Washington State Auditor's Office

Independence • Respect • Integrity

Financial Statements Audit Report

Silver Lake Water District

Snohomish County

For the period January 1, 2012 through December 31, 2014

Published February 8, 2016

Report No. 1016107

Washington State Auditor's Office

February 8, 2016

Board of Commissioners
Silver Lake Water District
Mill Creek, Washington

Report on Financial Statements

Please find attached our report on the Silver Lake 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
OLYMPIA, WA

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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*

Silver Lake Water District
Snohomish County
January 1, 2012 through December 31, 2014

Board of Commissioners
Silver Lake Water District
Mill Creek, 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 Silver Lake Water District, Snohomish County, Washington, as of and for the years ended December 31, 2014, 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 January 28, 2016. As discussed in Note 1 to the financial statements, during the year ended December 31, 2013, the District implemented Governmental Accounting Standards Board Statement No. 65, *Items Previously Reported as Assets and Liabilities*.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

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

COMPLIANCE AND OTHER MATTERS

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

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

PURPOSE OF THIS REPORT

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

Troy X. Kelley

TROY KELLEY

STATE AUDITOR

OLYMPIA, WA

January 28, 2016

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Silver Lake Water District
Snohomish County
January 1, 2012 through December 31, 2014

Board of Commissioners
Silver Lake Water District
Mill Creek, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the Silver Lake Water District, Snohomish County, Washington, as of and for the years ended December 31, 2014, 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 Silver Lake Water District, as of December 31, 2014, 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 implemented 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 21 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 January 28, 2016 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Troy X. Kelley

TROY KELLEY

STATE AUDITOR

OLYMPIA, WA

January 28, 2016

FINANCIAL SECTION

Silver Lake Water District
Snohomish County
January 1, 2012 through December 31, 2014

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2014 and 2013
Management's Discussion and Analysis – 2013 and 2012

BASIC FINANCIAL STATEMENTS

Statement of Net Position – 2014 and 2013
Statement of Net Position – 2013 and 2012
Statement of Revenues, Expenses and Changes in Net Position – 2014 and 2013
Statement of Revenues, Expenses and Changes in Net Position – 2013 and 2012
Statement of Cash Flows – 2014 and 2013
Statement of Cash Flows – 2013 and 2012
Notes to Financial Statements – 2014 and 2013
Notes to Financial Statements – 2013 and 2012

INTRODUCTION

Silver Lake Water and Sewer District was founded in 1934 and provides water and sewer services to customers residing within the District boundaries. The District's primary mission is to provide its customers with high quality water for today and into the future at a fair and equitable price, while meeting overall public and regulatory approval. The District has secondary goals of providing fire flow, maintaining level of service goals, and maintaining the financial health of the District. The District has prioritized the following goals and objectives:

1. Protect the health and safety of District employees and customers.
2. Meet or exceed regulatory requirements and industry standards for water quality, levels of service and operation and maintenance practices.
3. Provide a high standard of service at an affordable rate.
4. Provide fire flow while maintaining a minimum pressure of 20 psi system wide.
5. Maintain the financial viability of the District.

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of management's discussion and analysis presents the District's financial position as of December 31, 2014 and 2013 and 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.

CONDENSED STATEMENTS OF NET POSITION AT DECEMBER 31

	2014	2013	2012
Capital assets	$ 147,463,329	$ 140,773,141	$ 137,700,374
Other assets	37,233,626	33,704,790	27,264,048
Total assets	$ 184,696,955	$ 174,477,931	$ 164,964,422
Deferred outflows of resources	$ 6,975	$ 10,387	$ 14,430
Long-term liabilities	$ 6,187,773	$ 6,379,407	$ 6,155,101
Other liabilities	3,858,400	3,126,638	2,495,853
Total liabilities	$ 10,046,173	$ 9,506,045	$ 8,650,954
Deferred inflows of resources	$ -	$ -	$ -
Net investment in capital assets	$ 140,428,302	$ 133,556,347	$ 130,781,058
Restricted amounts	782,803	786,580	854,586
Unrestricted amounts	33,446,652	30,639,346	24,692,254
Total net position	$ 174,657,757	$ 164,982,273	$ 156,327,898

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

	2014	2013	2012
Sewer service revenue	$ 11,681,345	$ 10,937,675	$ 10,471,233
Water service revenue	5,130,104	5,005,475	4,756,754
Other sewer operating revenues	338,555	344,604	296,858
Other water operating revenues	694,994	454,143	398,483
Total operating revenues	17,844,998	16,741,897	15,923,328
Sewer operation and maintenance expenses	7,165,555	6,645,184	5,863,703
Water operation and maintenance expenses	2,456,308	2,457,018	2,593,472
Sewer general and administrative expenses	1,634,528	1,408,672	1,395,835
Water general and administrative expenses	1,940,698	1,804,521	1,850,778
Depreciation, sewer	1,713,883	1,630,900	1,534,493
Depreciation, water	1,216,434	1,152,920	1,110,848
Total operating expenses	16,127,406	15,099,215	14,349,129
Operating income	1,717,592	1,642,682	1,574,199
Non-operating revenue:			
Interest	32,678	53,055	65,284
Net gain on disposal of assets	9,154	11,926	38,619
Non-operating expenses:			
Interest and amortization	(71,916)	(74,851)	(70,021)
Net loss on disposal of assets	-	-	-
Income before capital contributions	1,687,508	1,632,812	1,608,081
Capital contributions	7,987,976	7,021,563	3,977,762
Increase in net position	$ 9,675,484	$ 8,654,375	$ 5,585,843

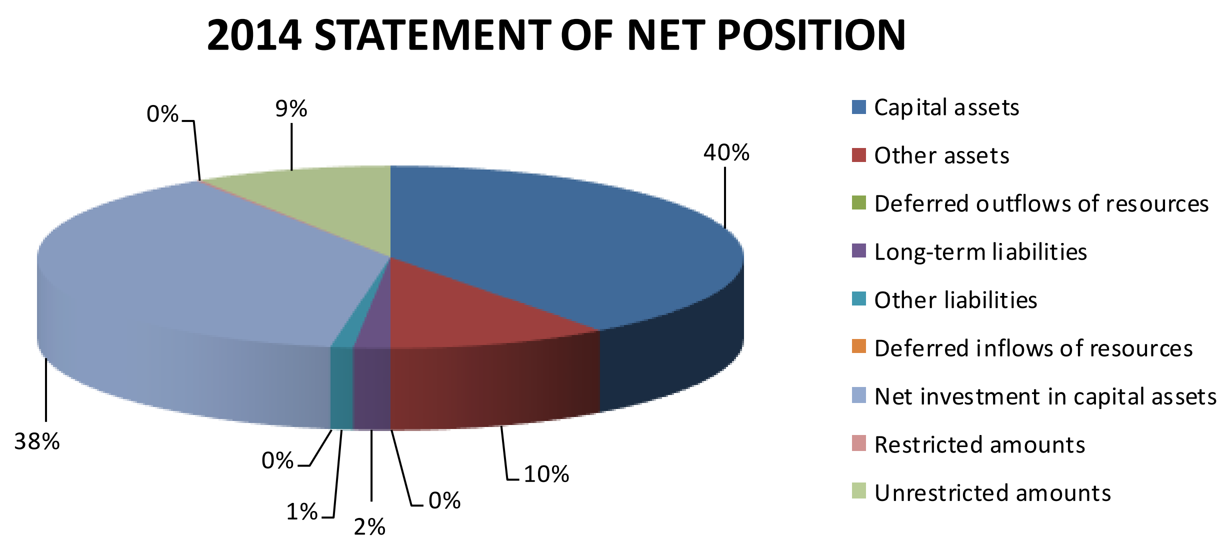
FINANCIAL POSITION

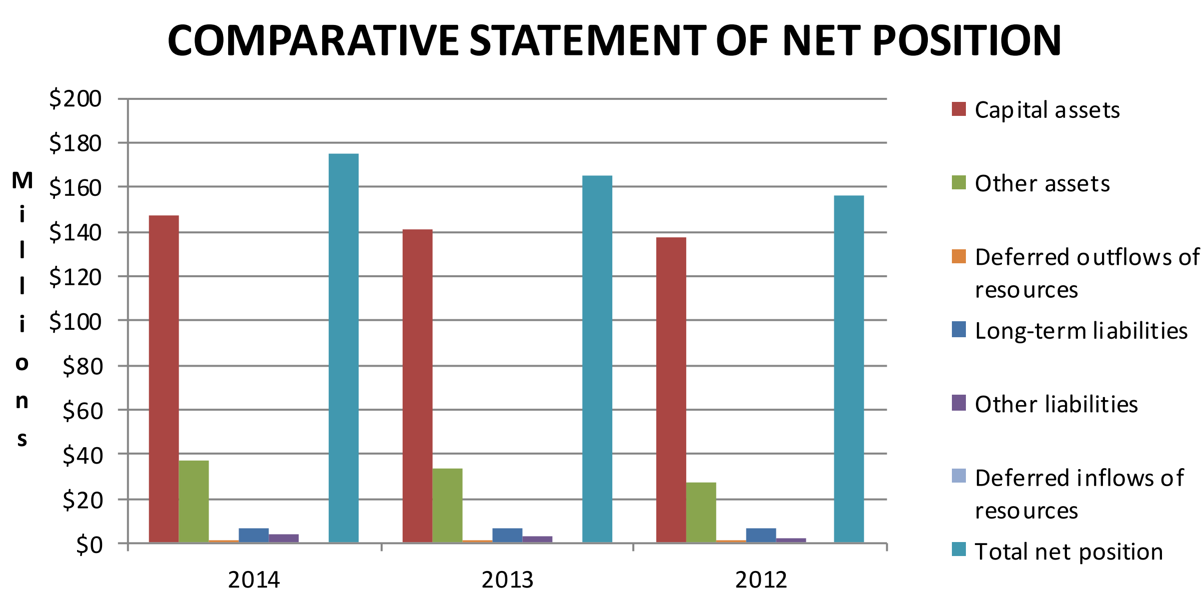
The District's overall financial position continues to be strong with sufficient liquidity, growing revenues and debt capacity to finance future capital improvements if necessary.

The District is financed primarily by equity and substantial liquid assets are available to fund liabilities and construction**.** Capital assets increased in 2014 and 2013 due to growth in the District's customer base and system improvements.

The District is located in a growing area of Snohomish County, Washington.

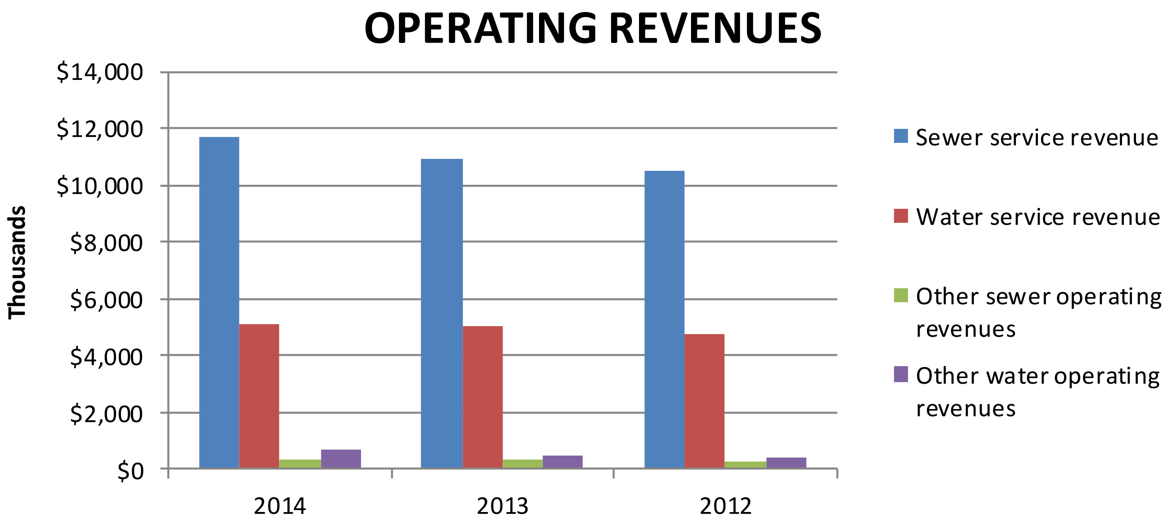
The following charts indicate the components of financial position:





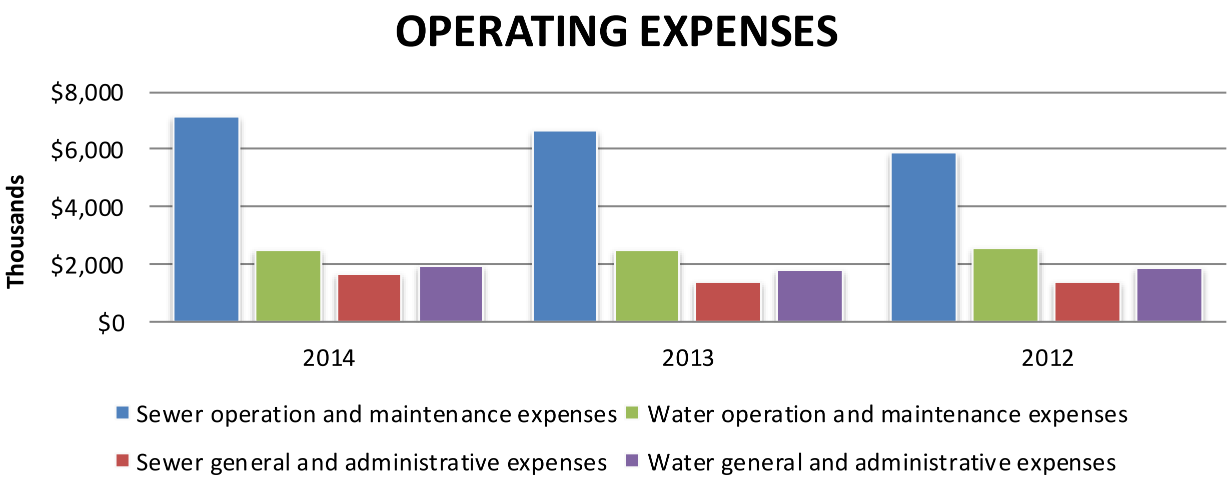
RESULTS OF OPERATIONS

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 increase in sewer revenue in 2014 and 2013 was due to the growth in the customer base and rate increases. The increase in water revenue in 2014 and 2013 was primarily due to the growth in the customer base as summer weather conditions and related outdoor water use were comparable in 2014, 2013 and 2012.

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

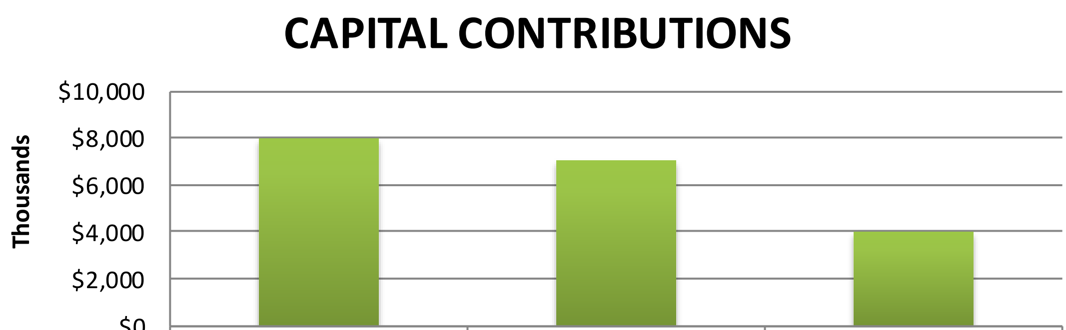


Sewer operation and maintenance costs increased in 2014 and 2013 due to rate increases for sewage treatment. Water operating expenses in 2014, 2013 and 2012 were all comparable as summer weather conditions and related outdoor water use were comparable in 2014, 2013 and 2012.

The District operated at a profit in 2014, 2013 and 2012. Operating results are augmented by earnings on investments, capital contributions, and other non-operating revenues, less non-operating expenses.

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

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



	2014	2013	2012
Capital contributions	7,987,976	7,021,563	3,977,762

The contributions are indicative of the growth of the District and include donated systems totaling $3,856,126, $3,907,448 and $1,636,931 for the years ended December 31, 2014, 2013 and 2012, respectively. The growth of the District is increasing due to the effects of the improving overall economy.

CAPITAL ASSETS AND LONG-TERM DEBT

The capital assets of the District have increased due to growth in the customer base and system improvements. Significant capital asset additions included the following:

2014			2013		
Water system:			**Water system:**		
Donated Systems	$	1,974,343	Donated Systems	$	2,117,020
Reservoir #2 Improvements		2,036,713	Master Meter 9 & Reservoir 2		
AWWD Intertie		613,140	Site Upgrades		804,026
Decant Facility Improvements		67,140	Clearview Project		92,141
Water Telemetry Upgrade		223,462	Meters, Registers and		
Sewer system:			Transmitters		212,786
Donated Systems		1,881,783	AWWD Intertie		131,317
WPCF Expansion Phase C		1,792,053	**Sewer system:**		
Decant Facility Improvements		57,748	Donated Systems		1,790,428
Water Telemetry Upgrade		235,330	WPCF Expansion Phase C		197,673
			Lift Station 3 Improvements		158,344
			2012 Sanitary Sewer		
			Rehabilitiation		103,274

The decrease in long-term debt in 2014 was due to principal payments made by the District in excess of new borrowings. The increase in long-term debt in 2013 was due to receipt of a Public Works Trust Fund loan for the WPCF Expansion Phase C project.

See notes 4, 5, 6, and 7 in the financial statements for detail activity in capital assets and long-term debt.

As of December 31, 2014, the District has $33,486,929 of unrestricted cash and investments available for operating costs and capital asset acquisition.

The District is committed to pay a portion of certain City of Everett projects. See note 10 in the financial statements for the District's estimated share of these projects over the next 10 years.

ADDITIONAL COMMENTS

The District purchases wholesale water and sewage treatment services from other entities. The District intends to adjust rates to compensate for increases in these direct costs.

INTRODUCTION

Silver Lake Water and Sewer District was founded in 1934 and provides water and sewer services to customers residing within the District boundaries. The District's primary mission is to provide its customers with high quality water for today and into the future at a fair and equitable price, while meeting overall public and regulatory approval. The District has secondary goals of providing fire flow, maintaining level of service goals, and maintaining the financial health of the District. The District has prioritized the following goals and objectives:

1. Protect the health and safety of District employees and customers.
2. Meet or exceed regulatory requirements and industry standards for water quality, levels of service and operation and maintenance practices.
3. Provide a high standard of service at an affordable rate.
4. Provide fire flow while maintaining a minimum pressure of 20 psi system wide.
5. Maintain the financial viability of the District.

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of management's discussion and analysis presents 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

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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.

SILVER LAKE 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	$ 140,773,141	$ 137,700,374	$ 136,841,202
Other assets	33,704,790	27,264,048	22,127,003
Total assets	$ 174,477,931	$ 164,964,422	$ 158,968,205
Deferred outflows of resources	$ 10,387	$ 14,430	$ 19,102
Long-term liabilities	$ 6,223,730	$ 6,010,378	$ 5,572,334
Other liabilities	3,282,315	2,640,576	2,672,918
Total liabilities	$ 9,506,045	$ 8,650,954	$ 8,245,252
Deferred inflows of resources	$ -	$ -	$ -
Net investment in capital assets	$ 133,556,347	$ 130,781,058	$ 130,448,652
Restricted amounts	786,580	854,586	874,579
Unrestricted amounts	30,639,346	24,692,254	19,418,824
Total net position	$ 164,982,273	$ 156,327,898	$ 150,742,055

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

	2013	Restated * 2012	Restated * 2011
Sewer service revenue	$ 10,937,675	$ 10,471,233	$ 10,095,738
Water service revenue	5,005,475	4,756,754	4,389,653
Other sewer operating revenues	344,604	296,858	264,147
Other water operating revenues	454,143	398,483	327,245
Total operating revenues	16,741,897	15,923,328	15,076,783
Sewer operation and maintenance expenses	6,645,184	5,863,703	5,777,391
Water operation and maintenance expenses	2,457,018	2,593,472	2,351,768
Sewer general and administrative expenses	1,408,672	1,395,835	1,492,672
Water general and administrative expenses	1,804,521	1,850,778	1,846,551
Depreciation, sewer	1,630,900	1,534,493	1,487,448
Depreciation, water	1,152,920	1,110,848	1,087,817
Total operating expenses	15,099,215	14,349,129	14,043,647
Operating income	1,642,682	1,574,199	1,033,136
Non-operating revenue:			
Interest	53,055	65,284	49,537
Net gain on disposal of assets	11,926	38,619	
Non-operating expenses:			
Interest and amortization	(74,851)	(70,021)	(71,622)
Net loss on disposal of assets	-	-	(128,690)
Income before capital contributions	1,632,812	1,608,081	882,361
Capital contributions	7,021,563	3,977,762	3,074,228
Increase in net position, as restated	$ 8,654,375	$ 5,585,843	$ 3,956,589

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

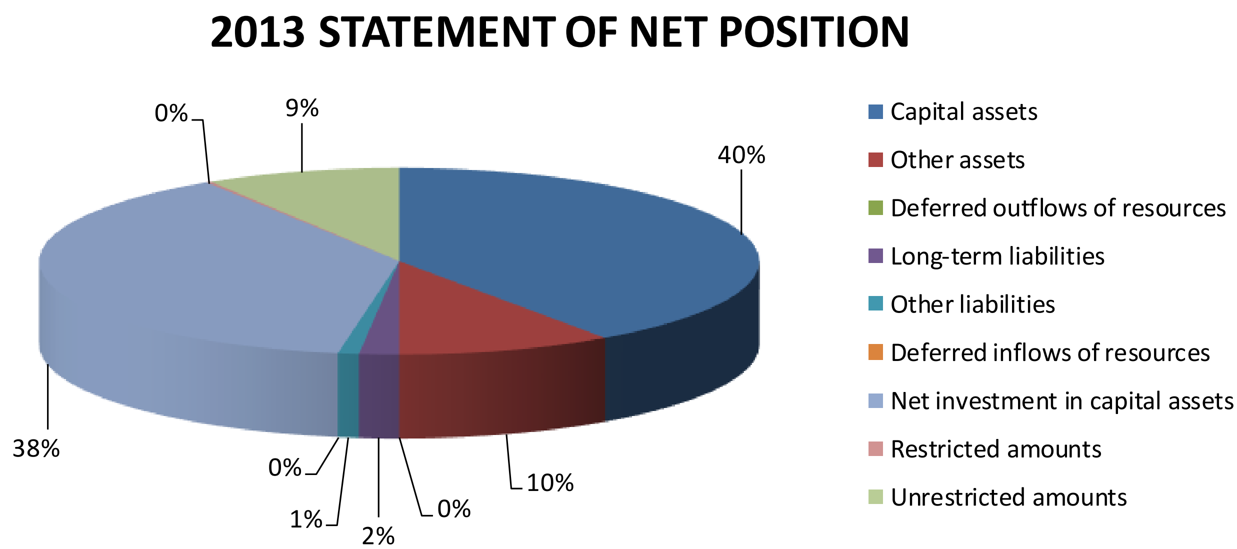
FINANCIAL POSITION

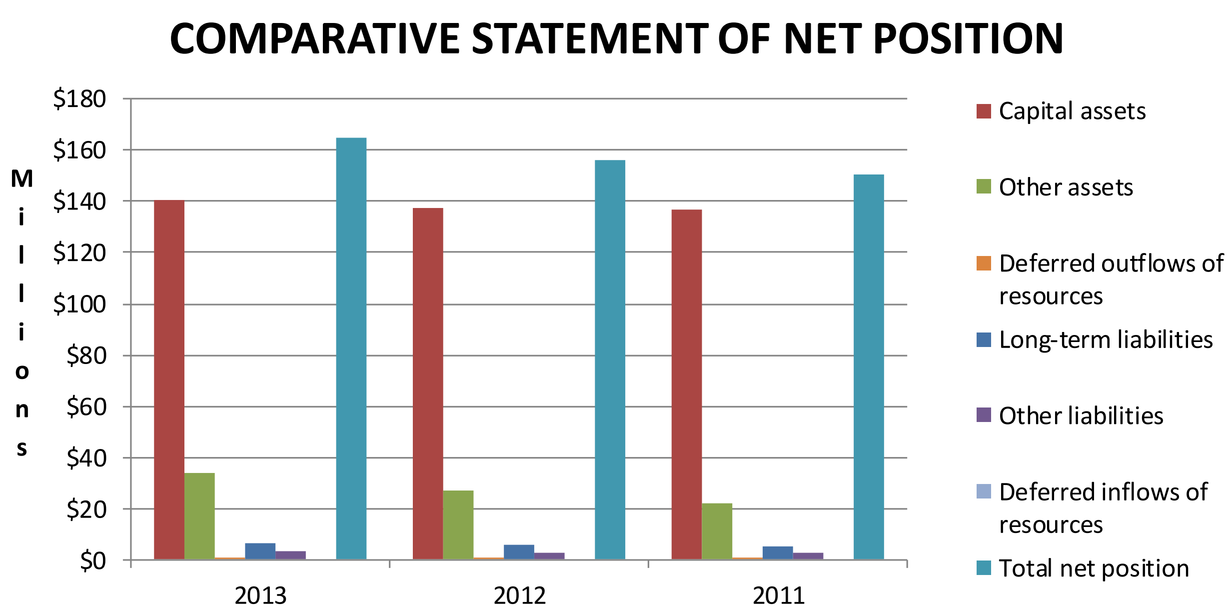
The District's overall financial position continues to be strong with sufficient liquidity, growing revenues and debt capacity to finance future capital improvements if necessary.

The District is financed primarily by equity and substantial liquid assets are available to fund liabilities and construction**.** Capital assets increased in 2013 and 2012 due to growth in the District's customer base and system improvements.

The District is located in a growing area of Snohomish County, Washington.

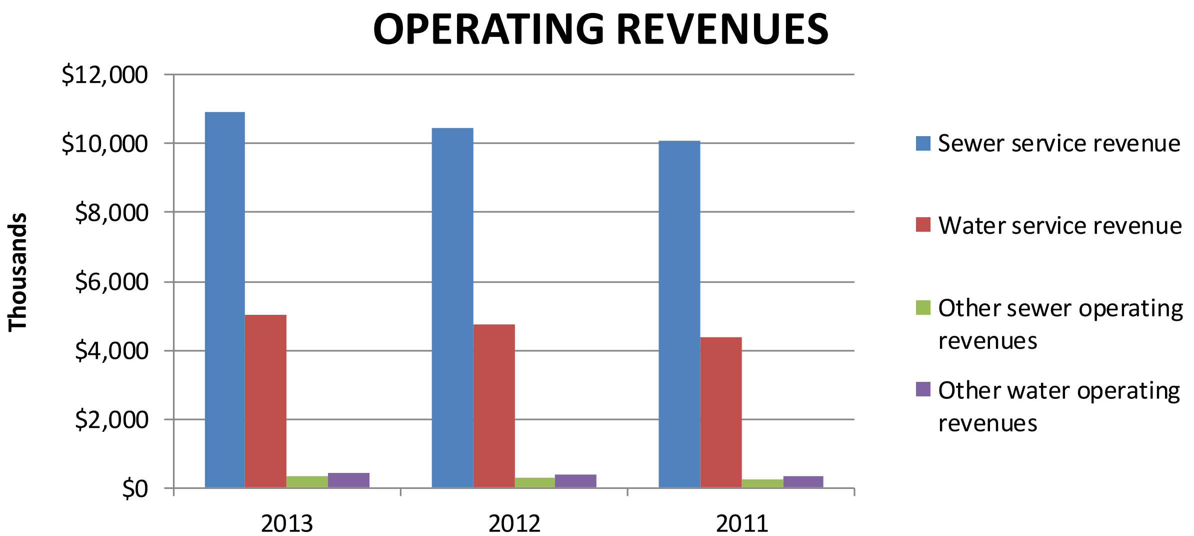
The following charts indicate the components of financial position:





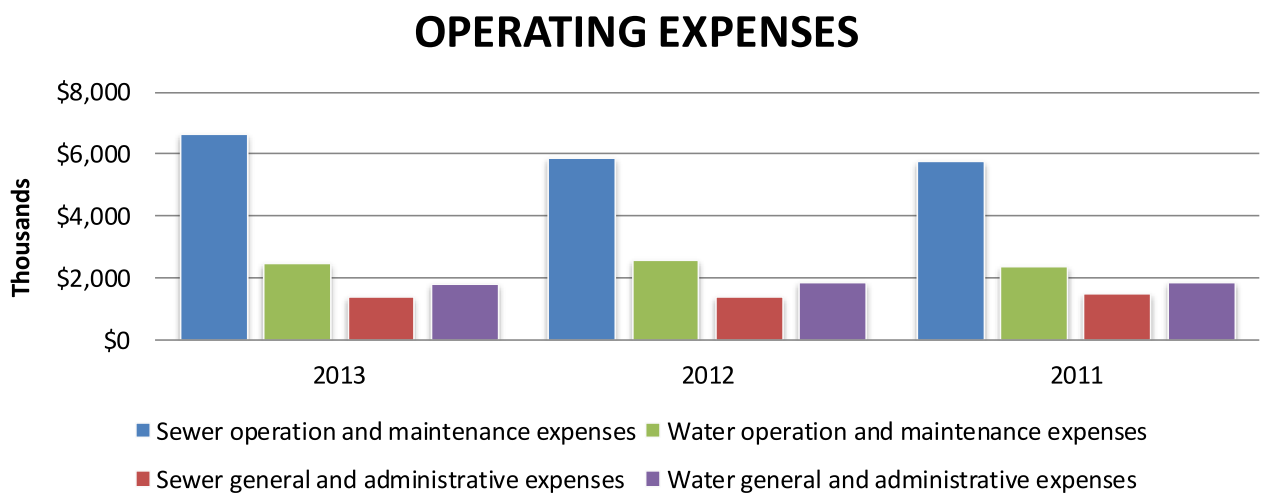
RESULTS OF OPERATIONS

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 increase in sewer revenue in 2013 and 2012 was due to the growth in the customer base and rate increases. The increase in water revenue in 2013 and 2012 was due to the growth in the customer base, rate increases in 2012 and varying summer weather conditions and related outdoor water use. Specifically, the hot and dry summer weather conditions of 2013 and 2012 compared to the wet and cold weather conditions during the summers of 2011.

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

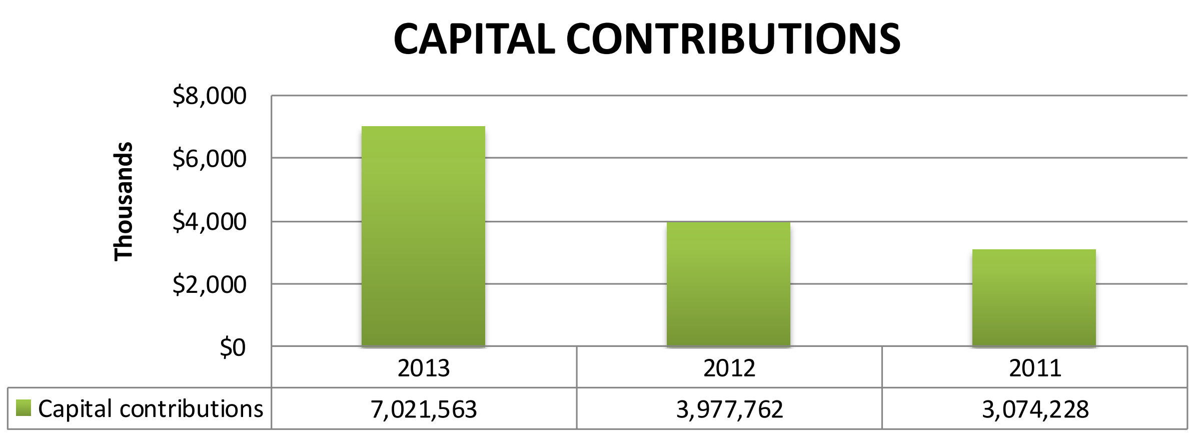


Sewer operation and maintenance costs increased in 2013 and 2012 due to rate increases for sewage treatment. Water operating expenses in 2013 were comparable to 2012. The variability in water operating expenses is due to varying summer weather conditions and related outdoor water use. Summer weather conditions in 2013 and 2012 were comparable, while colder and wetter conditions existed in 2011. General and administrative expenses were stable in 2013 and 2012.

The District operated at a profit in 2013, 2012 and 2011. Operating results are augmented by earnings on investments, capital contributions, and other non-operating revenues, less non-operating expenses.

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

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



The contributions are indicative of the growth of the District and include donated systems totaling $3,907,448, $1,636,931 and $1,401,358 for the years ended December 31, 2013, 2012 and 2011, respectively. The growth of the District is increasing due to the effects of the improving overall economy.

CAPITAL ASSETS AND LONG-TERM DEBT

The capital assets of the District have increased due to growth in the customer base and system improvements. Significant capital asset additions included the following:

2013			2012		
Water system:			**Water system:**		
Donated Systems	$	2,117,020	Donated Systems	$	781,795
Master Meter 9 & Reservoir 2 Site Upgrades		804,026	Master Meter 9 & Reservoir 2 Site Upgrades		215,832
Clearview Project		92,141	Operations Manual		53,488
Meters, Registers and Transmitters		212,786	Meters, Registers and Transmitters		253,801
AWWD Intertie		131,317	**Sewer system:**		
Sewer system:			Donated Systems		855,136
Donated Systems		1,790,428	WPCF Expansion Phase B		174,778
WPCF Expansion Phase C		197,673	WPCF Expansion Phase C		82,425
Lift Station 3 Improvements		158,344	Lift Station 3 Improvements		866,813
2012 Sanitary Sewer Rehabilitiation		103,274			

The increase in long-term debt in 2013 and 2012 was due to receipt of Public Works Trust Fund loans for the lift station improvement projects and the WPCF expansion phase C project.

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

As of December 31, 2013, the District has $29,833,334 of unrestricted cash and investments available for operating costs and capital asset acquisition.

The District is committed to pay a portion of certain City of Everett projects. See note 9 in the financial statements for the District's estimated share of these projects over the next 10 years.

ADDITIONAL COMMENTS

The District purchases wholesale water and sewage treatment services from other entities. The District intends to adjust rates to compensate for increases in these direct costs.

SILVER LAKE WATER AND SEWER DISTRICT
STATEMENT OF NET POSITION
December 31, 2014 and 2013

ASSETS	**2014**	**2013**
Current assets:		
Unrestricted:		
Cash	$ 9,108,435	$ 20,068,033
Investments	24,378,494	9,765,301
Accounts receivable	1,714,948	1,697,343
Unbilled utility service receivable	573,095	525,854
Accounts receivable, other	531,483	-
Materials and supplies	137,449	146,176
	36,443,904	32,202,707
Restricted:		
Cash	124,093	999,365
Investments	650,588	482,061
Interest receivable	934	1,030
Assessments receivable - current portion	4,293	4,907
	779,908	1,487,363
Total current assets	37,223,812	33,690,070
Non-current assets:		
Restricted:		
Assessments receivable, less current portion	9,814	14,720
Capital assets not being depreciated:		
Land and land rights	3,756,904	3,756,904
Construction in progress	3,895,929	928,669
Capital assets being depreciated:		
Plant in service	187,253,289	180,640,154
Less accumulated depreciation	(47,442,793)	(44,552,586)
Net capital assets	147,463,329	140,773,141
Total non-current assets	147,473,143	140,787,861
Total assets	184,696,955	174,477,931
DEFERRED OUTFLOWS OF RESOURCES		
Deferred loss on refunding of debt	6,975	10,387
Total deferred outflows of resources	6,975	10,387
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	$ 184,703,930	$ 174,488,318

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

SILVER LAKE WATER AND SEWER DISTRICT
STATEMENT OF NET POSITION
(CONTINUED)
December 31, 2014 and 2013

LIABILITIES	**2014**	**2013**
Current liabilities:		
Payable from unrestricted assets:		
Accounts payable	$ 2,625,024	$ 1,216,827
Retainage payable	4,629	-
Accrued compensated absences	180,000	175,000
Deposits for construction	-	790
Accrued interest	14,634	15,067
Long-term debt - current maturities	537,194	528,451
	3,361,481	1,936,135
Payable from restricted assets:		
Accounts payable	-	707,341
Accrued interest	6,919	8,162
Long-term debt - current maturities	490,000	475,000
	496,919	1,190,503
Total current liabilities	3,858,400	3,126,638
Non-current liabilities:		
Long-term debt payable from unrestricted assets, net of current maturities	4,455,608	4,160,243
Long-term debt payable from restricted assets, net of current maturities	1,559,200	2,063,487
Compensated absences	172,965	155,677
Total non-current liabilities	6,187,773	6,379,407
Total liabilities	10,046,173	9,506,045
DEFERRED INFLOWS OF RESOURCES	-	-
Total liabilities and deferred inflows of resources	10,046,173	9,506,045
NET POSITION		
Net investment in capital assets	140,428,302	133,556,347
Restricted for debt service	782,803	786,580
Unrestricted	33,446,652	30,639,346
Total net position	174,657,757	164,982,273
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES AND NET POSITION	$ 184,703,930	$ 174,488,318

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

SILVER LAKE WATER AND SEWER DISTRICT
STATEMENT OF NET POSITION
December 31, 2013 and 2012

ASSETS	**2013**	**Restated 2012**
Current assets:		
Unrestricted:		
Cash	$ 20,068,033	$ 14,006,893
Investments	9,765,301	9,755,360
Accounts receivable	1,697,343	1,630,597
Unbilled utility service receivable	525,854	515,745
Accounts receivable, other	-	103,344
Materials and supplies	146,176	134,049
	32,202,707	26,145,988
Restricted:		
Cash	999,365	609,170
Investments	482,061	481,423
Interest receivable	1,030	1,707
Assessments receivable - current portion	4,907	6,133
	1,487,363	1,098,433
Total current assets	33,690,070	27,244,421
Non-current assets:		
Restricted:		
Assessments receivable, less current portion	14,720	19,627
Capital assets not being depreciated:		
Land and land rights	3,756,904	3,756,904
Construction in progress	928,669	4,191,963
Capital assets being depreciated:		
Plant in service	180,640,154	171,557,393
Less accumulated depreciation	(44,552,586)	(41,805,886)
Net capital assets	140,773,141	137,700,374
Total non-current assets	140,787,861	137,720,001
Total assets	174,477,931	164,964,422
DEFERRED OUTFLOWS OF RESOURCES		
Deferred loss on refunding of debt	10,387	14,430
Total deferred outflows of resources	10,387	14,430
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	$ 174,488,318	$ 164,978,852

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

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

LIABILITIES	**2013**	**Restated 2012**
Current liabilities:		
Payable from unrestricted assets:		
Accounts payable	$ 1,216,827	$ 1,024,068
Accrued compensated absences	330,677	331,723
Deposits for construction	790	83,455
Accrued interest	15,067	14,488
Long-term debt - current maturities	528,451	458,368
	2,091,812	1,912,102
Payable from restricted assets:		
Accounts payable	707,341	254,095
Accrued interest	8,162	9,379
Long-term debt - current maturities	475,000	465,000
	1,190,503	728,474
Total current liabilities	3,282,315	2,640,576
Non-current liabilities:		
Long-term debt payable from unrestricted assets, net of current maturities	4,160,243	3,454,966
Long-term debt payable from restricted assets, net of current maturities	2,063,487	2,555,412
Total non-current liabilities	6,223,730	6,010,378
Total liabilities	9,506,045	8,650,954
DEFERRED INFLOWS OF RESOURCES	-	-
Total liabilities and deferred inflows of resources	9,506,045	8,650,954
NET POSITION		
Net investment in capital assets	133,556,347	130,781,058
Restricted for debt service	786,580	854,586
Unrestricted	30,639,346	24,692,254
Total net position	164,982,273	156,327,898
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES AND NET POSITION	$ 174,488,318	$ 164,978,852

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

SILVER LAKE WATER AND SEWER DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
Years Ended December 31, 2014 and 2013

	2014	2013
Operating revenues:		
Service charges	$ 16,811,449	$ 15,943,150
Permits	301,136	271,516
Miscellaneous	732,413	527,231
	17,844,998	16,741,897
Operating expenses:		
Operation expenses	9,003,418	8,582,660
Maintenance expenses	618,445	519,542
General and administrative	3,575,226	3,213,193
Depreciation	2,930,317	2,783,820
	16,127,406	15,099,215
Operating income	1,717,592	1,642,682
Non-operating revenues:		
Investment and assessment income	32,678	53,055
Gain on disposal of assets	9,154	11,926
	41,832	64,981
Non-operating expenses:		
Interest on long-term debt - net of amount capitalized	82,790	87,733
Amortization of debt (premiums) and refunding loss	(10,874)	(12,882)
	71,916	74,851
Income before capital contributions	1,687,508	1,632,812
Capital contributions	7,987,976	7,021,563
Change in net position	9,675,484	8,654,375
Net position, January 1	164,982,273	156,327,898
Net position, December 31	$ 174,657,757	$ 164,982,273

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

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

	2013	Restated 2012
Operating revenues:		
Service charges	$ 15,943,150	$ 15,227,987
Permits	271,516	247,070
Miscellaneous	527,231	448,271
	16,741,897	15,923,328
Operating expenses:		
Operation expenses	8,582,660	7,904,857
Maintenance expenses	519,542	552,318
General and administrative	3,213,193	3,246,613
Depreciation	2,783,820	2,645,341
	15,099,215	14,349,129
Operating income	1,642,682	1,574,199
Non-operating revenues:		
Investment and assessment income	53,055	65,284
Gain on disposal of assets	11,926	38,619
	64,981	103,903
Non-operating expenses:		
Interest on long-term debt - net of amount capitalized	87,733	84,908
Amortization of debt (premiums) and refunding loss	(12,882)	(14,887)
	74,851	70,021
Income before capital contributions	1,632,812	1,608,081
Capital contributions	7,021,563	3,977,762
Change in net position	8,654,375	5,585,843
Net position, January 1, as previously reported	156,327,898	150,798,946
Restatement - change in accounting principle	-	(56,891)
Net position, January 1, as restated	156,327,898	150,742,055
Net position, December 31	$ 164,982,273	$ 156,327,898

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

SILVER LAKE WATER AND SEWER DISTRICT
STATEMENT OF CASH FLOWS
Years Ended December 31, 2014 and 2013

	2014	2013
Cash flows from operating activities:		
Cash received from customers and other	$ 17,568,896	$ 16,665,042
Cash paid to vendors	(11,154,120)	(8,931,616)
Cash paid to and for employees and commissioners	(2,857,834)	(2,704,503)
Net cash provided by operating activities	3,556,942	5,028,923
Cash flows from capital financing activities:		
Contributions in aid of construction	4,131,850	3,114,115
Collections on ULID assessments receivable	5,520	6,133
Interest received on assessments	869	2,228
Proceeds from issuance of long-term debt	846,001	1,262,521
Proceeds from disposal of assets	9,154	11,926
Expenditures for plant in service and construction	(4,534,031)	(1,974,904)
Payment on long-term debt	(1,016,894)	(952,161)
Interest paid on long-term debt, net of amount capitalized	(84,466)	(88,371)
Net cash provided by (used in) capital financing activities	(641,997)	1,381,487
Cash flows from investing activities:		
Proceeds from sale of investments	10,247,510	3,000
Purchase of investments	(25,029,230)	(13,579)
Interest received on investments	31,905	51,504
Net cash provided by (used in) investing activities	(14,749,815)	40,925
Net increase (decrease) in cash	(11,834,870)	6,451,335
Cash at January 1	21,067,398	14,616,063
Cash at December 31	$ 9,232,528	$ 21,067,398
Cash is comprised of the following at December 31:		
Cash - current assets	$ 9,108,435	$ 20,068,033
Cash - restricted assets	124,093	999,365
	$ 9,232,528	$ 21,067,398

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

SILVER LAKE WATER AND SEWER DISTRICT
STATEMENT OF CASH FLOWS
(CONTINUED)
Years Ended December 31, 2014 and 2013

		2014		2013
Reconciliation of operating income to net cash provided by operating activities:				
Operating income	$	1,717,592	$	1,642,682
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation		2,930,317		2,783,820
(Increase) decrease in assets:				
Receivables		(596,329)		26,489
Materials and supplies		8,727		(12,127)
Increase (decrease) in liabilities:				
Accounts payable		(524,863)		671,770
Accrued compensated absences		22,288		(1,046)
Deposits for construction		(790)		(82,665)
Net cash provided by operating activities	$	3,556,942	$	5,028,923
Supplemental schedule of significant non-cash financing and investing activities:				
Utility plant donations received	$	3,856,126	$	3,907,448

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

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

	2013	Restated 2012
Cash flows from operating activities:		
Cash received from customers and other	$ 16,665,042	$ 15,701,323
Cash paid to vendors	(8,931,616)	(8,862,014)
Cash paid to and for employees and commissioners	(2,704,503)	(2,515,025)
Net cash provided by operating activities	5,028,923	4,324,284
Cash flows from capital financing activities:		
Contributions in aid of construction	3,114,115	2,340,831
Collections on ULID assessments receivable	6,133	19,014
Interest received on assessments	2,228	3,144
Proceeds from issuance of long-term debt	1,262,521	1,380,972
Proceeds from disposal of assets	11,926	38,619
Expenditures for plant in service and construction	(1,974,904)	(2,408,221)
Payment on long-term debt	(952,161)	(839,320)
Interest paid on long-term debt, net of amount capitalized	(88,371)	(85,741)
Net cash provided by capital financing activities	1,381,487	449,298
Cash flows from investing activities:		
Proceeds from sale of investments	3,000	-
Purchase of investments	(13,579)	(16,235)
Interest received on investments	51,504	63,202
Net cash provided by investing activities	40,925	46,967
Net increase in cash	6,451,335	4,820,549
Cash at January 1	14,616,063	9,795,514
Cash at December 31	$ 21,067,398	$ 14,616,063
Cash is comprised of the following at December 31:		
Cash - current assets	$ 20,068,033	$ 14,006,893
Cash - restricted assets	999,365	609,170
	$ 21,067,398	$ 14,616,063

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

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

	2013	Restated 2012
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	$ 1,642,682	$ 1,574,199
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	2,783,820	2,645,341
(Increase) decrease in assets:		
Receivables	26,489	(222,005)
Materials and supplies	(12,127)	5,012
Increase (decrease) in liabilities:		
Accounts payable	671,770	292,617
Accrued compensated absences	(1,046)	12,425
Deposits for construction	(82,665)	16,695
Net cash provided by operating activities	$ 5,028,923	$ 4,324,284
Supplemental schedule of significant non-cash financing and investing activities:		
Utility plant donations received	$ 3,907,448	$ 1,636,931

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

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

Description of business, nature of operations and reporting entity - Silver Lake 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 water and sewer systems within its boundaries, which encompass an area in south Snohomish County. The District is governed by an elected three member board and has no component units.

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

Change in accounting principle - In 2013, 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 District classified a deferred loss on refunding of debt as a deferred outflow of resources in 2013 as a result of implementation of this standard.

Investments - Investments in the State of Washington Treasurer's Investment Pool are stated at share price which is equal to cost. Other investments are stated at fair value.

Accounts receivable - The District utilizes the allowance method of accounting for doubtful accounts. However, all accounts 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.

Materials and supplies - Materials and supplies are inventories available for future use and are stated at the lower of cost (FIFO) or market.

Capital assets - Capital assets are stated at cost. For water and sewer systems installed by developers or customers and conveyed to the District by bill of sale, the District records the cost of the system at the contributing party's estimated cost. Expenditures for capital assets exceeding $5,000, including capital leases and major repairs that increase useful lives, are capitalized. Certain assets including meters, hydrants and titled motor vehicles and trailers are capitalized regardless of cost. 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. Depreciation on capital assets is computed using the straight-line method over the following estimated useful lives:

	Estimated useful lives
Water system	20 - 75 years
Sewer system	20 - 75 years
Office building and improvements	10 - 75 years
Equipment and other	3 - 10 years

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

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

Total interest and amortization cost incurred for the years ended December 31, 2014 and 2013 was $114,730 and $127,643, respectively. Interest capitalized to Construction in Progress for the years ended December 31, 2014 and 2013 was $42,814 and $52,792, 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 benefit amounts as earned. District employees accumulate vacation and sick leave hours, subject to certain restrictions, for subsequent use or payment 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 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. 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.

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

Capital contributions - 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 the 2013 financial statements to conform to the 2014 financial statement presentation.

2. DEPOSITS AND INVESTMENTS

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

Investments - As required by state law, all investments of the District's funds are obligations of the U.S. Government, U.S. agency issues, obligations of the state of Washington, certificates of deposit with Washington State Banks and the Local Government Investment Pool managed by the Washington State Treasurer's office.

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

	Fair value
2014:	
Local Government Investment Pool	$25,029,082
2013:	
Local Government Investment Pool	$10,247,362

Credit risk - As of December 31, 2014 and 2013, the District's investment in the Pool was not rated by a nationally recognized statistical rating organization (NRSRO).

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

The District's policy to manage its exposure to fair value arising from increasing interest rates is to allow investments only in money market accounts with qualified public depositories and the Local Government Investment Pool.

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 debt service, reserve and other requirements. Restricted assets were as follows:

	Revenue Bond Debt Service Account	Revenue Bond Reserve Account	180th Street Lift Station Latecomer Fees	Total
December 31, 2014:				
Current restricted assets:				
Cash	$ 73,006	$ 51,087	$ -	$ 124,093
Investments	225,204	425,384		650,588
Interest receivable	934			934
Assessments receivable - current	4,293			4,293
	303,437	476,471	-	779,908
Noncurrent - restricted assets:				
Assessments receivable - long-term	9,814			9,814
	$313,251	$476,471	$ -	$ 789,722

	Revenue Bond Debt Service Account	Revenue Bond Reserve Account	180th Street Lift Station Latecomer Fees	Total
December 31, 2013:				
Current restricted assets:				
Cash	$292,024		$707,341	$ 999,365
Investments	5,974	$476,087		482,061
Interest receivable	1,030			1,030
Assessments receivable - current	4,907			4,907
	303,935	476,087	707,341	1,487,363
Noncurrent - restricted assets:				
Assessments receivable - long-term	14,720			14,720
	$318,655	$476,087	$707,341	$1,502,083

3. RESTRICTED ASSETS (continued)

Terms of the revenue bond issues require the District to establish and maintain debt service and reserve accounts. The debt service accounts are to accumulate funds for payment of bond, principal and interest and the reserve accounts are to provide security for bond holders.

The required reserve account at December 31, 2014 and 2013 is $462,000 and $376,800, respectively. Both the debt service and reserve accounts are fully funded.

4. CAPITAL ASSETS

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

	Balance, beginning of year	Additions	Disposals	Transfers	Balance, end of year
2014:					
Capital assets not being depreciated:					
Land and land rights	$ 3,756,904				$ 3,756,904
Construction in progress	928,669	$ 5,375,743	$ (38,771)	$(2,369,712)	3,895,929
	4,685,573	5,375,743	(38,771)	(2,369,712)	7,652,833
Capital assets being depreciated:					
Water system	70,576,422	2,247,945		2,173,844	74,998,211
Sewer system	92,942,052	1,881,783	(95)	126,563	94,950,303
Office building and improvements	14,252,341	20,443			14,272,784
Equipment and other	2,869,339	133,329	(39,982)	69,305	3,031,991
	180,640,154	4,283,500	(40,077)	2,369,712	187,253,289
Accumulated depreciation:					
Water system	(15,107,763)	(918,007)			(16,025,770)
Sewer system	(24,221,986)	(1,459,213)	128		(25,681,071)
Office building and improvements	(3,167,291)	(364,537)			(3,531,828)
Equipment and other	(2,055,546)	(188,560)	39,982		(2,204,124)
	(44,552,586)	(2,930,317)	40,110		(47,442,793)
Net capital assets	$140,773,141	$ 6,728,926	$ (38,738)	$ -	$147,463,329

4. CAPITAL ASSETS (continued)

	Balance, beginning of year	Additions	Disposals	Transfers	Balance, end of year
2013:					
Capital assets not being depreciated:					
Land and land rights	$ 3,756,904				$ 3,756,904
Construction in progress	4,191,963	$ 1,572,453		$(4,835,747)	928,669
	7,948,867	1,572,453		(4,835,747)	4,685,573
Capital assets being depreciated:					
Water system	67,173,124	2,332,236		1,071,062	70,576,422
Sewer system	87,346,757	1,830,610		3,764,685	92,942,052
Office building and improvements	14,252,341				14,252,341
Equipment and other	2,785,171	121,288	$ (37,120)		2,869,339
	171,557,393	4,284,134	(37,120)	4,835,747	180,640,154
Accumulated depreciation:					
Water system	(14,242,493)	(865,270)			(15,107,763)
Sewer system	(22,834,469)	(1,387,517)			(24,221,986)
Office building and improvements	(2,802,908)	(364,383)			(3,167,291)
Equipment and other	(1,926,016)	(166,650)	37,120		(2,055,546)
	(41,805,886)	(2,783,820)	37,120		(44,552,586)
Net capital assets	$137,700,374	$ 3,072,767	$ -	$ -	$140,773,141

5. LONG-TERM DEBT PAYABLE FROM UNRESTRICTED ASSETS

Long-term debt outstanding, payable from unrestricted assets, consisted of the following Public Works Trust Fund loans secured by the revenue of the water and sewer systems issued for utility construction:

	2014	2013
1998 $101,144 loan, payable $5,323 annually through the year 2018, plus interest at 1.0 annual percentage rate.	$ 21,293	$ 26,617
1999 $6,208,160 loan, payable $346,486 annually through the year 2019, plus interest at 1.0 annual percentage rate.	1,732,431	2,078,917
2009 $150,040 loan, payable $37,510 annually through the year 2014, plus interest at .50 annual percentage rate.	-	37,510
2012 $1,859,000 loan, payable $97,842 annually through the year 2031, plus interest at .25 annual percentage rate.	1,663,316	1,761,158
2013 loan: $7,810,000 authorized, $1,630,495 drawn to December 31, 2014. Based on draws to December 31, 2014, payable $87,542 annually through the year 2032, plus interest at .50 annual percentage rate.	1,575,762	784,492
	4,992,802	4,688,694
Less current maturities	(537,194)	(528,451)
	$4,455,608	$4,160,243

Long-term debt service requirements to maturity, payable by the District from unrestricted assets, are as follows (based on draws received through December 31, 2014):

	Principal	Interest	Total
2015	$ 537,194	$ 28,417	$ 565,611
2016	537,194	25,374	562,568
2017	537,194	21,174	558,368
2018	537,194	16,973	554,167
2019	531,871	12,773	544,644
2020-2024	926,922	36,304	963,226
2025-2029	926,922	19,246	946,168
2030-2032	458,311	3,360	461,671
	$4,992,802	$163,621	$5,156,423

6. LONG-TERM DEBT PAYABLE FROM RESTRICTED ASSETS

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

	2014	2013
Revenue Bonds:		
$360,000 issued March 1, 2002 for utility construction, due serially through the year 2016, with interest payable semi-annually at 5.2 annual percentage rate.	$ 65,000	$ 95,000
$4,260,000 issued June 11, 2009 for refunding, due serially through the year 2018, with interest payable semi-annually at 3.50 to 5.00 annual percentage rates.	1,955,000	2,400,000
	2,020,000	2,495,000
Less current maturities	(490,000)	(475,000)
Unamortized premiums (discounts)	29,200	43,487
	$1,559,200	$2,063,487

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

	Principal	Interest	Total
2015	$ 490,000	$ 83,030	$ 573,030
2016	510,000	65,370	575,370
2017	500,000	42,800	542,800
2018	520,000	20,800	540,800
	$2,020,000	$212,000	$2,232,000

7. CHANGES IN LONG-TERM LIABILITIES

Changes in long-term liabilities was as follows:

	Balance, beginning of year	Additions	Reductions	Balance, end of year	Amounts due within one year
2014:					
Long-term debt payable from unrestricted assets:					
1998 Loan	$ 26,617		$ (5,324)	$ 21,293	$ 5,323
1999 Loan	2,078,917		(346,486)	1,732,431	346,486
2009 Loan	37,510		(37,510)	-	-
2012 Loan	1,761,158		(97,842)	1,663,316	97,842
2013 Loan	784,492	$846,003	(54,733)	1,575,762	87,543
	$ 4,688,694	$846,003	$(541,895)	$4,992,802	$537,194
Long-term debt payable from restricted assets:					
2002 Revenue Bonds	$ 95,000	$ -	$ (30,000)	$ 65,000	$ 30,000
2009 Revenue Bonds	2,400,000		(445,000)	1,955,000	460,000
	$ 2,495,000	$ -	$(475,000)	$2,020,000	$490,000
Compensated absences	$ 330,677	$196,278	$(173,990)	$ 352,965	$180,000

7. CHANGES IN LONG-TERM LIABILITIES (continued)

	Balance, beginning of year	Additions	Reductions	Balance, end of year	Amounts due within one year
2013:					
Long-term debt payable from unrestricted assets:					
1998 Loan	$ 31,940		$ (5,323)	$ 26,617	$ 5,323
1999 Loan	2,425,403		(346,486)	2,078,917	346,486
2009 Loan	75,020		(37,510)	37,510	37,510
2012 Loan	1,380,971	$ 478,029	(97,842)	1,761,158	97,842
2013 Loan	-	784,492	-	784,492	41,290
	$3,913,334	$1,262,521	$(487,161)	$4,688,694	$528,451
Long-term debt payable from restricted assets:					
2002 Revenue Bonds	$ 125,000	$ -	$ (30,000)	$ 95,000	$ 30,000
2009 Revenue Bonds	2,835,000		(435,000)	2,400,000	445,000
	$2,960,000	$ -	$(465,000)	$2,495,000	$475,000
Compensated absences	$ 331,723	$ 185,948	$(186,994)	$ 330,677	$175,000

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.

8. PENSION PLAN (continued)

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 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

8. PENSION PLAN (continued)

month, or two-thirds of the monthly AFC, whichever is less. The benefit is reduced by any workers' compensation benefit and is payable as long as the member remains disabled or until the member attains the age of 60, at which time the benefit is converted to the member's service retirement amount.

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

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

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

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

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

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

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

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.

8. PENSION PLAN (continued)

For DRS' Fiscal Year 2014, PERS Plan 3 employee contributions were $99.0 million, and plan refunds paid out were $69.4 million.

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

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

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

- If they have at least ten service credit years and are 55 years old, the benefit is reduced by an ERF that varies with age, for each year before age 65.
- If they have 30 service credit years and are at least 55 years old, and were hired before May 1, 2013, they have a choice of a benefit that is reduced by 3 percent for each year before age 65; or a benefit with a smaller (or no) reduction factor (depending on age) that imposes stricter return-to-work rules.
- If they have 30 service credit years, are at least 55 years old, and were hired after May 1, 2013, they have the option to retire early by accepting a reduction of 5 percent for each year before age 65.

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.

8. PENSION PLAN (continued)

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, 2013:

Retirees and beneficiaries receiving benefits	85,328
Terminated plan members entitled to but not yet receiving benefits	31,047
Active plan members vested	150,706
Active plan members non-vested	101,191
	368,272

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

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

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

	2014			2013		
	PERS Plan 1	PERS Plan 2	PERS Plan 3	PERS Plan 1	PERS Plan 2	PERS Plan 3
Employer*	9.21%	9.21%	9.21%**	9.21%	9.21%	9.21%**
Employee	6.00%	4.92%	***	6.00%	4.92%	***

* The employer rates include the employer administrative expense fee set at 0.18% and 0.18% as of December 31, 2014 and 2013, respectively.
** Plan 3 defined benefit portion only.
*** Variable from 5.00% minimum to 15.00% maximum based on rate selected by the PERS 3 member.

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

	Required contributions		
	PERS Plan 1	PERS Plan 2	PERS Plan 3
2014	$6,978	$160,489	$1,521
2013	$6,137	$136,952	-
2012	$5,235	$117,639	-

9. DEFERRED COMPENSATION

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. 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 the plan in 2014 or 2013.

10. COMMITMENTS

The District is obligated to the City of Everett to pay for a portion of certain city projects. The District does not record a liability and related asset for city project billings until billing has been received. As of December 31, 2014, the District's share of the projects is estimated to be as follows:

2014	$ -
2015	3,760,000
2016	560,000
2017	1,184,000
2018	1,153,600
2019	2,657,600
2020-2024	15,344,000
	$24,659,200

11. RISK MANAGEMENT

The District is a member of the Washington Cities Insurance Authority (WCIA).

Utilizing Chapter 48.62 RCW (self-insurance regulation) and Chapter 39.34 RCW (Interlocal Cooperation Act), nine cities originally formed WCIA on January 1, 1981. WCIA was created for the purpose of providing a pooling mechanism for jointly purchasing insurance, jointly self-insuring, and / or jointly contracting for risk management services. WCIA has a total of 175 Members.

New members initially contract for a three-year term, and thereafter automatically renew on an annual basis. A one-year withdrawal notice is required before membership can be terminated. Termination does not relieve a former member from its unresolved loss history incurred during membership.

Liability coverage is written on an occurrence basis, without deductibles. Coverage includes general, automobile, police, public officials' errors or omissions, stop gap, and employee benefits liability. Limits are $4 million per occurrence self insured layer, and $16 million per occurrence in the re-insured excess layer. The excess layer is insured by the purchase of reinsurance and insurance and is subject to aggregate limits. Total limits are $20 million per occurrence subject to aggregate sublimits in the excess layers. The Board of Directors determines the limits and terms of coverage annually.

Insurance coverage for property, automobile physical damage, fidelity, inland marine, and boiler and machinery are purchased on a group basis. Various deductibles apply by type of coverage. Property insurance and auto physical damage are self-funded from the members' deductible to $750,000, for

11. RISK MANAGEMENT (continued)

all perils other than flood and earthquake, and insured above that amount by the purchase of insurance.

In-house services include risk management consultation, loss control field services, claims and litigation administration, and loss analyses. WCIA contracts for the claims investigation consultants for personnel issues and land use problems, insurance brokerage, and lobbyist services.

WCIA is fully funded by its members, who make annual assessments on a prospectively rated basis, as determined by an outside, independent actuary. The assessment covers loss, loss adjustment, and administrative expenses. As outlined in the interlocal, WCIA retains the right to additionally assess the membership for any funding shortfall.

An investment committee, using investment brokers, produces additional revenue by investment of WCIA's assets in financial instruments which comply with all State guidelines.

A Board of Directors governs WCIA, which is comprised of one designated representative from each member. The Board elects an Executive Committee and appoints a Treasurer to provide general policy direction for the organization. The WCIA Executive Director reports to the Executive Committee and is responsible for conducting the day to day operations of WCIA.

In the past three years (2014, 2013, and 2012), there have been no claim settlements, per occurrence or in aggregate, that have exceeded the coverage provided by excess/reinsurance contracts.

12. MAJOR SUPPLIERS

All sewage collected by the District is treated by the City of Everett and the Department of Natural Resources / King County, Washington.

Water purchased by the District is supplied by the City of Everett, the Clearview Water Supply Agency and Alderwood Water and Wastewater District. In 2004, the District negotiated a 50 year supply contract for water with the Clearview Water Supply Agency.

13. LEASES

The District leases space for cell towers on certain reservoirs under noncancelable provisions of operating leases. Future rental income due to the District under the noncancelable portion of the leases is as follows:

Year ending December 31:

2015	$149,383
2016	143,345
2017	83,683
2018	9,649
	$386,060

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

Description of business, nature of operations and reporting entity - Silver Lake 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 water and sewer systems within its boundaries, which encompass an area in south Snohomish County. The District has no component units.

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

Change in accounting principle - The District implemented Governmental Accounting Standards Board Statement No. 65, Items Previously Reported as Assets and Liabilities (GASB 65). This statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes certain items that were previously reported as assets and liabilities as expenses in the period incurred. The cumulative impact of implementation of GASB 65 resulted in a $56,891 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 a deferred loss on refunding of debt as a deferred outflow of resources and reduce amortization expense in the amount of $14,137.

Investments - Investments in the State of Washington Treasurer's Investment Pool are stated at share price which is equal to cost. Other investments are stated at fair value.

Accounts receivable - The District utilizes the allowance method of accounting for doubtful accounts. However, all accounts 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.

Materials and supplies - Materials and supplies are inventories available for future use and are stated at the lower of cost (FIFO) or market.

Capital assets - Capital assets are stated at cost. For water and sewer systems installed by developers or customers and conveyed to the District by bill of sale, the District records the cost of the system at the contributing party's estimated cost. Expenditures for capital assets exceeding $5,000, including capital leases and major repairs that increase useful lives, are capitalized. Certain assets including meters, hydrants and titled motor vehicles and trailers are capitalized regardless of cost. Maintenance, repairs, and minor renewals are accounted for as expenses when incurred. When capital assets are retired or otherwise disposed of, the cost and accumulated depreciation are removed from the accounts and any resulting gain or loss is recognized in income for the period. Provision is made for depreciation of capital assets using the straight-line method over the estimated useful lives of the assets which generally are 3-75 years.

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

Total interest and amortization cost incurred for the years ended December 31, 2013 and 2012 was $127,643 and $139,270, respectively. Interest capitalized to Construction in Progress for the years ended December 31, 2013 and 2012 was $52,792 and $69,249, respectively.

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

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 benefit amounts as earned. District employees accumulate vacation and sick leave hours, subject to certain restrictions, for subsequent use or payment 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 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. 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 - ULID assessments and contributions in aid of construction from property owners are recorded as capital contribution revenue.

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

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.

2. DEPOSITS AND INVESTMENTS

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

Investments - As required by state law, all investments of the District's funds are obligations of the U.S. Government, U.S. agency issues, obligations of the state of Washington, certificates of deposit with Washington State Banks and the Local Government Investment Pool managed by the Washington State Treasurer's office.

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

	Fair value
2013:	
State Treasurer's Investment Pool	$10,247,362
2012:	
State Treasurer's Investment Pool	$10,236,783

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).

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

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

3. RESTRICTED ASSETS (continued)

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 debt service, reserve and other requirements. Restricted assets were as follows:

	Revenue Bond Service Account	Revenue Bond Reserve Account	180th Street Lift Station Latecomer Fees	Total
December 31, 2013:				
Current restricted assets:				
Cash	$292,024		$707,341	$ 999,365
Investments	5,974	$476,087		482,061
Interest receivable	1,030			1,030
Assessments receivable - current	4,907			4,907
	303,935	476,087	707,341	1,487,363
Noncurrent - restricted assets:				
Assessments receivable - long-term	14,720			14,720
	$318,655	$476,087	$707,341	$1,502,083

	Revenue Bond Service Account	Revenue Bond Reserve Account	180th Street Lift Station Latecomer Fees	Total
December 31, 2012:				
Current restricted assets:				
Cash	$355,075		$254,095	$ 609,170
Investments	5,336	$476,087		481,423
Interest receivable	1,707			1,707
Assessments receivable - current	6,133			6,133
	368,251	476,087	254,095	1,098,433
Noncurrent - restricted assets:				
Assessments receivable - long-term	19,627			19,627
	$387,878	$476,087	$254,095	$1,118,060

3. RESTRICTED ASSETS (continued)

Terms of the revenue bond issues require the District to establish and maintain debt service and reserve accounts. The debt service accounts are to accumulate funds for payment of bond, principal and interest and the reserve accounts are to provide security for bond holders.

The required reserve account at December 31, 2013 and 2012 is $376,800 and $291,600, respectively. Both the debt service and reserve accounts are fully funded.

4. CAPITAL ASSETS

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

	Balance, beginning of year	Additions	Disposals	Transfers	Balance, end of year
2013:					
Capital assets not being depreciated:					
Land and land rights	$ 3,756,904				$ 3,756,904
Construction in progress	4,191,963	$ 1,572,453		$(4,835,747)	928,669
	7,948,867	1,572,453		(4,835,747)	4,685,573
Capital assets being depreciated:					
Water system	67,173,124	2,332,236		1,071,062	70,576,422
Sewer system	87,346,757	1,830,610		3,764,685	92,942,052
Office building and improvements	14,252,341				14,252,341
Equipment and other	2,785,171	121,288	$ (37,120)		2,869,339
	171,557,393	4,284,134	(37,120)	4,835,747	180,640,154
Accumulated depreciation:					
Water system	(14,242,493)	(865,270)			(15,107,763)
Sewer system	(22,834,469)	(1,387,517)			(24,221,986)
Office building and improvements	(2,802,908)	(364,383)			(3,167,291)
Equipment and other	(1,926,016)	(166,650)	37,120		(2,055,546)
	(41,805,886)	(2,783,820)	37,120		(44,552,586)
Net capital assets	$137,700,374	$ 3,072,767	$ -	$ -	$140,773,141

4. CAPITAL ASSETS (continued)

	Balance, beginning of year	Additions	Disposals	Transfers	Balance, end of year
2012:					
Capital assets not being depreciated:					
Land and land rights	$ 3,756,904				$ 3,756,904
Construction in progress	4,248,501	$ 1,478,191	$(107,000)	$(1,427,729)	4,191,963
	8,005,405	1,478,191	(107,000)	(1,427,729)	7,948,867
Capital assets being depreciated:					
Water system	66,121,723	1,047,309		4,092	67,173,124
Sewer system	85,060,544	862,576		1,423,637	87,346,757
Office building and improvements	14,220,958	31,383			14,252,341
Equipment and other	2,631,177	192,054	(38,060)		2,785,171
	168,034,402	2,133,322	(38,060)	1,427,729	171,557,393
Accumulated depreciation:					
Water system	(13,410,748)	(831,745)			(14,242,493)
Sewer system	(21,534,311)	(1,300,158)			(22,834,469)
Office building and improvements	(2,438,918)	(363,990)			(2,802,908)
Equipment and other	(1,814,628)	(149,448)	38,060		(1,926,016)
	(39,198,605)	(2,645,341)	38,060		(41,805,886)
Net capital assets	$136,841,202	$ 966,172	$(107,000)	$ -	$137,700,374

5. LONG-TERM DEBT PAYABLE FROM UNRESTRICTED ASSETS

Long-term debt outstanding, payable from unrestricted assets, consisted of the following Public Works Trust Fund loans secured by the revenue of the water and sewer systems issued for utility construction:

	2013	2012
1998 $101,144 loan, payable $5,323 annually through the year 2018, plus interest at 1.0 annual percentage rate.	$ 26,617	$ 31,940
1999 $6,208,160 loan, payable $346,486 annually through the year 2019, plus interest at 1.0 annual percentage rate.	2,078,917	2,425,403
2009 $150,040 loan, payable $37,510 annually through the year 2014, plus interest at .50 annual percentage rate.	37,510	75,020
2012 $1,859,000 loan, payable $97,842 annually through the year 2031, plus interest at .25 annual percentage rate.	1,761,158	1,380,971
2013 loan: $7,810,000 authorized, $784,492 drawn to December 31, 2013. Based on draws to December 31, 2013, payable $41,289 annually through the year 2032, plus interest at .50 annual percentage rate.	784,492	-
	4,688,694	3,913,334
Less current maturities	(528,451)	(458,368)
	$4,160,243	$3,454,966

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):

	Principal	Interest	Total
2014	$ 528,451	$ 29,156	$ 557,607
2015	490,941	25,411	516,352
2016	490,941	21,442	512,383
2017	490,941	17,473	508,414
2018	490,941	13,504	504,445
2019-2023	1,042,142	29,305	1,071,447
2024-2028	695,656	14,564	710,220
2029-2032	458,681	3,531	462,214
	$4,688,694	$154,386	$4,843,082

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

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:					
1998 Loan	$ 31,940		$ 5,323	$ 26,617	$ 5,323
1999 Loan	2,425,403		346,486	2,078,917	346,486
2009 Loan	75,020		37,510	37,510	37,510
2012 Loan	1,380,971	$ 478,029	97,842	1,761,158	97,842
2013 Loan	-	784,492	-	784,492	41,290
	$3,913,334	$1,262,521	$487,161	$4,688,694	$528,451
2012:					
1998 Loan	$ 37,263		$ 5,323	$ 31,940	$ 5,323
1999 Loan	2,771,889		346,486	2,425,403	346,486
2009 Loan	112,530		37,510	75,020	37,510
2012 Loan	-	$1,380,971	-	1,380,971	69,049
	$2,921,682	$1,380,971	$389,319	$3,913,334	$458,368

6. LONG-TERM DEBT PAYABLE FROM RESTRICTED ASSETS

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

	2013	2012
Revenue Bonds:		
$360,000 issued March 1, 2002, for utility construction, due serially through the year 2016, with interest payable semi-annually at 5.2 annual percentage rate.	$ 95,000	$ 125,000
$4,260,000 issued June 11, 2009 for refunding, due serially through the year 2018, with interest payable semi-annually at 3.00 to 4.00 annual percentage rates.	2,400,000	2,835,000
	2,495,000	2,960,000
Less current maturities	(475,000)	(465,000)
Unamortized premiums (discounts)	43,487	60,412
	$2,063,487	$2,555,412

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

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

	Principal	Interest	Total
2014	$ 475,000	$ 97,940	$ 572,940
2015	490,000	83,030	573,030
2016	510,000	65,370	575,370
2017	500,000	42,800	542,800
2018	520,000	20,800	540,800
	$2,495,000	$309,940	$2,804,940

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

	Balance, beginning of year	Additions	Reductions	Balance, end of year	Amounts due within one year
2013:					
2002 Revenue Bonds	$ 125,000		$ 30,000	$ 95,000	$ 30,000
2009 Revenue Bonds	2,835,000	$ -	435,000	2,400,000	445,000
	$2,960,000	$ -	$465,000	$2,495,000	$475,000
2012:					
2002 Revenue Bonds	$ 150,000		$ 25,000	$ 125,000	$ 30,000
2009 Revenue Bonds	3,260,000	$ -	425,000	2,835,000	435,000
	$3,410,000	$ -	$450,000	$2,960,000	$465,000

7. PENSION PLAN

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

Plan description:
The Legislature established PERS in 1947. Membership in the system includes: elected officials; state employees; employees of the Supreme, Appeals, and Superior courts; employees of legislative committees; employees of district and municipal courts; and employees of local governments. Membership also includes higher education employees not participating in higher education retirement programs. Approximately 49 percent of PERS salaries are accounted for by state employment. PERS retirement benefit provisions are established in Chapters 41.34 and 41.40 RCW and may be amended only by the State Legislature.

PERS is a cost-sharing multiple-employer retirement system comprised of three separate plans for membership purposes: Plans 1 and 2 are defined benefit plans and Plan 3 is a defined benefit plan with a defined contribution component.

PERS members who joined the system by September 30, 1977 are Plan 1 members. Those who joined on or after October 1, 1977 and by either, February 28, 2002 for state and higher education employees, or August 31, 2002 for local government employees, are Plan 2 members unless they exercised an option to transfer their membership to Plan 3. PERS members joining the system on or after March 1, 2002 for state and higher education employees, or September 1, 2002 for local government employees have the irrevocable option of choosing membership in either PERS Plan 2 or Plan 3. The option must be exercised within 90 days of employment. Employees who fail to choose within 90 days default to Plan 3.

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.

7. PENSION PLAN (continued)

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.

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.

7. PENSION PLAN (continued)

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.

7. PENSION PLAN (continued)

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	44,273
	263,347

7. PENSION PLAN (continued)

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

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

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

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

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

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

	Required contributions	
	PERS Plan 1	PERS Plan 2
2013	$6,137	$136,952
2012	$5,235	$117,639
2011	$4,613	$101,434

8. DEFERRED COMPENSATION

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. 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 the plan in 2013 or 2012.

9. COMMITMENTS

The District is obligated to the City of Everett to pay for a portion of certain city projects. The District does not record a liability and related asset for city project billings until billing has been received. As of December 31, 2013, the District's share of the projects is estimated to be as follows:

2013	$ 166,926
2014	2,992,000
2015	3,688,000
2016	3,240,000
2017	1,648,000
2018	320,000
2019-2023	10,798,400
	$22,853,326

10. RISK MANAGEMENT

The District is a member of the Washington Cities Insurance Authority (WCIA).

Utilizing Chapter 48.62 RCW (self-insurance regulation) and Chapter 39.34 RCW (Interlocal Cooperation Act), nine cities originally formed WCIA on January 1, 1981. WCIA was created for the purpose of providing a pooling mechanism for jointly purchasing insurance, jointly self-insuring, and / or jointly contracting for risk management services. WCIA has a total of 162 Members.

New members initially contract for a three-year term, and thereafter automatically renew on an annual basis. A one-year withdrawal notice is required before membership can be terminated. Termination does not relieve a former member from its unresolved loss history incurred during membership.

Liability coverage is written on an occurrence basis, without deductibles. Coverage includes general, automobile, police, public officials' errors or omissions, stop gap, and employee benefits liability. Limits are $4 million per occurrence self insured layer, and $16 million per occurrence in the re-insured excess layer. The excess layer is insured by the purchase of reinsurance and insurance and is subject to aggregate limits. Total limits are $20 million per occurrence subject to aggregate sublimits in the excess layers. The Board of Directors determines the limits and terms of coverage annually.

Insurance coverage for property, automobile physical damage, fidelity, inland marine, and boiler and machinery are purchased on a group basis. Various deductibles apply by type of coverage. Property insurance and auto physical damage are self-funded from the members' deductible to $750,000, for all perils other than flood and earthquake, and insured above that amount by the purchase of insurance.

In-house services include risk management consultation, loss control field services, claims and litigation administration, and loss analyses. WCIA contracts for the claims investigation consultants for personnel issues and land use problems, insurance brokerage, and lobbyist services.

10. RISK MANAGEMENT (continued)

WCIA is fully funded by its members, who make annual assessments on a prospectively rated basis, as determined by an outside, independent actuary. The assessment covers loss, loss adjustment, and administrative expenses. As outlined in the interlocal, WCIA retains the right to additionally assess the membership for any funding shortfall.

An investment committee, using investment brokers, produces additional revenue by investment of WCIA's assets in financial instruments which comply with all State guidelines.

A Board of Directors governs WCIA, which is comprised of one designated representative from each member. The Board elects an Executive Committee and appoints a Treasurer to provide general policy direction for the organization. The WCIA Executive Director reports to the Executive Committee and is responsible for conducting the day to day operations of WCIA.

11. MAJOR SUPPLIERS

All sewage collected by the District is treated by the City of Everett and the Department of Natural Resources / King County, Washington.

Water purchased by the District is supplied by the City of Everett and the Clearview Water Supply Agency. In 2004, the District negotiated a 50 year supply contract for water with the Clearview Water Supply Agency.

12. LEASES

The District leases space for cell towers on certain reservoirs under noncancelable provisions of operating leases. Future rental income due to the District under the noncancelable portion of the leases is as follows:

Year ending December 31:

2014	$142,490
2015	149,383
2016	143,345
2017	83,683
2018	9,649
	$528,550

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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