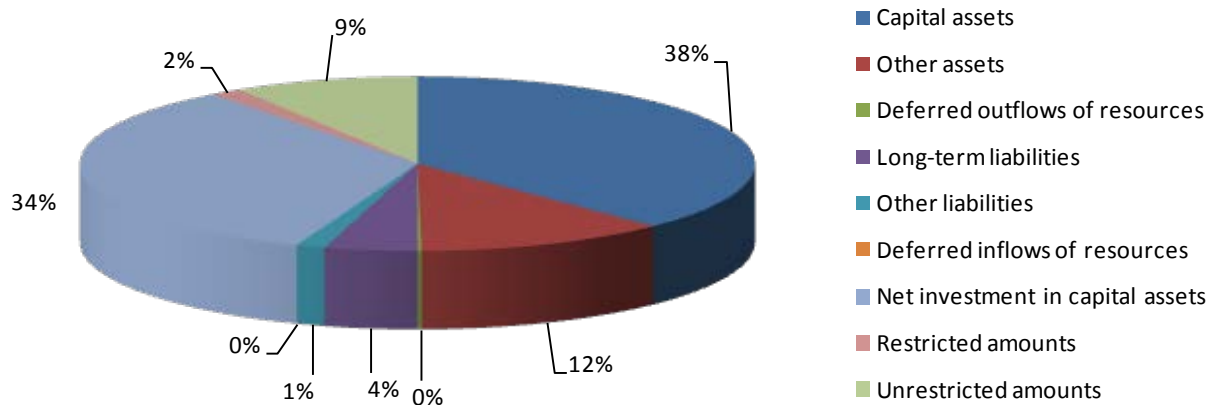
FINANCIAL POSITION

The District's overall financial position continues to be strong with sufficient liquidity and revenues, and debt capacity to finance large future capital improvements, if necessary. The District is financed primarily by equity and substantial liquid assets are available to fund liabilities and construction. Capital assets increased in 2013 primarily due to significant donated systems. Capital assets decreased in 2012 due to depreciation in excess of construction activity and donated systems. Investments are continuing to be made to upgrade and replace necessary capital infrastructure and facilities. Net position has also increased each year. An increase in net position over time typically indicates improving financial condition.

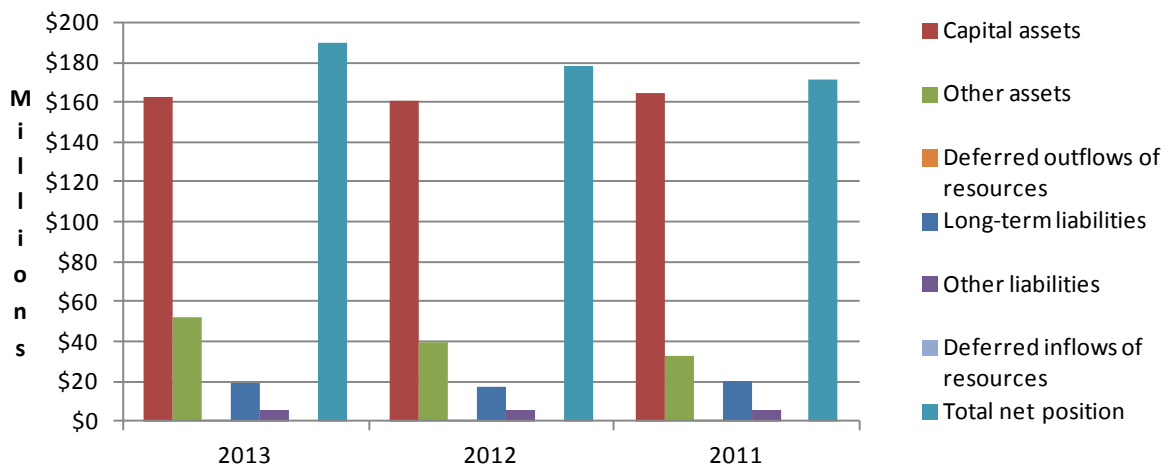
Standard and Poor's, a national credit rating agency, reviewed the District's financial position in 2013. As a result of the review, the District's credit rating continues to be AAA.

The following charts indicate the components of financial position:

2013 STATEMENT OF NET POSITION



COMPARATIVE STATEMENT OF NET POSITION



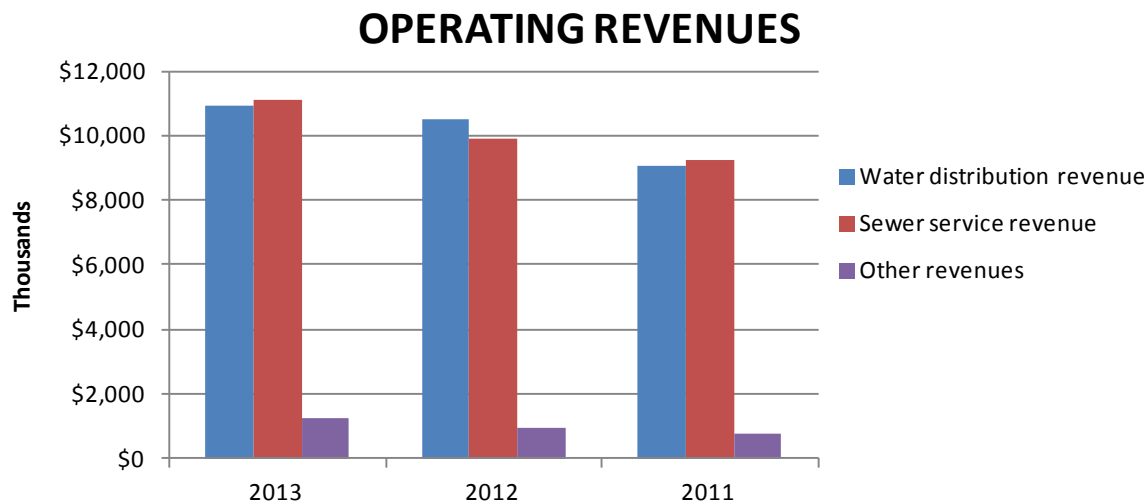
**SAMMAMISH PLATEAU WATER AND SEWER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2013 AND 2012**

The following tables summarize the growth in the District's customer base for water and sewer over the last six years:

YEAR	WATER CONNECTIONS	TOTAL INCREASE - CONNECTIONS	YEAR	SEWER CONNECTIONS	TOTAL INCREASE - CONNECTIONS
2008	16,085	65	2008	9,979	120
2009	16,210	125	2009	10,076	97
2010	16,340	130	2010	10,246	170
2011	16,516	176	2011	10,452	206
2012	16,795	279	2012	10,671	219
2013	17,083	288	2013	10,889	218

RESULTS OF OPERATIONS

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



The water revenue in 2011 was substantially lower than 2012 and 2013 as a result of the cooler, wetter summer weather than the region typically experiences. The increase in water revenues over the three years is also due to increases in the District's water rates. The increase in sewer revenues over the three years is due to combined increases in the District's sewer rates and King County Metro increases.

During 2012 and 2011, the District utilized a financial consulting firm to perform a cost of service study for water and sewer service rates. As a result of the study, the District made modifications to its previous water and sewer rate structure. Rather than embracing an across the board approach to rates, the District considered a rate structure which reflects the true costs of providing water and sewer service while providing revenue stability to fund fixed costs during periods of fluctuating demands. The major change that was considered and implemented focused on a greater reliance on fixed monthly base charges for water and sewer service to enhance revenue certainty for the District. An additional component of the rate adjustment is the continued establishment of capital reserves to provide for future system maintenance and replacement.

**SAMMAMISH PLATEAU WATER AND SEWER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2013 AND 2012**

The growth in additional water and sewer customers has increased slightly in 2013 and 2012, but has a minor effect on revenues compared to earlier high-growth years.

Historical Water Rate Increases:

(Based on single family bi-monthly water use of 2000 cubic feet)

<u>Year</u>	<u>Rate</u>	<u>% Increase</u>
2008	\$ 51.22	9.1%
2009	\$ 54.77	6.9%
2010	\$ 58.86	7.5%
2011	\$ 66.38	12.8%
2012	\$ 80.56	21.4%
2013	\$ 82.16	2.0%

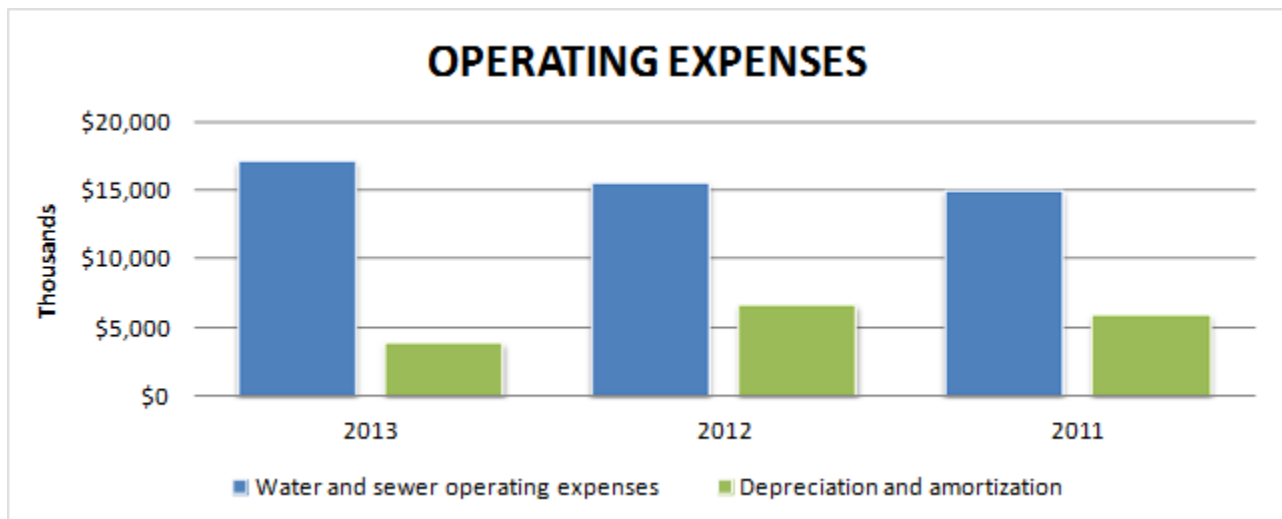
Historical Sewer Rate Increases:

(Includes King County Metro charges passed through to sewer customers. Based on single family customer)

<u>Year</u>	<u>Rate</u>	<u>% Increase</u>
2008	\$ 91.16	3.3%
2009	\$101.48	11.3%
2010	\$104.33	2.8%
2011	\$118.21	13.3%
2012	\$122.54	3.7%
2013	\$137.98	12.6%

The rate increases were necessary due to the continued increase in the cost to treat water and wholesale sewage treatment costs as well as inflationary increases in other expenses and for funding the District's Long Term Capital Reinvestment Plan for Repair and Replacement.

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



The District had net income before capital contributions of \$2,041,099 in 2013. The District operated at a loss in 2012. In 2013, the District made a change in the estimated useful lives of some of the District's major asset classes to align more closely to the actual life expectancy. The useful life expectancy of the assets was reviewed by the FCS Group, a financial consulting firm, and Gray and Osborne, a consulting engineering firm. The change in accounting estimate has been applied to depreciation prospectively and

**SAMMAMISH PLATEAU WATER AND SEWER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2013 AND 2012**

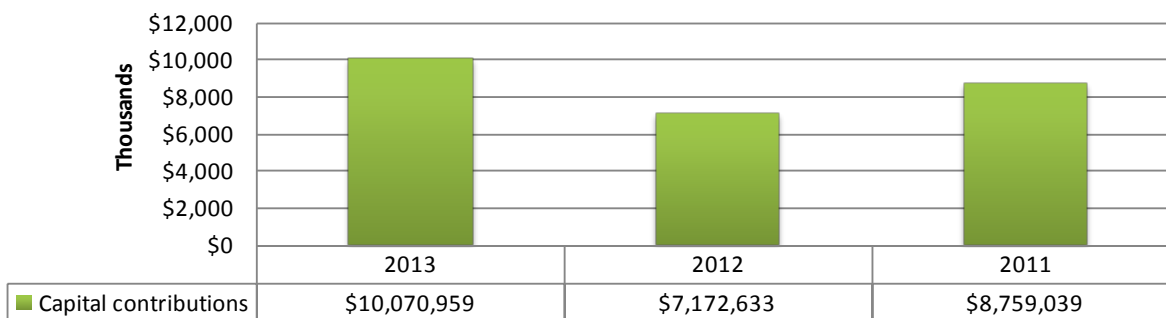
the net result of the change for 2013 was a decrease in depreciation expense of \$2,983,422. The operating loss in 2012 was a result of low life expectancy of assets and is mitigated or completely offset by earnings on investments and other non-operating revenues, less non-operating expenses, and capital contributions.

The increase in operating expenses in 2013 and 2012 is the net result of 1) increased sewer treatment charges from King County Wastewater Treatment Division (KCWTD/Metro), 2) increases in water purchases and other Cascade Water Alliance costs, 3) increase in professional consulting services, and 4) increase in repair and maintenance costs.

The District collects capital contributions from new customers and developers. These contributions consist of connection charges, grants, ULID assessments, and donated systems.

The following chart indicates capital contributions

CAPITAL CONTRIBUTIONS



The contributions are indicative of the growth of the District and include donated systems totaling \$3,959,517, \$2,301,362 and \$6,200,133 for the years ended December 31, 2013, 2012 and 2011, respectively.

CAPITAL ASSETS AND LONG-TERM DEBT

Capital assets increased in 2013 primarily due to significant donated systems. Capital assets decreased in 2012 due to depreciation in excess of construction activity and donated systems.

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

The District's total plant, property and equipment value, not including accumulated depreciation, is \$245,673,110. The estimated replacement cost of these assets utilizing the District's Long Term Capital Reinvestment Study data and in recent years a Construction Price Index component is estimated to be \$882,422,145.

In July 2008, the District established Utility Capital Facilities Replacement Accounts for the purpose of accumulating funding for long term capital replacement of water and sewer system facilities. As of the end of 2013, the District has accumulated \$9,313,647 for Water Capital Replacements and \$4,298,379 for Sewer Capital Replacements.

**SAMMAMISH PLATEAU WATER AND SEWER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2013 AND 2012**

The District's Capital Improvement Program is focused on replacing infrastructure that is nearing the end of its useful life, identifying opportunities to expand or improve the District's facilities in conjunction with other public works projects to take advantage of the economies of scale, and constructing key infrastructure components to provide for the expansion of water and sewer facilities into previously unserved areas within the District's corporate boundaries.

The 2014 Capital Plan expenditures of approximately \$8.3 million include the following:

Water CIP By Category		Water CIP By Fund	
Administration	\$ 221,200	Water Operating Fund	\$ 1,594,740
Wells/Production	\$ 1,806,000	Water Capital Replacement Fund	\$ 1,952,900
Storage	\$ 400,000	Water General Facilities Fund	\$ 1,084,500
Water Mains / Appurtenances	\$ 2,101,610	Water Local Facilities Fund	\$ -
Meters	\$ 519,500	Water Bond Proceeds	\$ 1,200,000
Building and Grounds	\$ 1,299,000	Water ULID / DEA	\$ 1,049,610
Planning	\$ 534,440	Total	\$ 6,881,750
Total	\$ 6,881,750		

Sewer CIP By Category		Sewer CIP By Fund	
Administration	\$ 128,800	Sewer Operating Fund	\$ 239,760
Lift Stations	\$ 120,000	Sewer Capital Replacement Fund	\$ 290,200
Grinder Pumps	\$ 160,000	Sewer General Facilities Fund	\$ 85,300
Water Mains / Appurtenances	\$ 72,500	Sewer Local Facilities Fund	\$ -
Building and Grounds	\$ 896,000	Sewer Bond Proceeds	\$ 800,000
Planning	\$ 37,960	Sewer ULID / DEA	\$ -
Total	\$ 1,415,260	Total	\$ 1,415,260

The District anticipates funding the capital improvement plan from rates, long-term debt, existing cash, and Developer and ULID funding.

ADDITIONAL COMMENTS

The District is dependent on other government entities for the treatment of sewage collected by the District. The cost for this service continues to increase. The District intends to adjust rates to compensate for increases in its direct cost.

While many of the local governments in the Seattle metropolitan area have been purchasing water from the City of Seattle, the District has, and continues to maintain, its own independent source of supply. In order to provide adequate supply for the future, the District joined with the City of Bellevue, Covington Water District, the City of Issaquah, the City of Kirkland, the City of Redmond, Skyway Water and Sewer District, and the City of Tukwila in forming the Cascade Water Alliance ("CWA"). CWA was formed pursuant to the Interlocal Cooperation Act on April 1, 1999 and the District joined on November 8, 1999. The purpose of CWA is to provide for the water supply needs of its members in a cost-effective and environmentally sound manner.

The District has a supply commitment from CWA. This commitment means that CWA will provide water supply for the District's needs over that which can be supplied by the District's independent supply. In order to meet the supply commitment to the District and its other members, CWA has completed a

**SAMMAMISH PLATEAU WATER AND SEWER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2013 AND 2012**

Transmission and Supply Plan that defines a resource strategy to meet the projected supply needs of its members through 2050. That strategy includes purchase of water from the cities of Seattle and Tacoma, acquisition and development of transmission facilities, and development of new water supply sources and treatment facilities.

During the first quarter of 2014, the District entered into an agreement with the City of Issaquah where the District agreed to pay the City of Issaquah up to \$1 million to decommission the Lower Reid Infiltration Gallery (LRIG). The City of Issaquah agreed not to inject storm water from the Issaquah Highlands through the LRIG into the Lower Issaquah Valley where three of the District's wells for water supply are located. It is expected that the District will pay the obligation for decommissioning the LRIG during 2014 and 2015.

This financial report is designed to provide a general overview of Sammamish Plateau Water and Sewer District's finances for all those with an interest in the District's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Finance Department, Sammamish Plateau Water and Sewer District, 1510 228th Avenue SE, Sammamish WA 98075.

SAMMAMISH PLATEAU WATER AND SEWER DISTRICT
STATEMENT OF NET POSITION
December 31, 2013 and 2012

	2013	Restated 2012
ASSETS		
<i>Current assets:</i>		
Unrestricted:		
Cash and cash equivalents	\$ 36,853,169	\$ 29,251,960
Accounts receivable - users	2,994,722	3,168,330
Accounts receivable - other	37,972	28,217
Interest receivable	18,766	32,776
General facility and in lieu of assessments charges receivable - current portion	33,688	56,770
Inventory	314,235	284,582
Prepaid expenses	280,369	248,451
Deposits	21,868	20,168
	<u>40,554,789</u>	<u>33,091,254</u>
Restricted:		
Cash and cash equivalents	8,382,110	5,394,847
Interest receivable	1,465	1,740
Assessments receivable - current portion	265,439	131,875
	<u>8,649,014</u>	<u>5,528,462</u>
Total current assets	<u>49,203,803</u>	<u>38,619,716</u>
<i>Non-current assets:</i>		
Unrestricted:		
General facility and in lieu of assessment charges receivable, less current portion	389,385	323,141
Deferred annexation and connection charges	36,517	66,158
Prepaid bond insurance	1,211	4,042
	<u>427,113</u>	<u>393,341</u>
Restricted:		
Assessments receivable, less current portion	<u>2,421,319</u>	<u>757,855</u>
Capital assets not being depreciated:		
Land and land rights	4,667,665	4,389,131
Construction in progress	2,602,668	1,507,274
Capital assets being depreciated:		
Plant in service	241,005,445	237,013,571
Less accumulated depreciation	(86,062,415)	(82,322,558)
Net capital assets	<u>162,213,363</u>	<u>160,587,418</u>
Total non-current assets	<u>165,061,795</u>	<u>161,738,614</u>
Total assets	<u>214,265,598</u>	<u>200,358,330</u>
DEFERRED OUTFLOWS OF RESOURCES		
Deferred loss on refunding of debt	848,407	496,085
Total deferred outflows of resources	<u>848,407</u>	<u>496,085</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u><u>\$ 215,114,005</u></u>	<u><u>\$ 200,854,415</u></u>

See accompanying notes to the financial statements.

SAMMAMISH PLATEAU WATER AND SEWER DISTRICT
STATEMENT OF NET POSITION
(CONTINUED)
December 31, 2013 and 2012

LIABILITIES	2013	Restated 2012
<i>Current liabilities:</i>		
Payable from unrestricted assets:		
Accounts payable	\$ 1,175,331	\$ 814,135
Accrued salaries and benefits	188,901	229,956
Accrued compensated absences	508,310	482,558
Deposits payable	76,365	76,365
Developer deposits	821,265	994,819
Retainage payable	39,846	35,526
Accrued interest	7,626	8,330
Long-term debt - current maturities	<u>233,253</u>	<u>233,253</u>
	<u>3,050,897</u>	<u>2,874,942</u>
Payable from restricted assets:		
Accounts payable	617,817	549,161
Accrued interest	42,618	48,186
Long-term debt - current maturities	<u>2,260,000</u>	<u>1,940,000</u>
	<u>2,920,435</u>	<u>2,537,347</u>
Total current liabilities	<u>5,971,332</u>	<u>5,412,289</u>
<i>Non-current liabilities:</i>		
Long-term debt payable from unrestricted assets, net of current maturities	2,478,598	2,711,852
Long-term debt payable from restricted assets, net of current maturities	<u>16,585,800</u>	<u>14,764,057</u>
Total non-current liabilities	<u>19,064,398</u>	<u>17,475,909</u>
Total liabilities	<u>25,035,730</u>	<u>22,888,198</u>
DEFERRED INFLOWS OF RESOURCES	<u>-</u>	<u>-</u>
Total liabilities and deferred inflows of resources	<u>25,035,730</u>	<u>22,888,198</u>
NET POSITION		
Net investment in capital assets	145,307,430	142,643,035
Restricted for debt service	6,511,061	4,390,703
Restricted for impaired investments	96,737	93,615
Unrestricted	<u>38,163,047</u>	<u>30,838,864</u>
Total net position	<u>190,078,275</u>	<u>177,966,217</u>
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES AND NET POSITION	<u><u>\$ 215,114,005</u></u>	<u><u>\$ 200,854,415</u></u>

See accompanying notes to the financial statements.

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

	2013	Restated 2012
<i>Operating revenues:</i>		
Water service	\$ 10,910,378	\$ 10,473,744
Sewer service	11,085,505	9,873,680
Street lights	129,680	114,916
Sewer inspections	48,900	53,197
Developer fees	621,582	348,811
Miscellaneous revenue	421,793	420,712
	<u>23,217,838</u>	<u>21,285,060</u>
<i>Operating expenses:</i>		
Salaries and wages	3,921,930	3,884,918
Payroll taxes and pensions	620,919	567,453
Employee benefits	823,706	787,842
Other personnel costs	131,524	59,215
Sewage treatment	6,353,110	5,631,725
Repairs and maintenance	967,870	855,426
Chemicals	120,426	113,510
Water purchases	882,464	776,656
Professional services	765,194	476,761
Business taxes	626,192	574,624
Dues and memberships	378,262	339,028
Office and administration	435,530	333,337
Insurance	186,902	184,201
Miscellaneous	9,740	43,635
Utilities	694,543	675,414
Street lights	96,798	101,742
Water conservation dues	114,956	168,809
Depreciation	3,874,064	6,641,869
	<u>21,004,130</u>	<u>22,216,165</u>
Operating income (loss)	<u>2,213,708</u>	<u>(931,105)</u>
<i>Non-operating revenues:</i>		
Investment income, net of service fees	147,137	461,306
Assessment and in lieu of assessment interest income	54,071	76,471
Rental income	291,426	284,243
Miscellaneous revenue	88,327	48,761
	<u>580,961</u>	<u>870,781</u>

See accompanying notes to the financial statements.

SAMMAMISH PLATEAU WATER AND SEWER DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
(CONTINUED)
Years Ended December 31, 2013 and 2012

	<u>2013</u>	<u>Restated 2012</u>
<i>Non-operating expenses:</i>		
Interest on long-term debt - net of amount capitalized	544,554	600,858
Amortization of bond insurance, discounts (premiums), and loss on refunding	29,132	50,175
Net loss on disposition and abandonment of assets and preliminary studies	67,956	180,861
Bond issue costs	111,928	-
	<u>753,570</u>	<u>831,894</u>
Income (loss) before capital contributions	2,041,099	(892,218)
Capital contributions	10,070,959	7,172,633
Change in net position	<u>12,112,058</u>	<u>6,280,415</u>
Net position, January 1, as previously reported	177,966,217	171,802,656
Restatement - change in accounting principle	-	(116,854)
Net position, January 1, as restated	<u>177,966,217</u>	<u>171,685,802</u>
Net position, December 31	<u>\$ 190,078,275</u>	<u>\$ 177,966,217</u>

See accompanying notes to the financial statements.

SAMMAMISH PLATEAU WATER AND SEWER DISTRICT
STATEMENT OF CASH FLOWS
Years Ended December 31, 2013 and 2012

	2013	Restated 2012
<i>Cash flows from operating activities:</i>		
Cash received from customers	\$ 23,371,325	\$ 21,154,265
Cash paid to suppliers	(11,757,406)	(11,199,692)
Cash paid to and for employees and commissioners	(5,512,905)	(5,271,741)
Rental and other income	379,753	333,004
Net cash provided by operating activities	<u>6,480,767</u>	<u>5,015,836</u>
<i>Cash flows from capital financing activities:</i>		
Contributions in aid of construction	3,929,129	4,830,385
Bond issue costs paid	(111,928)	-
Collections on ULID assessments receivable	389,772	146,305
Collections on general facility and in lieu of assessment charges receivable	30,950	82,134
Interest received on contracts and assessments	55,324	74,455
Proceeds from sale of assets and reimbursed costs	37,001	25,161
Recovery (payment) of annexation costs	26,072	(12,063)
Expenditures for plant in service and construction	(1,370,652)	(768,905)
Proceeds from issuance of long-term debt	10,435,000	-
Payment to escrow account to refund bonds, net of amount representing interest	(7,162,155)	-
Premiums received on issuance of long-term debt	695,276	-
Payment of long-term debt	(2,438,253)	(2,208,253)
Interest paid on long-term debt, net of amount capitalized	(550,826)	(608,014)
Net cash provided by financing activities	<u>3,964,710</u>	<u>1,561,205</u>
<i>Cash flows from investing activities:</i>		
Interest received on investments	142,995	459,086
Net cash provided by investing activities	<u>142,995</u>	<u>459,086</u>
Net increase in cash and cash equivalents	10,588,472	7,036,127
Cash and cash equivalents, beginning of year	34,646,807	27,610,680
Cash and cash equivalents, end of year	<u>\$ 45,235,279</u>	<u>\$ 34,646,807</u>
Cash and cash equivalents balance is composed of the following at December 31:		
Cash and cash equivalents - current assets	\$ 36,853,169	\$ 29,251,960
Cash and cash equivalents - current restricted assets	8,382,110	5,394,847
	<u>\$ 45,235,279</u>	<u>\$ 34,646,807</u>

See accompanying notes to the financial statements.

SAMMAMISH PLATEAU WATER AND SEWER DISTRICT
STATEMENT OF CASH FLOWS
(CONTINUED)
Years Ended December 31, 2013 and 2012

	<u>2013</u>	<u>Restated 2012</u>
<i>Reconciliation of operating income (loss) to net cash provided by operating activities:</i>		
Net operating income (loss)	\$ 2,213,708	\$ (931,105)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation	3,874,064	6,641,869
(Increase) decrease in assets:		
Accounts receivable - users	173,608	(187,922)
Accounts receivable - other	(9,755)	57,127
General facility and in lieu of assessment charges receivable - fees	(10,366)	-
Prepaid expenses	(31,918)	(89,822)
Inventory	(29,653)	(54,833)
Deposits	(1,700)	(500)
Increase (decrease) in liabilities:		
Accounts payable, accrued expenses and deposits	195,456	(113,812)
Developer deposits	(173,554)	(466,438)
Rental and other income	379,753	333,004
Preliminary studies expensed	(98,876)	(171,732)
Net cash provided by operating activities	<u>\$ 6,480,767</u>	<u>\$ 5,015,836</u>
<i>Supplemental schedule of significant non-cash financing and investing activities:</i>		
Utility plant donations received	\$ 3,959,517	\$ 2,301,362
General facility charge contracts issued	\$ 46,572	\$ 40,886
ULID assessment charges issued, net of amount representing deferred annexation costs	\$ 2,183,231	\$ -
General facility charge refund payable	\$ (47,490)	\$ -

See accompanying notes to the financial statements.

SAMMAMISH PLATEAU WATER AND SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2013 and 2012

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

Description of business, nature of operations and reporting entity - Sammamish Plateau Water and Sewer District, a municipal corporation organized under the laws of the state of Washington, was created for the purpose of constructing, maintaining and operating a water and sewer system within its boundaries, which encompass an area located in unincorporated King County, the city of Issaquah and the city of Sammamish. 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.

Changes in accounting principle – In 2011, The District implemented Governmental Accounting Standards Board Statement No. 63, *Financial Reporting of Deferred Outflows, Deferred Inflows and Net Position* (GASB 63). This statement changed items previously referred to as net assets to net position. Implementation of this standard had no other impact on the financial statements.

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 an \$116,854 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 and reduce amortization expense in the amount of \$29,914.

Cash and cash equivalents - The District considers investments in the King County Investment Pool to be cash equivalents. These investments are stated at 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 of materials and supplies available for future use and is stated at the lower of cost, using the first-in, first-out (FIFO) method or market.

Capital assets - Capital assets are stated at cost when known and include the capitalized portion of District employees' wages and related overhead costs. When historical cost is not known, assets are recorded at the District's engineers estimated costs. 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 costs, contract price or appraisal value. Major expenses for capital assets, including capital leases and major 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

SAMMAMISH PLATEAU WATER AND SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2013 and 2012

estimated useful lives of the assets which, prior to 2013, generally were 5 to 50 years. In 2013, the District revised its estimates of the useful lives of capital assets. Effective January 1, 2013, the useful lives of the assets generally are 5 to 120 years. The change in estimated useful lives of assets existing prior to 2013 is being accounted for prospectively by depreciating the book value of the assets as of December 31, 2012 over the revised remaining useful lives.

The effects on the 2013 financial statements resulting from the change in estimated useful lives were a decrease in depreciation expense and corresponding increases in operating income, income before capital contributions and change in net position in the amount of \$2,983,442 (\$1,402,683 sewer and \$1,580,759 water) from what would have been reported using the estimated lives used before 2013.

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

Total interest cost incurred for the years ended December 31, 2013 and 2012 was \$582,402 and \$666,562, respectively. Interest capitalized in December 31, 2013 and 2012 was \$37,848 and \$65,704, 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 amounts as earned.

District employees accumulate vacation hours for subsequent use or for payment upon termination, retirement or death. The amount of vacation pay employees may accumulate is limited to 260 hours.

District employees accumulate sick leave hours, subject to certain restrictions, to be paid upon termination, retirement or death.

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

SAMMAMISH PLATEAU WATER AND SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2013 and 2012

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.

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 (including street lights). 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 reclassifications 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.

SAMMAMISH PLATEAU WATER AND SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2013 and 2012

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

<u>Investment type</u>	<u>Fair value</u>	<u>Average effective duration</u>
2013:		
King County Investment Pool		
Main Pool	\$45,118,545	1.23 years
Impaired Pool	96,737	
2012:		
King County Investment Pool		
Main Pool	\$34,206,501	1.36 years
Impaired Pool	93,615	

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 \$163,372 and \$190,586 at December 31, 2013 and 2012, respectively. The District's unrealized loss for these investments is \$66,635 and \$96,971 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.

SAMMAMISH PLATEAU WATER AND SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2013 and 2012

3. RESTRICTED ASSETS

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

		Current restricted		Non-current
	Cash & cash equivalents	Interest receivable	Assessments receivable	Long-term assessments receivable
December 31, 2013:				
Revenue bond funds	\$1,671,100	\$ 607	\$265,439	\$2,421,319
Revenue bond reserve funds	2,194,356	858		
Northeast Sammamish Sewer and Water District joint funds	617,817			
Construction	3,802,100			
Impaired investment pool	<u>96,737</u>	<u> </u>	<u> </u>	<u> </u>
	<u>\$8,382,110</u>	<u>\$ 1,465</u>	<u>\$265,439</u>	<u>\$2,421,319</u>
December 31, 2012:				
Revenue bond funds	\$ 1,367,926	\$ 765	\$131,875	\$757,855
Revenue bond reserve funds	2,179,493	975		
Northeast Sammamish Sewer and Water District joint funds	549,161			
Construction	1,204,652			
Impaired investment pool	<u>93,615</u>	<u> </u>	<u> </u>	<u> </u>
	<u>\$5,394,847</u>	<u>\$ 1,740</u>	<u>\$131,875</u>	<u>\$757,855</u>

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

The required reserve at December 31, 2013 and 2012 was \$1,938,467 and \$1,881,000, respectively. Both the sinking fund and reserve accounts are fully funded.

SAMMAMISH PLATEAU WATER AND SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2013 and 2012

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 and land rights \$	4,389,131			\$278,534	\$ 4,667,665
Construction in progress	<u>1,507,274</u>	<u>\$ 1,735,912</u>	<u>\$(342,623)</u>	<u>(297,895)</u>	<u>2,602,668</u>
	<u>5,896,405</u>	<u>1,735,912</u>	<u>(342,623)</u>	<u>(19,361)</u>	<u>7,270,333</u>
Capital assets being depreciated:					
Water systems	120,449,470	1,891,049	(69,474)		122,271,045
Sewer systems	101,484,645	2,068,467			103,553,112
Office building	5,314,910			19,361	5,334,271
Equipment	6,406,404	208,369	(125,898)		6,488,875
Intangibles and other miscellaneous assets	<u>3,358,142</u>				<u>3,358,142</u>
	<u>237,013,571</u>	<u>4,167,885</u>	<u>(195,372)</u>	<u>19,361</u>	<u>241,005,445</u>
Accumulated depreciation:					
Water systems	(42,095,659)	(2,052,993)	8,309		(44,140,343)
Sewer systems	(30,843,826)	(1,066,840)			(31,910,666)
Office building	(2,166,146)	(144,629)			(2,310,775)
Equipment	(4,626,914)	(456,830)	125,898		(4,957,846)
Intangibles and other miscellaneous assets	<u>(2,590,013)</u>	<u>(152,772)</u>			<u>(2,742,785)</u>
	<u>(82,322,558)</u>	<u>(3,874,064)</u>	<u>134,207</u>		<u>(86,062,415)</u>
Net capital assets	<u>\$160,587,418</u>	<u>\$2,029,733</u>	<u>\$(403,788)</u>	<u>\$ 0</u>	<u>\$162,213,363</u>

SAMMAMISH PLATEAU WATER AND SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2013 and 2012

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

	Balance, beginning of year	Additions	Reductions	Transfers	Balance end of year
2012:					
Capital assets not being depreciated:					
Land and land rights	\$ 4,389,131				\$ 4,389,131
Construction in progress	<u>2,362,945</u>	<u>\$ 802,510</u>	<u>\$ (353,912)</u>	<u>\$(1,304,269)</u>	<u>1,507,274</u>
	<u>6,752,076</u>	<u>802,510</u>	<u>(353,912)</u>	<u>(1,304,269)</u>	<u>5,896,405</u>
Capital assets being depreciated:					
Water systems	119,409,475	1,207,940	(189,491)	21,546	120,449,470
Sewer systems	100,352,205	1,175,057	(42,617)		101,484,645
Office building	5,314,910				5,314,910
Equipment	5,716,936	108,053	(45,998)	627,413	6,406,404
Intangibles and other miscellaneous assets	<u>3,779,691</u>		<u>(1,076,859)</u>	<u>655,310</u>	<u>3,358,142</u>
	<u>234,573,217</u>	<u>2,491,050</u>	<u>(1,354,965)</u>	<u>1,304,269</u>	<u>237,013,571</u>
Accumulated depreciation:					
Water systems	(38,769,497)	(3,503,742)	177,580		(42,095,659)
Sewer systems	(28,393,550)	(2,470,514)	20,238		(30,843,826)
Office building	(2,021,158)	(144,988)			(2,166,146)
Equipment	(4,295,039)	(377,873)	45,998		(4,626,914)
Intangibles and other miscellaneous assets	<u>(3,522,120)</u>	<u>(144,752)</u>	<u>1,076,859</u>		<u>(2,590,013)</u>
	<u>(77,001,364)</u>	<u>(6,641,869)</u>	<u>1,320,675</u>		<u>(82,322,558)</u>
Net capital assets	<u>\$164,323,929</u>	<u>\$(3,348,309)</u>	<u>\$ (388,202)</u>	<u>\$ 0</u>	<u>\$160,587,418</u>

SAMMAMISH PLATEAU WATER AND SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2013 and 2012

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 loans issued for utility construction:

	<u>2013</u>	<u>2012</u>
Public Works Trust Fund Loans:		
\$902,195 loan, payable \$48,374 annually through the year 2020, plus interest at 1.0 annual percentage rate	\$ 338,620	\$ 386,994
\$573,750 loan, payable \$30,197 annually through the year 2025, plus interest at 0.5 annual percentage rate	362,368	392,566
\$2,843,250 loan, payable \$154,682 annually through the year 2026, plus interest at 0.5 annual percentage rate	2,010,863	2,165,545
Drinking Water State Revolving Fund Loan:		
\$1,126,697 authorized, \$0 drawn to December 31, 2013. 50% of lesser of loan balance or eligible project costs forgiven at project completion, payable annually through the year 2027, with interest at 1.0 annual percentage rate	-	-
	<u>2,711,851</u>	<u>2,945,105</u>
Less current maturities	<u>(233,253)</u>	<u>(233,253)</u>
	<u>\$2,478,598</u>	<u>\$2,711,852</u>

Long-term debt service requirements to maturity, payable by the District from unrestricted assets are as follows (based on draws received through December 31, 2013):

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 233,253	\$ 15,252	\$ 248,505
2015	233,253	13,844	247,097
2016	233,253	12,436	245,689
2017	233,253	11,028	244,281
2018	233,253	9,620	242,873
2019-2023	1,021,145	28,428	1,049,573
2024-2027	<u>524,441</u>	<u>5,092</u>	<u>529,533</u>
	<u>\$2,711,851</u>	<u>\$95,700</u>	<u>\$2,807,551</u>

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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	\$ 386,994		\$ 48,374	\$ 338,620	\$ 48,374
Public Works Trust					
Fund Loan	392,566		30,198	362,368	30,197
Public Works Trust					
Fund Loan	<u>2,165,545</u>		<u>154,682</u>	<u>2,010,863</u>	<u>154,682</u>
	<u>\$2,945,105</u>		<u>\$233,254</u>	<u>\$2,711,851</u>	<u>\$233,253</u>
2012:					
Public Works Trust					
Fund Loan	\$ 435,369		\$ 48,375	\$ 386,994	\$ 48,374
Public Works Trust					
Fund Loan	422,763		30,197	392,566	30,197
Public Works Trust					
Fund Loan	<u>2,320,227</u>		<u>154,682</u>	<u>2,165,545</u>	<u>154,682</u>
	<u>\$3,178,359</u>		<u>\$233,254</u>	<u>\$2,945,105</u>	<u>\$233,253</u>

6. LONG-TERM DEBT PAYABLE FROM RESTRICTED ASSETS

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

	<u>2013</u>	<u>2012</u>
Revenue Bonds:		
\$10,435,000 dated April 18, 2013 for refunding and utility construction, consisting of \$9,300,000 of non-taxable bonds, due serially through the year 2027, with interest payable semi-annually at 2.00 to 4.00 annual percentage rates and \$1,135,000 of taxable bonds, due serially through the year 2016, with interest payable semi-annually at .30 to .83 annual percentage rates	\$10,170,000	\$ -
\$8,980,000 dated October 18, 2010 for refunding and utility construction, due serially through the year 2025, with interest payable semi-annually at 3.00 to 4.50 annual percentage rates	7,190,000	8,715,000
\$7,000,000 dated September 15, 2005 for utility construction, due serially through the year 2014, with interest payable semi-annually at 4.00 annual percentage rates	155,000	6,055,000

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	<u>2013</u>	<u>2012</u>
\$2,830,000 dated November 15, 2004 for refunding, due serially through the year 2014, with interest payable semi-annually at 4.00 annual percentage rates	<u>390,000</u>	<u>1,465,000</u>
	17,905,000	16,235,000
Less current maturities	(2,260,000)	(1,940,000)
Unamortized bond premiums (discounts)	<u>940,800</u>	<u>469,057</u>
	<u>\$16,585,800</u>	<u>\$14,764,057</u>

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

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 2,260,000	\$ 511,415	\$ 2,771,415
2015	2,325,000	442,908	2,767,908
2016	2,400,000	379,652	2,779,652
2017	2,460,000	316,875	2,776,875
2018	2,895,000	234,225	3,129,225
2019-2023	4,255,000	484,100	4,739,100
2024-2027	<u>1,310,000</u>	<u>98,250</u>	<u>1,408,250</u>
	<u>\$17,905,000</u>	<u>\$2,467,425</u>	<u>\$20,372,425</u>

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

	<u>Balance, beginning of year</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance, end of year</u>	<u>Amounts due within one year</u>
<u>2013:</u>					
2013 Revenue bonds	-	\$10,435,000	\$ 265,000	\$10,170,000	\$ 265,000
2010 Revenue bonds	\$ 8,715,000		1,525,000	7,190,000	1,450,000
2005 Revenue bonds	6,055,000		5,900,000	155,000	155,000
2004 Revenue bonds	<u>1,465,000</u>		<u>1,075,000</u>	<u>390,000</u>	<u>390,000</u>
	<u>\$16,235,000</u>	<u>\$10,435,000</u>	<u>\$8,765,000</u>	<u>\$17,905,000</u>	<u>\$2,260,000</u>
<u>2012:</u>					
2010 Revenue bonds	\$ 8,775,000		\$ 60,000	\$ 8,715,000	\$1,525,000
2006 Revenue bonds	1,335,000		1,335,000		
2005 Revenue bonds	6,205,000		150,000	6,055,000	155,000
2004 Revenue bonds	1,795,000		330,000	1,465,000	260,000
2002 Revenue bonds	<u>100,000</u>		<u>100,000</u>		
	<u>\$18,210,000</u>		<u>\$1,975,000</u>	<u>\$16,235,000</u>	<u>\$1,940,000</u>

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7. REFUNDED BONDS

On April 18, 2013, the District issued \$10,435,000 of Water and Sewer Revenue and Refunding Bonds. Of the \$10,435,000 issued, \$6,870,000 of the bonds with interest rates of .3% to 4.00% were used to advance refund \$6,560,000 of outstanding 2004 and 2005 bonds with interest rates of 4.00%. Cash and the net proceeds of the refunding portion of the bonds totaling \$7,261,637 including \$99,481 representing accrued interest to the refunding date, were used to purchase U.S. Government securities and provide the beginning escrow cash balance. The cash and securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the refunded bonds. As a result, the refunded bonds are considered to be extinguished and the liability for those bonds is not included in the accompanying financial statements. The principal amount of refunded bonds outstanding in this fund at December 31, 2013 is \$6,560,000.

Although the advance refunding resulted in an accounting loss of \$583,783 (which will be amortized over the life of the refunded bonds), the District in effect reduced its aggregate debt service payments by \$319,179 through December 1, 2019 and obtained an economic gain (difference between the present values of the old and new debt service payments) of \$309,955.

8. 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

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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 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.

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.

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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.

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.

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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.

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	<u>44,273</u>
	<u>263,347</u>

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.

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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 District does not have any employees covered under Plan 1. The required contribution rates expressed as a percentage of covered payroll as of December 31, were:

	2013		2012	
	PERS	PERS	PERS	PERS
	Plan 2	Plan 3	Plan 2	Plan 3
Employer*	9.21%	9.21%**	7.21%	7.21%**
Employee	4.92%	***	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	PERS
	Plan 2	Plan 3
2013	\$179,057	\$143,120
2012	\$149,762	\$126,002
2011	\$132,592	\$107,412

9. DEFERRED COMPENSATION PLAN

The District offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan assets are invested with the Washington State Deferred Compensation Program and the International City/County Management Association Program. The plan, available to all employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency. The District made no contributions to this plan in 2013 or 2012.

10. RISK MANAGEMENT

The District is a member of the Water and Sewer Risk Management Pool (Pool Chapter 48.62 RCW authorizes the governing body of any one or more governmental entities to form together 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.

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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:

TYPE OF COVERAGE	MEMBER DEDUCTIBLE	SELF-INSURED RETENTION	EXCESS LIMITS
Property Loss:			
Buildings and Contents	\$5,000	\$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	\$5,000	\$25,000	\$100,000,000
Boiler & Machinery	\$5,000	\$25,000 - \$350,000	\$100,000,000
Auto - Physical Damage	\$25,000	\$200,000	\$10,000,000
Liability:			
Comprehensive General Liability	\$5,000 (C)	\$200,000	\$10,000,000
Auto Liability	\$5,000	\$200,000	\$10,000,000
Public Officials Errors and Omissions	\$5,000	\$200,000	\$10,000,000
Employment Practices/Benefits	\$5,000	\$200,000	\$10,000,000
Crime	\$5,000	\$25,000	\$2,000,000
Terrorism	\$5,000	\$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).

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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.

11. CASCADE WATER ALLIANCE

In April 1999, the Sammamish Plateau Water & Sewer District (The District) joined together with seven other cities and districts to create the Cascade Water Alliance (The Alliance). The purpose of the Alliance is to provide water supply to meet current and future needs of the Alliance's Members in a cost-effective and environmentally responsible manner. Collectively, the membership of the Alliance serves over 400,000 residents and 22,000 businesses in the Puget Sound Region.

The Alliance is governed by a Board of Directors consisting of one individual representative appointed by resolution of the Member's legislative authority. Each Member entity must pay annual dues based on the number of residential units served by the water system within their jurisdiction.

The Alliance assesses a Regional Capital Facility (RCFC) on new District water customers for each additional connection to the Cascade system. Each member collects a Regional Capital Facilities Charge and remits to the Cascade Alliance. During 2013, the District collected \$1,522,267.50 for this charge.

In 2011, the Alliance assigned a minimum demand share of one million gallons per day (1 MGD) to The District in lieu of actual use. If actual demand is greater than the minimum demand, the actual demand will be used in determining the District's demand share.

The Alliance collected 2013 charges as follows:

Type of Fee	Alliance Total	District Share
Membership Administrative Dues	\$ 3,024,998	\$ 368,444
Conservation	\$ 943,308	\$ 114,957
Demand Share	\$28,917,285	\$ 803,319
Total	\$32,885,591	\$ 1,339,324

A Member may withdraw from the Alliance with a resolution of its legislative authority expressing such intent. The Board will then determine the withdrawing Member's obligations to the Alliance, as well as the withdrawing Member's allocable share of the Alliance's then-existing obligations. The Member's withdrawal shall be effective upon payment of obligations. Members do not hold legal ownership rights in any assets owned by the Alliance.

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On April 26, 2006, the Alliance issued Water System Revenue Bonds, 2006 for \$55.2 million. The proceeds of the Bonds will be used to finance transmission and treatment facility planning and design, make payments to the City of Tacoma under the wholesale water purchase agreement, make payments to Puget Sound Energy, Inc. relating to acquisition of assets at Lake Tapps, and repay a loan from the District.

On October 15, 2009, the Alliance issued Water System Revenue Bonds, 2009A (the "2009A Bonds" for \$4.9 million and the Water System Revenue Bonds, 2009B (Taxable Build America Bonds) for \$75.2 million for a total of \$80.1 million. The proceeds of the Bonds will be used to finance the acquisition of Lake Tapps, Tribal settlement agreements, and limited Tacoma Cascade Pipeline expenditures.

In December 2012, the Alliance issued a series of Water System Revenue Bonds for approximately \$48 million for the purposes of paying part of the cost of financing capital projects and providing for a Debt Service Reserve.

The 2006, 2009 and 2012 bonds do not pledge the full faith and credit or taxing power of any of the seven current members, nor do the bonds pledge any revenues except as the Members committed through Member Charges under the Cascade Interlocal Contract. The bonds are payable solely from the Alliance's revenues and are not guaranteed by the District's assets or revenues.

In 2011, the Alliance's Board passed a resolution offering to purchase the outstanding RCFCs credits from its members at a discounted rate. These credits were awarded its members who transferred or retained an independent water supply in excess of its needs. The Alliance's members were allowed to use such credits to apply against future RCFCs. The Alliance offered to buy out the RCFC credits at \$2,500 per Cascade Equivalent Residential Unit (CERU) from its members. The District chose the one-time exemption option. The payment was finalized and the total of \$3,200,625 was sent to the District in December 2012. Such receipt was reported as capital contributions in the District's Statement of Revenues, Expenses and Changes in Fund Net Position.

Audited financial information can be obtained by contacting Scott Hardin, Director of Finance and Administration, Cascade Water Alliance, 520 112th Ave NE, Suite 400, Bellevue WA, 98004.

12. MAJOR SUPPLIER

Treatment of all sewage collected by the District is provided by King County Wastewater Treatment Division (KCWTD/Metro).

13. LEASES

The District leases space for cell towers on certain tanks and land and certain tank capacity under noncancelable operating leases. Future rental income due to the District is as follows:

Year ending December 31:

2014	\$ 48,949
2015	50,907
2016	<u>52,944</u>
	<u>\$152,800</u>

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14. COMMITMENTS

Sammamish Plateau Water & Sewer District (District) and the City of Issaquah (Issaquah) signed an interlocal agreement which includes the obligation for the District to pay the cost, up to \$1 million over a 5-year period, for Issaquah to decommission the Lower Reid Infiltration Gallery, and to design, construct and install other stormwater management projects, facilities or systems to manage stormwater generated from the Issaquah Highland.

As of December 31, 2013, the District is obligated under construction contracts totaling \$1,596,463 of which \$466,222 has been expended.

15. PRIOR PERIOD ADJUSTMENT

In 2012, the District expensed \$190,103 of parts and supplies. The parts and supplies should have been recorded as inventory and capital assets. The 2012 financial statements have been restated to record \$152,049 in inventory and \$38,054 in capital assets. The 2012 financial statements have also been restated to correct for an error in the computation of depreciation expense resulting in a reduction of 2012 depreciation expense in the amount of \$26,396.

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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