Washington State Auditor's Office

Troy Kelley

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Financial Statements Audit Report

Covington Water District

King County

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

Published November 20, 2014

Report No. 1013010

Washington State Auditor
Troy Kelley

November 20, 2014

Board of Commissioners
Covington Water District
Covington, Washington

Report on Financial Statements

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

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

Sincerely,

TROY KELLEY

STATE AUDITOR

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

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

Board of Commissioners
Covington Water District
Covington, 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 Covington Water District, King 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 November 17, 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 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 X. Kelley

TROY KELLEY
STATE AUDITOR

November 17, 2014

Independent Auditor's Report on Financial Statements

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

Board of Commissioners
Covington Water District
Covington, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the Covington Water District, King 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 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 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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Covington Water District, as of December 31, 2013, and the changes in financial position and cash flows thereof for the year 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 November 17, 2014 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

TROY KELLEY
STATE AUDITOR

November 17, 2014

Financial Section

Covington Water District
King 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 Net Position – 2013
Statement of Cash Flows – 2013
Notes to Financial Statements – 2013

COVINGTON WATER DISTRICT

Management Discussion and Analysis (MD&A)
For the year ended December 31, 2013

INTRODUCTION

As management of the Covington Water District (district), we have prepared a narrative overview and analysis of the financial activities of the district for the fiscal year ended December 31, 2013. Please read this in conjunction with the financial statements, including the notes to the financial statements, following this commentary.

FINANCIAL HIGHLIGHTS

- The district's assets and deferred outflows of resources exceed liabilities and deferred inflows of resources by $100.2 million as of December 31, 2013.

- The district issued bonds in 2013, which net of refunding existing bonds, provided funding for capital projects in the amount of $6 million.

- The district's required bond debt service coverage ratio was 27.92 as of December 31, 2013. This far exceeds the minimum requirement identified in the bond covenants of 1.25.

OVERVIEW OF THE FINANCIAL STATEMENTS

The discussion and analysis provided here are intended to serve as an introduction to the district's basic financial statements. In accordance with requirements set forth by the Governmental Accounting Standards Board, the district's financial statements employ the accrual basis of accounting in recognizing increases and decreases in economic resources. Accrual accounting recognizes all revenues and expenses during the year, regardless of when cash is received or paid.

The basic financial statements, presented for the year ended December 31, 2013 are comprised of:

- **Statement of Net Position:** The statement of net position provides a record, or snap shot, of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources of the district at the close of the year. It provides information about the nature and amounts of investments in resources (assets) and obligations to district creditors (liabilities). It provides a basis for evaluating the capital structure of the district and assessing its liquidity and financial flexibility.

- **Statement of Revenues, Expenses, and Changes in Net Position:** The statement of revenues, expenses and changes in 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 successfully recovered all its costs through its user fees and other charges, profitability, and credit worthiness.

- **Statement of Cash Flows:** The statement of cash flows reports cash receipts, cash payments and net changes in cash resulting from operating, non-capital financing, capital and related 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, presented at the end of the basic financial statements, are considered an integral part of the district's presentation of financial position, results of operations, and changes in cash flows. The notes provide additional information that is necessary to acquire a full understanding of the data provided in the district's financial statements. The notes can 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 FINANCIAL DATA

Statement of Net Position

	2013	2012	Increase (decrease)	% change
ASSETS				
Current assets	$ 16,314,104	$ 10,016,751	$ 6,297,353	6.3%
Capital assets, net	133,524,261	133,663,022	(138,761)	(.01)%
Other non-current assets	31,750	215,977	(184,227)	(85.3)%
TOTAL ASSETS	**149,870,115**	**143,895,750**	**5,974,365**	**4.2%**
TOTAL DEFERRED OUTFLOWS OF RESOURCES	**47,012**	**54,635**	**(7,623)**	**(14)%**
LIABILITIES				
Current liabilities	3,666,336	2,717,543	948,793	3.5%
Non-current liabilities	43,381,437	40,237,719	3,143,718	7.8%
TOTAL LIABILITIES	**47,047,773**	**42,955,262**	**4,092,511**	**9.5%**
TOTAL DEFERRED INFLOWS OF RESOURCES	**2,641,781**	**---**	**2,641,781**	**100%**
NET POSITION				
Net investment in capital assets	84,670,233	91,536,328	(6,866,095)	(7.5)%
Restricted	2,775,211	2,255,493	519,718	23%
Unrestricted	12,782,129	7,203,302	5,578,827	77.5%
TOTAL NET POSITION	**$ 100,227,573**	**$ 100,995,123**	**$ (767,550)**	**(.01)%**

Analysis of the Statement of Net Position

- The increase in current assets of approximately $6.3 million (6.3%) from 2012 to 2013 is primarily related to the 2013 bond proceeds received for capital projects. In addition to the net capital project funding proceeds of $6 million, a bond sinking fund account was created and fully funded at the time of issue in the amount of $683,580.

- Capital assets consist of land, construction work in progress, and property & equipment, less accumulated depreciation. The modest decrease in net capital assets of approximately ($139,000), which is less than a (.01%) change is the effect of the positive net additions in the district's capital assets netted with the increase in accumulated depreciation.

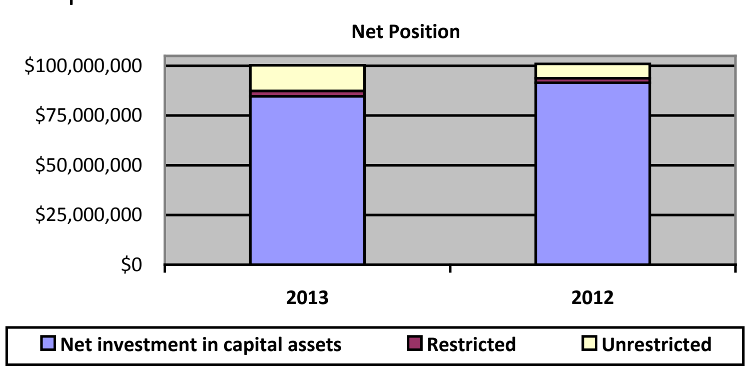
- The decrease in other non-current assets of ($184,227) is related to the decrease in other accounts receivables that were collected during 2013.

- The decrease in deferred outflows of resources of ($7,623) is consistent with the regular straight line amortization of deferred losses on refunding.

- The increase in both current and noncurrent liabilities from 2012 to 2013 of 9.5% in total is directly related to the addition of debt in 2013. The district added an additional loan related to the RWSS filtration project, and issued bonds.

- Deferred inflows of resources is directly related to the deferred gain on refunding recognized in 2013 on debt related to the district's participation in the RWSS second supply project.

- While the district's net position for net investment in capital assets decreased in 2013 primarily due to the additional loan issued to fund capital projects, the district's restricted and unrestricted net position increased by approximately $519,000 and $5.5 million from 2012 to 2013, respectively. In addition, the district shows positive balances in all categories of net position.



COVINGTON WATER DISTRICT

Management Discussion and Analysis (MD&A)
For the year ended December 31, 2013

Having looked at the Statement of Net Position in detail, another common financial analysis tool is the Quick Ratio which compares the most liquid assets (undesignated and non-restricted cash and equivalents) to current liabilities in order to assess the organization's ability to meet obligations. The district's Quick Ratio is 3.23 ($11.8M cash/$3.6M current liabilities) for 2013. While there are no set 'rules' regarding Quick Ratios, district management believes this is a very healthy ratio.

Statement of Revenues, Expenses, and Changes in Net Position

	2013	2012	Increase (Decrease)	% Change
Water service revenues	$ 10,672,577	$ 10,116,126	$ 556,451	5.5%
Other operating revenues	665,288	616,151	49,137	8%
Non-operating revenues	172,682	266,931	(94,249)	(3.5)%
TOTAL REVENUES	**11,510,547**	**10,999,208**	**511,339**	**4.6%**
Production, operations, maintenance	2,501,076	2,459,281	41,795	1.7%
Administrative, taxes	4,673,110	4,308,780	364,330	8.5%
Depreciation expense	3,174,639	3,199,781	(25,142)	(.8)%
Non-operating expenses	4,156,930	3,648,337	508,593	14%
TOTAL EXPENSES	**14,505,755**	**13,616,179**	889,576	6.5%
EXCESS (DEFICIENCY) BEFORE CONTRIBUTIONS AND SPECIAL ITEMS	**(2,995,208)**	**(2,616,971)**	(378,237)	(14.5)%
Capital contributions	2,227,658	2,987,694	(760,036)	(25.4)%
Special item	---	(5,987,134)	5,987,134	(100)%
CHANGE IN NET POSITION	**(767,550)**	**(5,616,411)**	4,848,861	86.3%
BEGINNING NET POSITION	**100,995,123**	**106,611,534**	(5,616,411)	(5.3)%
ENDING NET POSITION	**$ 100,227,573**	**$ 100,995,123**	$ (767,550)	(.8)%

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

- Water service revenue increased 5.5% in 2013, which is a result of increased water sales, modest connection growth, and a 2013 rate increase of 5%.

- Other operating revenues consist of street lights, late fees and other miscellaneous charges related to water customer accounts. The increase of 8% in 2013 is primarily related to increases in new customer setup fees, old customer closing fees, and late payment penalties.

- The decrease in non-operating revenues of ($94,249) consists primarily of the net effects of lower interest income than the prior year combined with the higher gain on investment in 2013 over 2012.

- Production, operations, and maintenance expenses increased by a modest 1.7% in 2013, primarily due to increased prices in O&M products which is consistent with historical inflation cost increases.

- Administrative expense increases of 8.5% are primarily related to the increase in employee benefits. Tax expense increases are consistent with the increase in water sales revenues.

- Depreciation expense is a non-cash operating expense that systematically allocates the historical cost of a capital asset over its useful life. It is a proxy for the cost of using a capital asset or for the gradual wearing out of a capital asset over time. The district starts charging depreciation expense in the year following the capitalization of an asset. The expense in 2013 is reasonable based on the assets in service.

- Non-operating expenses consist primarily of losses on capital asset dispositions, and interest expense on debt financing. The increase in 2013 from 2012 is primarily due to higher losses on capital asset disposals than in the prior year.

- Capital contributions are comprised of meter installation charges, connection charges, and donated capital assets. There was a net decrease from the prior year in total capital contributions of 25% in 2013.

    - **Meter installation charges-** The meter installation is the last step in the connection process. Once the meter installation charge has been collected and the meter installed, the customer becomes a part of the utility billing process. Meter installation charges fluctuate by nature from year to year based on development. Meter installations, and therefore charges, decreased in 2013 by 57%.

    - **Connection charges**- The district collects connection charges in order to ensure that future customers bear most of the burden of growth. Connection charges consist of the Future Facilities Fee (new customers' proportionate share of future facilities needed to serve each new customer); Existing Facilities Fee (new customers proportionate share of existing system general supply and storage facilities) and Existing Distribution Facilities Fee (new customers' proportionate share of existing pipes, hydrants, valves and distribution facilities). Connection charges are collected in stages as the water availability certificate is issued, the system extension application is approved, and the completed system is accepted by the district. The entire process typically extends over several years. The bulk of the facility charge revenue represents a small number of large developer projects – typically only 20 to 25 projects are in process at a time. The timing is not subject to the district's control and the total revenue can substantially vary from year to year with the delay or acceleration of only a few projects. Connection charges received in 2013 were 9% higher than the prior year.

- **Donated capital assets-** The district also receives additions to the distribution system from developers. Donated capital assets are recognized when the system is completed according to the district's specifications and accepted by the district. The timing is not subject to the district's control, and therefore fluctuates by nature from year to year. Donated capital assets fluctuate from year to year by nature, and decreased in 2013 from the prior year by 52%.

- The district had a special item in 2012 related to the payment to the Cascade Water Alliance as part of its withdrawal from membership in 2012. This item did not exist in 2013 and there were no other special items in 2013.

The district recorded a negative change in Net Position in 2013 of ($767,550) primarily due to the $3 million loss on disposal of capital assets grouped into the non-operating expense line item. Without this non-cash line item, the change in Net Position would reflect a positive change.

OVERALL ANALYSIS OF FINANCIAL POSITION AND RESULTS OF OPERATIONS

The district's financial condition remains strong at 2013 year-end with adequate liquid assets, positive operating cash flow, a strong unrestricted net position, reliable plants and systems and favorable debt service coverage ratios.

The district expects to see continued growth in its service area. As a result, operating expenses are expected to continue to increase proportionately due primarily to plant expansion necessary to meet anticipated customer needs, increased depreciation, increased supply costs and increased security requirements. Therefore, the district increased 2014 water rates in order to achieve 4.25% increased water revenue.

The expected growth in the service area will also require increased capital investment to meet fire flow requirements of the newer cities in the area, make system improvements concurrent with the cities' road improvements to avoid the cost of resurfacing, and to respond to increased water quality regulations and conservation requirements.

CAPTIAL ASSETS AND LONG-TERM DEBT ACTIVITY

Capital Assets

Capital assets consist of land, construction work in progress, and capital assets such as infrastructure (utility plant), buildings, technology and office equipment, and transportation, machinery and equipment. Capital assets are recorded at cost and depreciated over the estimated useful life of the asset (3 to 100 years) using the straight-line method beginning the year after it is placed in service. A corresponding contra-asset account depicts the accumulated depreciation. The net value of an asset at any point in time consists of the historical cost less the accumulated depreciation. Note that land is not depreciated according to generally accepted accounting principles, therefore land continues to be valued at historical cost over time.

The overall decrease of ($138,761) in net capital assets consisted of:

Item	Net Increase (decrease)
Donated Assets (infrastructure donated by developers & customers)	$ 710,697
Utility plant	2,153,769
Buildings & Improvements	80,582
Technology and office equipment	1,503,071
Transportation, machinery, and equipment	244,465
Construction work in progress	1,513,471
Net book value of asset disposals	(3,170,177)
Depreciation	(3,174,639)
Net decrease	$ (138,761)

- The $710,697 in Donated Assets in 2013 consists of four developer extension projects that range in amounts from approximately $44,700 to $290,000, in addition to donated meters from customers.

- The $1,513,471 of Construction Work in Progress reflects an increase in the carrying balance of various construction projects in progress that have not been placed into service as of December 31, 2013.

Long Term Debt

	Beginning Balance 1/1/2013	Additions	Reductions	Ending Balance 12/31/2013	Due in 1 year	Long term portion
Water Revenue Bonds	$ 2,660,000	$ 8,865,000	$ (2,660,000)	$ 8,865,000	$ (540,000)	$ 8,325,000
PWTF/DWSRF loans	11,116,174	10,000,000	(1,537,669)	19,578,505	(1,809,151)	17,769,354
SSP Repayment Agreements	28,163,375	---	(10,679,625)	17,483,750	(196,667)	17,287,083
Capital lease payable	7,785	---	(7,100)	685	(685)	---
TOTALS	**$ 41,947,334**	**$18,865,000**	**$(14,884,394)**	**$ 45,927,940**	**$ 2,546,503**	**$ 43,381,437**

In 2013, the district issued water revenue bonds with a principal amount of $8,865,000 that mature in 2033 with interest rates that range from 2% to 4%. The bonds are secured by, and payable solely from the net operating revenues of the district, as defined in the revenue bond agreement. $2,660,000 of this bond issue was to refund the district's 2001 bonds, and the remaining $6,205,000 was issued to fund capital improvement projects.

The district is required to establish, maintain and collect rates and charges for water service (and for all other utility services that may be provided by the System) that will yield net revenues equal to at least 1.25 times the average annual debt service. Although the bond covenant allows the use of connection charge revenue (i.e. cash capital contributions) in the calculation of debt service coverage, the district has adopted a more stringent internal policy of maintaining 2.0 ratio of net revenues to bond debt service, without consideration of connection charge revenue. The debt coverage ratio, without considering connection charge revenue, was 18.42 for the year ended December 31, 2013. This indicates that the district is not only meeting the requirements mandated by the bond covenant, but also meets the more stringent and conservative internal policy. The less stringent calculation required by the bond covenants with connection charge revenue yields a ratio for the year ended December 31, 2013 of 27.92.

As part of the district's participation in the Second Supply Project, the district is responsible for covering its share of costs related to the current filtration plant construction project to meet an Environmental Protection Agency mandate. The district drew on a $10,000,000 Public Works Trust Fund low interest loan during 2013 to finance a portion of the district's share of costs.

In 2010 the district entered into a repayment agreement with the City of Tacoma in the amount of $11,595,000 to fund a portion of the district's filtration plant obligations. Subsequent to the agreement, the district received additional Drinking Water State Revolving Fund (DWSRF) and Public Works Trust Fund (PWTF) loans for use in funding its portion of the filtration plant project. As a result, the 2010 repayment agreement with the City of Tacoma was amended in 2013 to allocate $8,080,000 of the district's bond proceeds back to Tacoma to be used toward their portion of the filtration plant project funding.

MCAG No. 2684

COVINGTON WATER DISTRICT
Statement of Net Position
December 31, 2013

		2013
ASSETS		
Current assets:		
Cash and cash equivalents - undesignated	$	8,725,752
Cash and cash equivalents - designated		3,109,198
Accounts receivable - customer		694,280
Sugarloaf Capital Contract, current portion		11,809
Accrued unbilled water charges		693,457
Accrued interest receivable		4,536
Restricted current assets:		
Rate Stabilization account		2,000,000
Water Revenue Bond account		90,544
Bond Sinking account		683,581
Accrued interest receivable - restricted		1,086
Inventory		113,399
Prepaid expenses		186,462
TOTAL CURRENT ASSETS		16,314,104
Noncurrent assets:		
Sugarloaf Capital Contract, net of current portion		27,672
Other accounts receivable		4,078
Capital assets:		
Land and land rights		1,472,399
Construction work in progress		21,354,002
Property and equipment		144,425,374
Less: accumulated depreciation		(33,727,514)
TOTAL NONCURRENT ASSETS		133,556,011
TOTAL ASSETS	$	149,870,115
DEFERRED OUTFLOWS OF RESOURCES		
Deferred loss on refunding	$	47,012
TOTAL DEFERRED OUTFLOWS OF RESOURCES	$	47,012
LIABILITIES		
Current liabilities:		
Accounts payable	$	788,514
Accrued interest on bonds and loans payable		162,703
Water Revenue Bonds, current portion		540,000
PWTF/DWSRF loans, current portion		1,809,151
SSP repayment agreements, current portion		196,667
Capital lease payable, current portion		685
Developer deposits		168,616
TOTAL CURRENT LIABILITIES		3,666,336
Noncurrent liabilities:		
Water Revenue Bonds, net of current portion		8,325,000
PWTF/DWSRF loans, net of current portion		17,769,354
SSP repayment agreements, net of current portion		17,287,083
TOTAL NONCURRENT LIABILITIES		43,381,437
TOTAL LIABILITIES	$	47,047,773
DEFERRED INFLOWS OF RESOURCES		
Deferred gain on refunding	$	2,641,781
TOTAL DEFERRED INFLOWS OF RESOURCES	$	2,641,781
NET POSITION		
Net investment in capital assets	$	84,670,233
Restricted		2,775,211
Unrestricted		12,782,129
TOTAL NET POSITION	$	100,227,573

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

MCAG No. 2684

COVINGTON WATER DISTRICT

Statement of Revenues, Expenses, and Changes in Net Position

For the year ended December 31, 2013

	2013
OPERATING REVENUES	
Water service	$ 10,672,577
Street light revenue	179,215
Other revenue	486,073
TOTAL OPERATING REVENUE	11,337,865
OPERATING EXPENSES	
Total production costs-CWD water	258,073
Total purchased water	556,294
Facility Operations Division	1,184,003
Engineering Division	937,280
Water Resource and Environmental Division	502,706
Business Services Department	1,661,728
Administration	1,417,292
Street light expense	156,001
Taxes	500,809
Depreciation expense	3,174,639
TOTAL OPERATING EXPENSES	10,348,825
OPERATING INCOME (LOSS)	989,040
NONOPERATING REVENUES (EXPENSES)	
Interest income	74,904
Gain on Investments	84,891
Miscellaneous income	12,887
Loss on captial asset disposition	(3,081,419)
Interest expense on debt financing	(948,954)
Debt issuance expenses	(118,934)
Amortized debt discounts	(7,623)
TOTAL NONOPERATING REVENUES (EXPENSES)	(3,984,248)
INCOME (LOSS) BEFORE CONTRIBUTIONS AND SPECIAL ITEM	(2,995,208)
Capital contributions:	
Meter installation charges	83,314
Connection charges	1,433,647
Donated capital assets	710,697
Total capital contributions	2,227,658
CHANGE IN NET POSITION	(767,550)
NET POSITION, January 1	100,995,123
NET POSITION, December 31	$ 100,227,573

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

COVINGTON WATER DISTRICT
Statement of Cash Flows
For the year ended December 31, 2013

	2013
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from water customers, net of refunds, etc.	$ 11,110,528
Receipts from non-water customers	180,790
Payments to suppliers	(2,688,142)
Payments related to employees (non-capitalized)	(3,922,888)
Payments related to business taxes	(500,809)
Other receipts (payments)	12,887
Net cash provided by operating activities	4,192,366
CASH FLOWS FROM NONCAPTIAL FINANCING ACTIVITIES	-
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Receipt of connection charges	1,580,928
Miscellaneous receipts (payments)	21,696
Principal and interest payment on PWTF & DWSRF loans	313,799
Principal and interest payment on SSP loans	(893,400)
Principal and interest payment on Capital Leases	(7,648)
Water Revenue Bond proceeds	6,687,024
Principal and interest payment on Water Revenue Bond	(502,556)
Purchase of capital assets (CIP)	(1,513,470)
Purchase of capital assets (CAA)	(811,709)
Other receipts	(2,945,818)
Net cash provided by capital and related financing activities	1,928,846
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest income	70,422
Gain on investment pool	84,891
Net cash provided by investing activities	155,313
Net Increase in Cash	6,276,525
Balance, Beginning of Period	8,332,550
Balance, End of Period	$ 14,609,075
RECONCILATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Operating income	$ 989,040
Adjustments for non-cash activities:	
Depreciation expense	3,174,639
Other nonoperating receipts (payments)	12,887
Change in assets and liabilities:	
Receivables	16,196
Inventory	82,684
Accrued & prepaid income/expenses	(83,080)
Net cash provided by operating activities	$ 4,192,366
SUPPLEMENTAL SCHEDULE OF SIGNIFICANT NON-CASH CAPITAL AND FINANCING TRANSACTIONS	
Developer contributions to utility plant	$ 710,697

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

COVINGTON WATER DISTRICT

Notes to the Financial Statements
For the year ended December 31, 2013

These notes are an integral part of the accompanying financial statements.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Covington Water District (the district) conform to generally accepted accounting principles (GAAP) as applicable to proprietary funds of governments. The following is a summary of the most significant policies (including identification of those policies which result in material departures from generally accepted accounting principles):

Reporting Entity

Covington Water District is a municipal corporation governed by an elected five member board. As required by GAAP, management has considered all potential component units in defining the reporting entity. The district has no component units.

Basis of Accounting and Presentation

The accounting records of the district are maintained in accordance with methods prescribed by the State Auditor under the authority of Chapter 43.09 RCW. The district uses the Uniform System of Accounts for Class A Water Utilities.

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 accounts.

The district distinguishes between operating revenues and expenses from non-operating ones. Operating revenues and expenses result from providing services and producing and delivering goods in connection with a district's principal ongoing operations. The principal operating revenues of the district are charges to customers for water delivery services. The district also recognizes as operating revenue street light revenue and other revenue. Operating expenses for the district include the related costs of water services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. Unbilled utility service receivables are recorded monthly.

The accounting policies of the district conform to GAAP applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The district has applied all applicable GASB pronouncements.

For the year ended December 31, 2013, the district implemented GASB No. 65, *Items Previously Reported as Assets and Liabilities*, which 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, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The effect of the implementation of this statement on the district resulted in a change in the presentation of the Statement of Net Position.

COVINGTON WATER DISTRICT

Notes to the Financial Statements
For the year ended December 31, 2013

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.

Capital Assets

See Note 3.

Restricted Assets

In accordance with bond resolutions (and certain related agreements) separate restricted accounts are required to be established. The assets held in these accounts are restricted for specific uses described below.

Rate Stabilization account

The rate stabilization account segregates cash and cash equivalents reserved to prevent occurrence of unexpected revenue shortfalls, thus stabilizing rates regardless of high or low water sales due to fluctuating weather conditions. As consistent with Bond Resolution, the district may transfer funds to the Rate Stabilization account.

Water Revenue Bond account

The Water Revenue Bond account (Bond account) was created by Board Resolution for the purpose of paying and securing bond principal and interest.

Payments from revenues of the district are required to be made to the Bond account in annual amounts sufficient to retire serial bonds on or before maturity and to satisfy the bond account requirements for redemption of term bonds scheduled to mature in 2033.

Bond Sinking account

The Bond Sinking account was established and fully funded at an amount of $683,581 as part of the 2013 bond issue to meet the reserve requirement.

Receivables

Receivables consist primarily of amounts due from water customers. All receivables are recorded when earned. There may also be amounts due from developers, 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.

Inventories

Inventories are valued at average cost which approximates the market value.

Prepaid Expenses

Certain invoices paid to vendors reflect costs applicable to future accounting periods and are recorded as prepaid expenses. Examples are: property insurance premiums, annual membership dues, and service maintenance agreements.

Deferred Outflows

Deferred outflows consist of deferred losses on refunding that are being amortized over the remaining life of the debt.

Compensated Absences

Compensated absences are absences for which employees will be paid, such as vacation and sick leave. The district records accrued leave for compensated absences as an expense and liability.

Vacation Leave

Vacation leave, which may be accumulated up to six weeks (240 hours) is payable upon termination, after the first six months of employment have been completed.

Sick Leave

Regular full-time employees accrue sick leave benefits at the rate of eight hours for each calendar month of continuous employment up to a maximum of 320 hours of sick leave. There is quarterly cash out of all sick leave into the HRA VEBA Trust which exceeds the following amounts:

Sick leave balance at end of the quarter:	**Quarterly accrual cashed to HRA VEBA:**
Balance of 100-199 hours	10% of the quarterly accrual (gross)
Balance of 200-319 hours	25% of the quarterly accrual (gross)
Balance of 320+ hours	The total hours in excess of 320 hours

Upon voluntary resignation, a portion of accrued sick leave will be cashed out into the HRA VEBA trust. The amount of leave to be cashed out is based upon the following sliding scale:

Years of cumulative service:	**Percent of accrued sick hours:**
10 years	25%
15 years	50%
20 years	75%
25 years	100%

Deferred Inflows

Deferred inflows of resources consist of deferred gains on refunding that are being amortized over the remaining life of the debt.

Revenues

Service rates are authorized by resolutions passed by the Board of Commissioners. Billings are made to customers on a bi-monthly cyclical basis. Unbilled revenues for water service to customers between the last billing date and the end of the year are estimated on a pro rata basis and accrued at year-end.

Reclassifications

Certain 2012 account balances may have been reclassified to conform to the 2013 presentation. Such reclassifications would have no effect on previously reported results of operations and cash flows.

NOTE 2 DEPOSITS AND INVESTMENTS

As provided by state law, the King County Treasurer is the fiscal agent of the district and, as such, receives, disburses and invests funds for the district, at the district's request. All investments are insured, registered or held by the district or by its agent in the district's name.

The district is a participant of the County Treasurer's pooled investment program for the purpose of maximizing earnings on investments and at the same time assuring liquidity and safety. Under this program, available funds of the district are mostly invested in securities, bankers' acceptances, commercial paper, and certificates of deposit. Funds in the pooled investment program can be used for disbursements at any time. As of December 31, 2013 the pool's net asset fair value price per share was $0.9981.

Designated cash & cash equivalents:	**12/31/2013**
Asset Replacement	$ 2,609,198
Emergency Operations	500,000
Totals	$ 3,109,198

In accordance with state law, the district's governing body has entered into a formal interlocal agreement with the district's 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).

As of December 31, 2013, the district had the following investments:

Investment Type	**Fair Value**	**Effective Duration**
King County Investment Pool	$14,431,129	1.23 Years

Impaired Investments

As of December 31, 2013, all impaired commercial paper investments have 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 is $106,446 and the district's fair value of these investments is $63,034.

COVINGTON WATER DISTRICT

Notes to the Financial Statements
For the year ended December 31, 2013

Interest Rate Risk

As of December 31, 2013, the Pool's average duration was 1.23 years. 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, 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 the equivalent of "A-1" by two NRSROs), certificates of deposits issued by qualified public depositaries, repurchase agreements, and the Local Government Investment Pool managed by the Washington State Treasurer's office.

NOTE 3 CAPITAL ASSETS

Capital assets are defined by the district as assets with initial individual costs of more than $2,500, and an estimated useful life in excess of one year. Major expense 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. Capital assets in service are recorded at cost. Donations by developers are recorded at the contract price. Obligations under capital leases are disclosed in Note 5. Capital asset activity for the year ended December 31, 2013 was as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
CAPITAL ASSETS NOT BEING DEPRECIATED:				
Land and land rights	$ 1,473,949	$ 1,550	$ (3,100)	$ 1,472,399
Construction work in progress	19,840,531	13,739,388	(12,225,917)	21,354,002
TOTAL CAPITAL ASSETS NOT BEING DEPRECIATED	**21,314,480**	**13,740,938**	**(12,229,017)**	**22,826,401**
CAPITAL ASSETS BEING DEPRECIATED:				
Utility plant	129,245,163	2,887,831	(4,065,447)	128,067,547
Buildings and improvements	10,205,687	80,702	(4,278)	10,282,111
Technology and office equipment	3,388,001	1,503,224	(225,109)	4,666,116
Transportation, machinery, and equipment	1,310,459	269,499	(170,358)	1,409,600
TOTAL CAPITAL ASSETS BEING DEPRECIATED	**144,149,310**	**4,741,256**	**(4,465,192)**	**144,425,374**
LESS ACCUMULATED DEPRECIATION FOR:				
Utility plant	(24,010,316)	(2,415,922)	908,020	(25,518,218)
Buildings and improvements	(4,822,868)	(448,770)	1,230	(5,270,408)
Technology and office equipment	(1,986,208)	(220,160)	223,397	(1,982,971)
Transportation, machinery, and equipment	(981,376)	(89,787)	115,246	(955,917)
TOTAL ACCUMULATED DEPRECIATION	**(31,800,768)**	**(3,174,639)**	**1,247,893**	**(33,727,514)**
TOTAL CAPITAL ASSETS BEING DEPRECIATED, NET	**112,348,542**	**1,566,617**	**(3,217,299)**	**110,697,860**
TOTAL CAPITAL ASSETS, NET	**$ 133,663,022**	**$ 15,307,555**	**$ (15,446,316)**	**$ 133,524,261**

At such time as property is retired and removed from service, the original cost of the property is removed from the capital asset accounts, accumulated depreciation related to the retired or sold property is charged, and the net gain or loss on disposition is credited or charged to income.

During 2013, the district capitalized interest costs for funds borrowed to finance the construction/acquisition of capital assets. The total interest expense incurred by the district during 2013 was $1,250,036. Of this amount, $301,082 was included as part of the cost of capital assets under construction.

Preliminary costs incurred for Capital Improvement Projects are deferred pending construction of the facility. Costs relating to projects ultimately constructed are transferred to utility plant accounts and its depreciation starts in the subsequent year. Charges related to abandoned projects are expensed. Initial depreciation of other capital assets not related to projects is recorded in the year subsequent to purchase.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

Asset:	Years:
Information Technology	3-20
Land improvements	10-20
Security	5-15
Structures & Improvements	20
Tools, Furniture & Equipment	3-10
Vehicles	5
Utility Plant	10-100

NOTE 4 CONSTRUCTION WORK-IN-PROGRESS

Construction Work-in-Progress represents expenses to date on projects whose authorizations total $34,407,187.

Construction Work-in-Progress is composed of the following at December 31, 2013:

	Project Authorization	Expended to 12/31/13	Committed	Required Future Financing
Water System Plan	$ 29,980,663	$ 19,960,816	$ 10,019,847	$ ---
Other Engineering Projects	234,906	32,556	202,350	---
Other Projects	4,191,618	1,360,630	2,830,988	---
Total Capital Projects In Process	**$ 34,407,187**	**$ 21,354,002**	**$ 13,053,185**	**$ ---**

NOTE 5 LEASES

Capital Leases

The district has entered into a lease agreement for financing the acquisition of office equipment. This lease agreement qualifies as a capital lease for accounting purposes, therefore, it has been recorded as an asset and liability at the present value of the future minimum lease payments as of the date of its inception. The district records lease payments as reductions in liabilities and interest expense over the life of the lease.

The assets acquired through capital leases are as follows:

Asset:	
Postage machine	$ 10,057
Less: accumulated depreciation	(8,046)
Total	$ 2,011

The future minimum lease obligation and the net present value of these minimum lease payments as of December 31, 2013 were as follows:

Future minimum lease payments:	
2014	$ 709
2015	---
2016	---
2017	---
2018	---
Less amount representing interest	(24)
Present value of future minimum lease payments	$ 685

Depreciation policy for capitalized assets is described in Note 3 Capital Assets.

NOTE 6 LONG-TERM DEBT

Water Revenue Bonds

In 2013, the district issued water revenue bonds that are secured by, and payable solely from the Net Revenues of the district, as defined in the revenue bond agreement. The bonds have a principal amount of $8,865,000 and interest rates ranging from 2% to 4%, of which, $2,660,000 was used to refund the district's outstanding 2001 Bonds with interest rates ranging from 4.75% to 5.125%. The remaining $6,205,000 Revenue Bonds were issued to fund the district's Capital Improvement Projects. The 2013 bond issue resulted in a bond premium of $331,605 which is shown as a deferred inflow of resources on the Statement of Net Position and is being amortized over the life of the bonds.

This advance refunding was undertaken to reduce total debt service payments over the next 8 years by $337,631 and resulted in an economic gain (difference between the present value of the old and new debt service payments) of $292,030.

In December 2012, Moody's Investors Service assigned the district a rating of Aa3 with a negative outlook.

COVINGTON WATER DISTRICT

Notes to the Financial Statements

For the year ended December 31, 2013

The district has covenants to establish, maintain and collect such rates and charges for water service (and for all other utility services that may be provided by the System) which, together with collections of assessments, are available for the payment of the principal of and interest on the Bonds and any Future Parity Bonds at an amount equal to at least 1.25 times the average debt service. There are other limitations and restrictions contained in the bond indenture. The district is in compliance with all significant limitations and restrictions including compliance with federal arbitrage requirements.

Water Revenue bonds currently outstanding are as follows:

Name of Bond Issue	Purpose/ Original Issue Amount	Date of Original Issue	Date of Maturity	Interest Rate	Beginning Outstanding Debt 1/1/13	Amount Issued in 2013	Amount Redeemed in 2013	Ending Outstanding Debt 12/31/13
2001 Bonds	Capital Improvements & Refunding 1995 Water Revenue Bonds / $4,485,000	2001	2020	4.000-5.125%	$ 2,660,000	$ ---	$ (2,660,000)	$ ---
2013 Bonds	Capital Improvements & Refunding 2001 Water Revenue Bonds / $8,865,000	2013	2033	2-4%	---	8,865,000	---	8,865,000
	TOTALS				$ 2,660,000	$ 8,865,000	$ (2,660,000)	$ 8,865,000

Water Revenue Bond debt service requirements to maturity are as follows:

	Principal	Interest	Total
2014	$ 540,000	$ 257,248	$ 797,248
2015	580,000	243,148	823,148
2016	595,000	225,523	820,523
2017	610,000	207,448	817,448
2018	630,000	188,848	818,848
2019-2023	2,215,000	726,544	2,941,544
2024-2028	1,705,000	448,950	2,153,950
2029-2033	1,990,000	161,670	2,151,670
TOTAL	$ 8,865,000	$ 2,459,379	$ 11,324,379

Bond Covenant calculation for the year 2013:

	2013
Operating revenues	$ 11,337,865
Operating expenses*	(8,468,852)
Interest income (excluding restricted funds)	61,987
Miscellaneous income	12,887
Meter installation charges	83,312
Facility charges	1,433,647
Balance available for debt service	**$ 4,460,846**
Debt service	**$ 159,777**
Debt service ratio (minimum 1.25)	**27.92**

*Operating expenses for the purpose of this calculation exclude depreciation and include principal and interest paid on the two City of Tacoma loans related to the second supply project.

COVINGTON WATER DISTRICT

Notes to the Financial Statements
For the year ended December 31, 2013

Public Works Trust Fund (PWTF) and Drinking Water State Revolving Fund (DWSRF) loans

The district has entered into loan agreements through the Public Works Trust Fund and Drinking Water State Revolving Fund loan programs to fund various capital improvement projects.

Name of Debt	Purpose/ Original Issue Amount	Date of Original Issue	Date of Maturity	Interest Rate	Beginning Outstanding Debt 1/1/13	Amount Issued in 2013	Amount Redeemed in 2013	Ending Outstanding Debt 12/31/13
PWTF-Sugarloaf	Capital Improvements / $250,000	1995	2015	5%	$ 39,474	$ ---	$ (13,158)	$ 26,316
PWTF-Corrosion Control	Capital Improvements / $1,436,400	1997	2017	1%	327,979	---	(65,596)	262,383
PWTF-Lake Morton Main Replacement	Capital Improvements / $1,255,767	1996	2016	1%	204,655	---	(51,164)	153,491
PWTF-Timberlane Main Replacement	Capital Improvements / $1,250,550	1997	2017	1%	276,114	---	(55,223)	220,891
SSP	Capital Improvements / $7,000,000	2000	2020	1%	2,982,043	---	(372,755)	2,609,288
SSP	Capital Improvements / $10,000,000	2002	2022	.5%	5,312,500	---	(531,250)	4,781,250
DWSRF-Tank 5 Rechlorination	Capital Improvements / $548,250	2002	2023	1.5%	376,922	---	(34,268)	342,654
DWSRF-264th Well	Capital Improvements / $2,322,163	2002	2023	1.5%	1,596,487	---	(145,135)	1,451,352
PWTF-Filtration	Capital Improvements / $10,000,000	2011	2031	.5%	---	10,000,000	(269,120)	9,730,880
	TOTALS				**$11,116,174**	**$ 10,000,000**	**$ (1,537,669)**	**$ 19,578,505**

Annual debt service requirements to maturity for the PWTF/DWSRF loans are as follows:

	Principal	Interest	Total
2014	$ 1,809,151	$ 131,685	$ 1,940,836
2015	1,809,151	119,090	1,928,241
2016	1,795,992	104,936	1,900,928
2017	1,744,827	91,438	1,836,265
2018	1,624,010	78,452	1,702,462
2019-2023	6,470,537	226,777	6,697,314
2024-2028	2,703,021	81,091	2,784,112
2029-2033	1,621,813	16,218	1,638,031
TOTAL	$ 19,578,502	$ 849,687	$ 20,428,189

Tacoma Repayment Agreement loans

Please see Note 10 Regional Water Supply System (RWSS) for a description of the RWSS and Second Supply Project.

2002 Second Supply Project Bond Issue

In 2002, the City of Tacoma issued $82,700,000 of Regional Water Supply System (RWSS) Revenue Bonds for the construction of a portion of the Second Supply Project. Covington Water District entered into a repayment agreement with the City in the amount of $17,822,335 to finance its share of construction costs. The district is obligated to pay debt service on the agreement in an amount that is consistent with 22.67% of Tacoma's debt service on the bonds, excluding the capitalized interest, under the terms of the Second Supply Project Agreements. The district's portion of the debt service related to the Tacoma bond was capitalized while the project was still in construction and has been expensed thereafter. Covington Water District's total project costs of $46 million were capitalized and are being amortized over the assets useful life.

In 2013, the City of Tacoma refinanced the 2002 RWSS bonds, which resulted in a bond premium. The district's share of the premium was $2,416,133, which is shown as a deferred inflow of resources on the Statement of Net Position and is being amortized over the remaining life of the debt.

2010 Second Supply Project Bond Issue

In 2010, the City of Tacoma issued $44,245,000 of Regional Water Supply System (RWSS) Revenue Bonds to finance a portion of the costs of the Filtration Treatment Project for the Second Supply Project. The 2010 bonds issued are Build America Bonds with a 35% government interest subsidy option. The district entered into a repayment agreement with the City of Tacoma in 2010 in the amount of $11,595,000 to fund a portion of its share of costs related to the project. The federal government budget sequestration cuts reduced the BABS subsidy through the year 2023. Amounts reflected for interest in the table below are net of the 35% government interest subsidy, with a reduction of 7.2% of the 35% subsidy through 2023.

Subsequent to the 2010 repayment agreement with the City of Tacoma, the district received additional DWSRF and PWTF low interest loans for use in funding its portion of the Filtration Treatment project. Therefore, the 2010 repayment agreement with the City of Tacoma was amended in 2013 to allocate $8,080,000 of the district's bond proceeds back to Tacoma to be used toward their portion of the project funding. The district's portion of the debt service related to the repayment agreement will be capitalized while the project is in construction, and expensed thereafter.

Name of Debt	Purpose/ Original Issue Amount	Date of Original Issue	Date of Maturity	Interest Rate	Beginning Outstanding Debt 1/1/13	Amount Issued in 2013	Amount Redeemed in 2013	Ending Outstanding Debt 12/31/13
City of Tacoma SSP Repayment Agreement	Capital Improvements / $17,822,335	2005	2032	4%-5%	$ 16,568,375	$ ---	$ (2,599,625)	$ 13,968,750
City of Tacoma SSP Repayment Agreement	Capital Improvements / $3,515,000	2010	2040	5.621%	11,595,000	---	(8,080,000)	3,515,000
	TOTALS				$ 28,163,375	$ ---	$ (10,679,625)	$ 17,483,750

Annual debt service requirements to maturity for the SSP Repayment Agreements are as follows:

COVINGTON WATER DISTRICT

Notes to the Financial Statements
For the year ended December 31, 2013

	Principal	Interest	Total
2014	$ 196,667	$ 788,633	$ 985,300
2015	205,833	778,799	984,632
2016	107,083	768,508	875,591
2017	129,167	763,153	892,320
2018	137,500	756,695	894,195
2019-2023	1,884,583	3,576,170	5,460,753
2024-2028	5,794,584	2,703,087	8,497,671
2029-2033	5,898,333	1,203,862	7,102,195
2034-2038	2,155,000	420,170	2,575,170
2039-2043	975,000	53,709	1,028,709
TOTAL	$ 17,483,750	$ 11,812,786	$ 29,296,536

Capital Lease Payable

See Note 5 Leases for information on district capital leases.

Changes in Long-Term Liabilities

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

ID No.	Description	Beginning Balance 1/1/13	Additions	Reductions	Ending Balance 12/31/13	Due within one year
252.11	Water Revenue Bonds	$ 2,660,000	$ 8,865,000	$ (2,660,000)	$ 8,865,000	$ 540,000
263.82	PWTF/DWSRF loans	11,116,174	10,000,000	(1,537,669)	19,578,505	1,809,151
263.82	SSP Repayment Agreements	28,163,375	---	(10,679,625)	17,483,750	196,667
263.52	Capital lease payable	7,785	---	(7,100)	685	685
	TOTALS	**$ 41,947,334**	**$ 18,865,000**	**$ (14,884,394)**	**$ 45,927,940**	**$ 2,546,503**

The annual debt service requirements to maturity on all debts outstanding as of December 31, 2013 including interest are as follows:

Year	Principal	Interest	Total
2014	$ 2,546,503	$ 1,177,590	$ 3,724,093
2015	2,594,984	1,141,037	3,736,021
2016	2,498,075	1,098,967	3,597,042
2017	2,483,994	1,062,039	3,546,033
2018	2,391,510	1,023,995	3,415,505
2019-2023	10,570,118	4,529,491	15,099,609
2024-2028	10,202,605	3,233,128	13,435,733
2029-2033	9,510,151	1,381,750	10,891,901
2034-2038	2,155,000	420,170	2,575,170
2039-2043	975,000	53,709	1,028,709
TOTALS	**$ 45,927,940**	**$ 15,121,876**	**$ 61,049,816**

COVINGTON WATER DISTRICT

Notes to the Financial Statements
For the year ended December 31, 2013

NOTE 7 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 No. 27, Accounting for Pensions by State and Local Government Employers and No. 50, Pension Disclosures, an Amendment of GASB Statements No. 25 and No. 27.

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

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

Plan 1 members may elect to receive an optional COLA that provides an automatic annual adjustment based on the Consumer Price Index. The adjustment is capped at 3% annually. To offset the cost of this annual adjustment, the benefit is reduced.

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

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

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

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

PERS Plan 2 members who have 30 or more years of service credit and are at least 55 years old can retire under one of two provisions, if hired prior to May 1, 2013:

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

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

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

PERS Plan 3 has a dual benefit structure. Employer contributions finance a defined benefit component and member contributions finance a defined contribution component. As established by chapter 41.34 RCW, employee contribution rates to the defined contribution component range from 5% to 15% of salaries, based on member choice. 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 million, and plan refunds paid out were $69.4 million.

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

Effective June 7, 2006, PERS Plan 3 members are vested in the defined benefit portion of their plan after 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% for each year before age 65; or a benefit with a smaller (or no) reduction factor (depending on age) that imposes stricter return-to-work rules.
- If they have 30 service credit years, are at least 55 years old, and were hired after May 1, 2013, they have the option to retire early by accepting a reduction of 5% for each year before age 65.

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

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

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

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

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

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

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

Funding Policy

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

As a result of the implementation of the Judicial Benefit Multiplier Program in January 2007, a second tier of employer and employee rates was developed to fund, along with investment earnings, the increased retirement benefits of those justices and judges that participate in the program.

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

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

Members Not Participating in JBM:

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

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

Members Participating in JBM:

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

* The employer rates include the employer administrative expense fee currently set at 0.18%.

** Plan 3 defined benefit portion only.

***Minimum rate.

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

	PERS Plan 1	PERS Plan 2	PERS Plan 3
2013	$ 13,594	$ 205,507	$ 23,720
2012	$ 11,427	$ 193,348	$ 15,240
2011	$ 9,402	$ 168,428	$ 10,634

NOTE 8 DEFERRED COMPENSATION PLAN

The district offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. This plan is with the State of Washington Deferred Compensation Program. The plan is available to eligible employees and permits them to defer a portion of their salary until future years. Participation in the plan is optional. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

The Deferred Compensation Plan provides for a maximum annual contribution of $17,500. In addition, participants may be eligible for a Catch-Up contribution which would increase the maximum to $23,000. The district employees' total deferred compensation plan contribution for the year 2013 was $47,555. Total employees' actual deferred contribution since joining the plan is $815,462.

NOTE 9 RESTRICTED COMPONENT OF NET POSITION

The district's Statement of Net Position reports $2,775,211 of restricted component of net position, of which $2,775,211 is restricted by enabling legislation.

NOTE 10 REGIONAL WATER SUPPLY SYSTEM

The Regional Water Supply System (RWSS) is a partnership formed by Covington Water District, City of Tacoma, City of Kent, and Lakehaven Utility District (the "Participants") to provide them with additional water supply on a long term basis. The Participants have rights and obligations consistent with the following fractional shares: City of Tacoma – 15/36; City of Kent – 7/36; Covington Water District – 7/36; Lakehaven Utility District – 7/36 ("Participant Shares"). Each Participant has a right, among others, to receive Second Diversion Water and Storage, and each has an obligation to pay its Participant Share of the capital costs of the Project ("Project Costs"). Project costs include fixed and variable operation and maintenance costs, initial project construction costs and capital expenditures. The City of Tacoma, consistent with the project agreement, is the owner and operator of the Second Supply Project.

Information about current debt related to the district's participation in the RWSS can be found in Note 6 Long-Term Debt, and information about the district's commitments related to the RWSS can be found in Note 13.

NOTE 11 JOINT VENTURES

The district has undivided interests in projects with another utility district. Each district was responsible for financing its share of construction. Each district is responsible for its proportionate share of on-going maintenance and operating costs. The following schedule shows the district's portion in each capital asset as included in the Statement of Net Position as of December 31, 2013:

Project	Ownership Interest	Completed Project
Covington Water District and Cedar River Water and Sewer District		
Four million gallon water storage tank, transmission mains, pumps and SCADA	67.2%	$ 1,781,736
Less: accumulated depreciation		(688,283)
Net book value		$ 1,093,453
Covington Water District and Cedar River Water and Sewer District		
West Intertie Vault-transmission mains and vault	50.0%	$ 22,266
Less: accumulated depreciation		(7,816)
Net book value		$ 14,450
Total Joint Venture Project Costs (Net Book Value)		$ 1,107,903

NOTE 12 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.

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	$1,000 - $10,000	$25,000	$1,000,000,000
Flood	See (A) below	$25,000	$50,000,000
Earthquake	See (B) below	$25,000	$75,000,000
Terrorism	$1,000 - $10,000	$25,000 Primary layer	$100,000,000 Primary layer
Boiler & Machinery	$1,000 - $10,000	$25,000 - $350,000	$100,000,000
Auto - Physical Damage	$25,000	$200,000	$10,000,000
Liability:			
Comprehensive General Liability	$1,000 - $10,000 (C)	$200,000	$10,000,000
Auto Liability	$1,000 - $10,000	$200,000	$10,000,000
Public Officials Errors and Omissions	$1,000 - $10,000	$200,000	$10,000,000
Employment Practices	$1,000 - $10,000	$200,000	$10,000,000
Crime	$1,000 - $10,000	$25,000	$2,000,000
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).

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 adjustments 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 consists of seven representatives who are responsible for overseeing the business affairs of the Pool and providing policy direction to the Pool's Executive Director and staff.

NOTE 13 <u>COMMITMENTS</u>

The Regional Water Supply System (RWSS) (see Note 10) is in the process of constructing a filtration plant as part of the Second Supply Project (SSP) to meet an Environmental Protection Agency mandate due by 2014. As a participant in the RWSS, the district is responsible for its share of project costs, estimated at $20.5 million. The total project cost of the filtration plant project is estimated at $186 million. For this project only, the district's share of cost is only 11%, as the City of Tacoma has a higher share of costs for additional usage of the filtration plant.

The district has already entered into a repayment agreement with the City of Tacoma for $3.515 million (see Note 6 Long-Term Debt), and has entered into the following loan agreements through the Public Works Trust Fund and Drinking Water State Revolving Fund loan programs to fund the balance.

Loan	Amount awarded	Amount drawn as of 12/31/13	Interest Rate
PWTF*	$ 10,000,000	$ 10,000,000	.5%
DWSRF**	$ 3,000,000	---	.5%
DWSRF	$ 2,000,000	---	1.5%
DWSRF	$ 6,000,000	---	1%

*See note 6.
**This is a joint loan of $6,000,000 split 50% with Tacoma.

COVINGTON WATER DISTRICT

Notes to the Financial Statements

For the year ended December 31, 2013

NOTE 14 SUBSEQUENT EVENTS

In February 2014, Moody's Investors Service confirmed the Aa3 rating on the district's 2013 bonds, removing the negative outlook that was given with the previous rating in December 2012.

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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