



Washington State Auditor's Office

Government that works for citizens

Financial Statements Audit Report **Douglas County Sewer District No. 1**

For the period January 1, 2013 through December 31, 2014

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Washington State Auditor's Office

May 2, 2016

Board of Commissioners
Douglas County Sewer District No. 1
East Wenatchee, Washington

Report on Financial Statements

Please find attached our report on Douglas County Sewer District No. 1's financial statements.

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

Sincerely,

JAN M. JUTTE, CPA, CGFM
DEPUTY 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**

**Douglas County Sewer District No. 1
January 1, 2013 through December 31, 2014**

Board of Commissioners
Douglas County Sewer District No. 1
East Wenatchee, 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 Douglas County Sewer District No. 1, Washington, as of and for the years ended December 31, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated February 18, 2016. As discussed in Note 24 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.



JAN M. JUTTE, CPA, CGFM
DEPUTY STATE AUDITOR
OLYMPIA, WA

February 18, 2016

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Douglas County Sewer District No. 1 January 1, 2013 through December 31, 2014

Board of Commissioners
Douglas County Sewer District No. 1
East Wenatchee, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of Douglas County Sewer District No. 1, Washington, as of and for the years ended December 31, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed on page 9.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our 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 Douglas County Sewer District No. 1, as of December 31, 2014 and 2013, 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 24 to the financial statements, in 2013, the District adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 10 through 19 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated February 18, 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.



JAN M. JUTTE, CPA, CGFM
DEPUTY STATE AUDITOR
OLYMPIA, WA

February 18, 2016

FINANCIAL SECTION

Douglas County Sewer District No. 1 January 1, 2013 through December 31, 2014

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2014

Management's Discussion and Analysis – 2013

BASIC FINANCIAL STATEMENTS

Statement of Net Position – 2014

Statement of Net Position – 2013

Statement of Revenues, Expenses and Changes in Fund Net Position – 2014

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

Statement of Cash Flows – 2014

Statement of Cash Flows – 2013

Notes to Financial Statements – 2014

Notes to Financial Statements – 2013

Douglas County Sewer District No. 1
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended December 31, 2014

The mission of the Board of Commissioners and the Employees of the Douglas County Sewer District is to provide efficient, effective and timely wastewater collection and treatment and excellent customer service while effectively managing the District's infrastructure in order to maintain a reliable wastewater collection and treatment system for today's, as well as tomorrow's, customers.

The following statements report the net position of the District, and changes to them. Analysis of the District's net position - the difference between assets and liabilities - is a way to measure financial health or financial position. Over time, increases or decreases in the District's net position are one indicator of whether financial health is improving or deteriorating. However, you will need to also consider other non-financial factors such as changes in economic conditions, customer growth, and legislative mandates.

DISCUSSION OF FINANCIAL STATEMENTS

The District's basic financial statements consist of the following:

- 1 Management's Discussion and Analysis
- 2 Financial Statements
- 3 Notes to Financial Statements
- 4 Required Supplemental Schedules

The District is a single, enterprise fund providing wastewater collection and treatment services. The financial statements of the District report information about the District using accounting methods similar to those used by private sector companies, reflecting short- and long-term financial information about its activities.

The financial statements include a Statement of Net Position; Statement of Revenues, Expenses and Changes in Net Position; Statement of Cash Flows; and Notes to the Financial Statements.

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

The Statement of Revenues, Expenses and Changes in Net Position presents the results of business activities over the course of the year. The information is used to determine whether the District has successfully recovered all of the costs through its user fees and charges, profitability and credit worthiness.

The Cash Flow Statement 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 was generated and what it was used for.

The Notes to the Financial Statements and Required Supplemental Schedules 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.

Douglas County Sewer District No. 1
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended December 31, 2014

FINANCIAL HIGHLIGHTS

	12/31/2014	12/31/2013	Difference	Percentage of Change
Net Utility Plant	\$ 35,246,032	\$ 35,757,364	\$ (511,332)	-1.43%
Net Position	\$ 31,516,880	\$ 30,883,991	\$ 632,889	2.05%
Operating Revenues	\$ 3,747,369	\$ 3,618,166	\$ 129,203	3.57%
Operating Expenses	\$ 2,904,154	\$ 2,719,481	\$ 184,673	6.79%
Cumulative Developer Capital Contributions	\$ 8,115,833	\$ 7,864,242	\$ 251,591	3.20%

CONSENSUED STATEMENT OF NET POSITION AT DECEMBER 31

	12/31/2014	12/31/2013	Difference	Percentage of Change
CURRENT AND OTHER ASSETS	\$ 10,454,965	\$ 10,089,036	\$ 365,929	3.63%
CAPITAL ASSETS	\$ 35,246,032	\$ 35,757,364	\$ (511,332)	-1.43%
TOTAL ASSETS	<u>\$ 45,700,997</u>	<u>\$ 45,846,400</u>	<u>\$ (145,403)</u>	<u>-0.32%</u>
	\$ 14,184,116	\$ 14,962,408	\$ (778,292)	-5.20%
TOTAL LIABILITIES	<u>\$ 14,184,116</u>	<u>\$ 14,962,408</u>	<u>\$ (778,292)</u>	<u>-5.20%</u>
NET INVESTMENT IN CAPITAL ASSETS	\$ 21,619,692	\$ 21,330,378	\$ 289,314	1.36%
RESTRICTED	\$ 723,065	\$ 1,711,476	\$ (988,411)	-57.75%
UNRESTRICTED	\$ 9,174,123	\$ 7,842,137	\$ 1,331,986	16.98%
NET POSITION	<u>\$ 31,516,880</u>	<u>\$ 30,883,991</u>	<u>\$ 632,889</u>	<u>2.05%</u>

Douglas County Sewer District No. 1
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended December 31, 2014

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

	12/31/2014	12/31/2013	Difference	Percentage of Change
OPERATING REVENUE	\$ 3,747,369	\$ 3,618,166	\$ 129,203	3.57%
NON-OPERATING REVENUE	\$ 13,424	\$ 7,303	\$ 6,121	83.81%
ULID ASSESSMENTS				
INTEREST EARNED	\$ 16,353	\$ 21,637	\$ (5,284)	-24.42%
TOTAL REVENUE	\$ 3,777,146	\$ 3,647,106	\$ 130,040	3.57%
PLANT OPERATIONS	\$ 1,615,561	\$ 1,414,646	\$ 200,915	14.20%
MAINTENANCE	\$ 108,016	\$ 53,119	\$ 54,897	103.35%
DEPRECIATION / AMORTIZATION	\$ 1,188,603	\$ 1,228,851	\$ (40,248)	-3.28%
INTEREST EXPENSES	\$ 483,668	\$ 593,250	\$ (109,582)	-18.47%
TOTAL EXPENSES	\$ 3,395,848	\$ 3,289,865	\$ 105,983	3.22%
INCOME BEFORE CAPITAL CONTRIBUTIONS AND EXTRAORDINARY ITEMS	\$ 381,298	\$ 357,241	\$ 24,057	6.73%
CAPITAL CONTRIBUTIONS	\$ 251,592	\$ 49,864	\$ 201,728	404.56%
INCOME (LOSS) BEFORE EXTRAORDINARY ITEMS	\$ 632,890	\$ 407,105	\$ 225,785	55.46%
EXTRAORDINARY ITEMS				
CHANGE IN NET POSITION	\$ 632,890	\$ 407,105	\$ 225,785	55.46%
BEGINNING NET POSITION	\$ 30,883,992	\$ 30,887,642	\$ (3,650)	-0.01%
APPLICATION OF NEW ACCOUNTING-GASB		\$ (170,516)	\$ 170,516	-100.00%
PRIOR PERIOD ADJUSTMENT		\$ (240,239)	\$ 240,239	-100.00%
ENDING NET POSITION	\$ 31,516,882	\$ 30,883,992	\$ 632,890	2.05%

OVERALL ANALYSIS OF FINANCIAL POSITION AND RESULT OF OPERATIONS

The District's financial position continues to be strong and stable for the year ended December 31, 2014.

Total assets decreased slightly by \$145,403 or -.032% (\$45,846,400 for 2013 vs. \$45,700,997 for 2014). Net Utility Plant decreased by \$511,332 or -1.43% (\$35,757,364 for 2013 vs. \$35,246,032 for 2014) including land, plant and buildings, collections system, vehicles and construction in progress. Depreciation was larger than capital additions.

Total liabilities decreased by \$778,292 or -5.20% (\$14,962,408 for 2013 vs. \$14,184,116 for 2014). This is largely due to debt service payments lowering bond and loan principal balances.

Total net position increased by \$632,889 or 2.05% (\$30,883,991 for 2013 vs. \$31,516,880 for 2014). Approximately 40% of this increase is due to Developer Contributed Line/Contributions in Aid of Construction of \$251,591. The balance of the increase of \$381,298 is made up of an increase in capital asset cash balances, depreciation being greater than capital additions, and debt service payments lowering bond and loan principle balances.

Douglas County Sewer District No. 1
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended December 31, 2014

Operating revenues increased by \$129,203 or 3.57% (\$3,618,166 for 2013 vs. \$3,747,369 for 2014). This is largely due to a 2.26% increase in service revenue (\$74,897) and a 15.7% increase in connection fee income (\$48,800) over 2013.

Operating expenses increased by \$184,674 or 6.79% (\$2,719,481 for 2013 vs. \$2,904,154 for 2014). This increase is partially due to some maintenance costs anticipated in 2013 were realized in 2014.

CAPITAL ASSETS AND LONG-TERM DEBT

The overall decrease in capital assets is due to depreciation being greater than capital additions.

The following table summarized the District's capital assets, net of accumulated depreciation for the years ended as shown.

CAPITAL ASSETS, NET OF ACCUMULATED DEPRECIATION

	12/31/2014	12/31/2013	Difference	Percentage of Change
NET UTILITY PLANT:				
LAND	\$ 75,731	\$ 6,246	\$ 69,485	1112.49%
COLLECTION SYSTEM	\$ 14,593,012	\$ 14,590,333	\$ 2,679	0.02%
BUILDINGS & EQUIPMENT	\$ 19,948,805	\$ 20,708,664	\$ (759,859)	-3.67%
VEHICLES	\$ 327,500	\$ 325,705	\$ 1,795	0.55%
GENERAL COMP PLAN	\$ 59,354	\$ 2,165	\$ 57,189	2641.89%
CONSTRUCTION IN PROGRESS	\$ 241,630	\$ 124,252	\$ 117,378	94.47%
TOTAL NET UTILITY PLANT	\$ 35,246,032	\$ 35,757,364	\$ (511,332)	-1.43%

Major additions for 2014 include:

Land Purchase	\$ 69,485
UV System Rebuild	\$ 50,070
Sewer System Engineering/Standards	\$ 59,337
Chevy 2012 On-Call Truck with Plow and Crane	\$ 48,273
Developer Contributed Lines	\$ 251,592
Total	\$ 478,756

The District's 2015 Capital Budget plans for investment of \$2,829,690 to the following projects:

Painting Clarifier Project - Phase 1	\$ 75,000
ATAD Improvements	\$ 35,000
Centrifuge Bearing Replacement/Maintenance	\$ 20,000
Headworks Screening/Non-potable Water System Improvements	\$ 928,356
Kentucky View Lift Station Replacement	\$ 1,010,620
Polymer Feed Systems Replacement	\$ 45,000
Cascade Lift Station Improvements / Dosing Station	\$ 40,000
General Sewer Plan Update - Phase 1	\$ 78,000
Baker Avenue Extension - 21st to 23rd	\$ 387,714
WWTP Odor Evaluation - Annually	\$ 40,000
Misc. Construction / Replacement	\$ 170,000
	\$ 2,829,690

Douglas County Sewer District No. 1
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended December 31, 2014

As of December 31, 2014, the District has the following principal debt balances:

Revenue Bonds	\$ 12,465,000
Public Works Trust Fund Loans	\$ 372,755
	<u>\$ 12,837,755</u>

This excludes the pass-through PWTF loans for the Douglas County Port District in the amount of 788,585. In all, debt totals \$13,626,340. Debt repayment schedules go out to 2026. The decrease is due to debt service payments lowering bond and loan principle debt balances.

Refer to the **Notes to the Financial Statements** for more detail.

OTHER POTENTIALLY SIGNIFICANT MATTERS

The District continues to experience a rebound in economic growth, resulting in a 16.5% (\$48,800 over 2013) increase in connection fee income. The District also continues to increase cash reserves (\$480,000 over 2013), with well over 1,000 day's cash on hand for the last eight years, as well as pay down debt balances.

The District has updated our Capital Improvement Plan and system hydraulic model. The District has a modest Capital Facilities Plan as most of the projected projects through 2022 are development driven. Data from the Capital Improvement Plan and the hydraulic model are being used in the in-process, formal rate study for sewer service fees and General Facilities Charges, being conducted by RH2 Engineering and FCS Group. The study is scheduled to be completed in the Spring of 2015.

The District anticipates bonding for an upgrade or replacement of the Kentucky View Lift Station in 2015 or 2016, for an estimated \$4.2 million dollars. This project will allow the District to accommodate anticipated development in the area, as well as provide capacity to serve additional properties that will soon be added to the Urban Growth Area. This project, and a possible bond to fund it, are included in the on-going rate study.

As the District treatment plant and collection system infrastructure continue to age and wear, the District anticipates increased costs of plant and line maintenance and/or replacement in the future. Further analysis of this issue will be addressed in the General Sewer Plan Update scheduled to begin in 2015.

The Wastewater Treatment Plant has a rated, hydraulic capacity of 2.6 million gallons per day (mgd). Current demand is an average 1.43 mgd.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the District's ratepayers and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Finance Officer at the Douglas County Sewer District, 692 Eastmont Avenue, East Wenatchee, WA 98802.

Douglas County Sewer District No. 1
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended December 31, 2013

The mission of the Board of Commissioners and the Employees of the Douglas County Sewer District is to provide efficient, effective and timely wastewater collection and treatment and excellent customer service while effectively managing the District's infrastructure in order to maintain a reliable wastewater collection and treatment system for today's, as well as future, customers.

The following statements report the net position of the District, and changes to them. Analysis of the District's net position - the difference between assets and liabilities - is a way to measure financial health or financial position. Over time, increases or decreases in the District's net position are one indicator of whether financial health is improving or deteriorating. However, you will need to also consider other non-financial factors such as changes in economic conditions, customer growth, and legislative mandates.

DISCUSSION OF FINANCIAL STATEMENTS

The District's basic financial statements consist of the following:

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Douglas County Sewer District No. 1
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended December 31, 2013

FINANCIAL HIGHLIGHTS

	12/31/2013	12/31/2012	Difference	Percentage of Change
Net Utility Plant	\$ 35,757,364	\$ 36,760,322	\$ (1,002,958)	-2.73%
Net Position	\$ 30,883,991	\$ 30,887,642	\$ (3,651)	-0.01%
Operating Revenues	\$ 3,618,166	\$ 3,392,023	\$ 226,143	6.67%
Operating Expenses	\$ 2,719,481	\$ 2,951,488	\$ (232,007)	-7.86%
Cumulative Developer Capital Contributions	\$ 7,864,242	\$ 7,814,378	\$ 49,864	0.64%

CONSENSSED STATEMENT OF NET POSITION AT DECEMBER 31

	12/31/2013	12/31/2012	Difference	Percentage of Change
CURRENT AND OTHER ASSETS	\$ 10,089,036	\$ 9,996,381	\$ 92,655	0.93%
CAPITAL ASSETS	\$ 35,757,364	\$ 36,760,322	\$ (1,002,958)	-2.73%
TOTAL ASSETS	<u>\$ 45,846,400</u>	<u>\$ 46,756,703</u>	<u>\$ (910,303)</u>	<u>-1.95%</u>
	\$ 14,962,408	\$ 15,869,061	\$ (906,653)	-5.71%
TOTAL LIABILITIES	<u>\$ 14,962,408</u>	<u>\$ 15,869,061</u>	<u>\$ (906,653)</u>	<u>-5.71%</u>
NET INVESTMENT IN CAPITAL ASSETS	\$ 21,330,378	\$ 21,242,690	\$ 87,688	0.41%
RESTRICTED	\$ 1,711,476	\$ 2,047,969	\$ (336,493)	-16.43%
UNRESTRICTED	\$ 7,842,137	\$ 7,596,983	\$ 245,154	3.23%
TOTAL NET POSITION	<u>\$ 30,883,991</u>	<u>\$ 30,887,642</u>	<u>\$ (3,651)</u>	<u>-0.01%</u>

Douglas County Sewer District No. 1
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended December 31, 2013

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

	12/31/2013	12/31/2012	Difference	Percentage of Change
OPERATING REVENUE	\$ 3,618,166	\$ 3,392,023	\$ 226,143	6.67%
NON-OPERATING REVENUE	\$ 7,303	\$ 42,891	\$ (35,588)	-82.97%
ULID ASSESSMENTS				
INTEREST EARNED	\$ 21,637	\$ 23,733	\$ (2,096)	-8.83%
TOTAL REVENUE	<u>\$ 3,647,106</u>	<u>\$ 3,458,647</u>	<u>\$ 188,459</u>	<u>5.45%</u>
PLANT OPERATIONS	\$ 1,414,646	\$ 1,612,677	\$ (198,031)	-12.28%
MAINTENANCE	\$ 53,119	\$ 74,156	\$ (21,037)	-28.37%
DEPRECIATION / AMORTIZATION	\$ 1,228,851	\$ 1,265,672	\$ (36,821)	-2.91%
INTEREST EXPENSES	\$ 593,250	\$ 606,533	\$ (13,283)	-2.19%
TOTAL EXPENSES	<u>\$ 3,289,866</u>	<u>\$ 3,559,039</u>	<u>\$ (269,173)</u>	<u>-7.56%</u>
INCOME BEFORE CAPITAL CONTRIBUTIONS AND EXTRAORDINARY ITEMS	\$ 357,241	\$ (100,391)	\$ 457,631	-455.85%
CAPITAL CONTRIBUTIONS	\$ 49,864	\$ 132,473	\$ (82,609)	-62.36%
INCOME (LOSS) BEFORE EXTRAORDINARY ITEMS	\$ 407,105	\$ 32,082	\$ 375,022	1168.96%
EXTRAORDINARY ITEMS				
CHANGE IN NET POSITION	\$ 407,105	\$ 32,082	\$ 375,022	1168.96%
BEGINNING NET POSITION	<u>\$ 30,887,650</u>	<u>\$ 30,855,568</u>	<u>\$ 32,082</u>	<u>0.10%</u>
APPLICATION OF NEW ACCOUNTING-GASB	\$ (170,516)		\$ (170,516)	
PRIOR PERIOD ADJUSTMENT (Note 15)	\$ (240,239)		\$ (240,239)	
ENDING NET POSITION	<u>\$ 30,884,000</u>	<u>\$ 30,887,650</u>	<u>\$ (3,651)</u>	<u>-0.01%</u>

The figures for 2012 have not been adjusted for the prior period adjustment posted in 2013 (see note 16). Making adjustments to 2012 would result in the MD&A figures not matching what was reported in the statements, which could cause confusion to the reader.

Douglas County Sewer District No. 1
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended December 31, 2013

OVERALL ANALYSIS OF FINANCIAL POSITION AND RESULT OF OPERATIONS

The District's financial position continues to be strong and stable for the year ended December 31, 2013.

Total assets decreased by \$910,303 or -1.95% (\$46,756,703 for 2012 vs. \$45,846,400 for 2013). This was due to depreciation being greater than the capital additions. The District had \$35.7 million invested in its utility assets.

Total liabilities decreased by \$906,653 or -5.71% (\$15,869,061 for 2012 vs. \$14,962,408 for 2013). This is largely due to a refunding of the 2003 bond and the cash defeasance of the 2002 bond, resulting in lower bond loan principal balances.

Total net position decreased by \$3,651 or -.01% (\$30,887,642 for 2012 vs. \$30,883,991 for 2013). This small decrease is due to a change in GASB Statement No. 65 and a prior period adjustment. These adjustments, combined, reduced the net position.

Total operating revenues increased by \$266,143 or 6.67% (\$3,392,023 for 2012 vs. \$3,618,166 for 2013). This is largely due to a 70% increase in connection fee income over 2012 (\$178,536 for 2012 vs. \$310,816 for 2013) as the development community continues to recover from the economic downturn.

Total operating expenses decreased by \$232,007 or -7.86% (\$2,951,488 for 2012 vs. \$2,719,481 for 2013). Due to the retirement of the prior District manager, the District experienced a lowering of accrued vacation and sick leave payable by \$141,631, resulting in an equivalent offsetting adjustment to accrued vacation and sick leave expense. To a lesser degree, the District experienced less than expected treatment plant maintenance costs.

CAPITAL ASSETS AND LONG-TERM DEBT

The overall decrease in capital assets is due to depreciation being greater than capital additions.

The following table summarized the District's capital assets, net of accumulated depreciation for the years ended as shown.

CAPITAL ASSETS, NET OF ACCUMULATED DEPRECIATION

	12/31/2013	12/31/2012	Difference	Percentage of Change
NET UTILITY PLANT:				
LAND	\$ 6,246	\$ 6,246	\$ 0	0.00%
COLLECTION SYSTEM	\$ 14,590,333	\$ 14,806,675	\$ (216,342)	-1.46%
BUILDINGS & EQUIPMENT	\$ 20,708,664	\$ 21,470,903	\$ (762,239)	-3.55%
VEHICLES	\$ 325,705	\$ 377,617	\$ (51,912)	-13.75%
GENERAL COMP PLAN	\$ 2,165	\$ 4,312	\$ (2,147)	-49.79%
CONSTRUCTION IN PROGRESS	\$ 124,252	\$ 94,569	\$ 29,683	31.39%
TOTAL NET UTILITY PLANT	<u>\$ 35,757,365</u>	<u>\$ 36,760,322</u>	<u>\$ (1,002,957)</u>	<u>-2.73%</u>

Major additions for 2013 include:

UV System Rebuild \$ 36,073

Douglas County Sewer District No. 1
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended December 31, 2013

WWTP Influent Lift Station Improvements	\$ 48,652
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The District's 2014 capital budget plans for investment of \$955,000 to the following projects:

WWTP UV System Expansion & Rebuild (multi-year)	\$ 65,000
Sewer Rate / Connection Fee Study	\$ 30,000
General Sewer Plan Update (multi-year)	\$ 120,000
Kentucky View Lift Station Replacement - Design	\$ 600,000
Misc. Construction / Replacement	\$ 140,000
	<u>\$ 955,000</u>

As of December 31, 2013, the District has the following principal debt balances:

Revenue Bonds	\$ 12,990,000
Public Works Trust Fund Loans	\$ 559,133
	<u>\$ 13,549,133</u>

This excludes the pass-through PWTF loans for the Douglas County Port District in the amount of 877,853. In all, debt totals \$14,426,986. Debt repayment schedules go out to 2026. The overall decrease is largely due to a refunding of the 2003 bond and the cash defeasance of the 2002 bond.

Refer to the **Notes to the Financial Statements** for more detail.

OTHER POTENTIALLY SIGNIFICANT MATTERS

The District has experienced a turn-around of the lower connection fee income of the past few years during the economic downturn. Connection fee income for 2013 increased over 70% over 2012.

Fitch Ratings downgraded the District to an 'A+' from an 'AA-' in December 2012, in large part due to a downward trend of the District's debt service coverage factor of 2.14 in 2008 to 1.46 in 2012. In spite of the downgrade, Fitch Ratings recognized that the District has very strong liquidity, with well over 1,000 days' cash on hand for each of the last six years. Strong liquidity, coupled with the District's history of willingness to increase rates, helps to mitigate the lower coverage factor. The District continues to monitor this trend and has budgeted for a formal rate study to begin in 2013, as well as continue the scheduled rate increase of .50 per Equivalent Residential Unit per year that continues through 2015.

The District has a modest Capital Facilities Plan as most of the projected projects through 2022 are development driven. The Wastewater Treatment Plant has a rated capacity of 2.6 million gallons per day (mgd) and will be adequate for years to come, based on the current demand of 1.43 mgd.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the District's ratepayers and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Finance Officer at the Douglas County Sewer District, 692 Eastmont Avenue, East Wenatchee, WA 98802.

Douglas County Sewer District No. 1

STATEMENT OF NET POSITION

December 31, 2014

ASSETS

Current Assets:

Cash and Cash Equivalents	\$	97,064
Deposits with Fiscal Agents/Trustees		8,430,762
Short-Term Investments		
Receivables (Net):		
Service Revenue		306,278
Restricted Assets:		
Debt Service		224,241
Construction Accounts		-
Prepayments		73,695
Other Current Assets		
TOTAL CURRENT ASSETS		<u>9,132,040</u>

Noncurrent Assets:

Restricted Assets:		
Debt Service Reserve		498,824
Long-Term Investments		-
ULID Assessments		35,514
Bond Issue Costs		-
Port District PWTF		788,585
Capital Assets Not Being Depreciated		
Land		75,731
Construction in Progress		241,630
Capital Assets Being Depreciated		
Plant		27,595,098
Collection System		18,971,897
Machinery & Equipment		1,036,716
Less Accumulated Depreciation		<u>(12,675,040)</u>
Total Capital Assets (Net)		<u>35,246,032</u>

TOTAL NONCURRENT ASSETS

TOTAL ASSETS		<u><u>\$ 45,700,995</u></u>
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DEFERRED OUTFLOWS OF RESOURCES

Accumulated Decrease in Fair Value of		
Hedging Derivatives		
Deferred Loss on Refunding		
Grants Paid in Advance		
TOTAL DEFERRED OUTFLOWS OF RESOURCES	\$	-

Notes to the Financial Statements are an integral part of this statement.

Douglas County Sewer District No. 1

**STATEMENT OF NET POSITION
December 31, 2014**

LIABILITIES

Current Liabilities:

Accounts/Vouchers Payable	\$ 74,507
Payables from Restricted Assets:	
Bonds, Notes and Loans Payable	1,000,646
Accrued Interest	196,859
Developer Extension Deposits	25,689
TOTAL CURRENT LIABILITIES	<u>1,297,701</u>

Noncurrent Liabilities:

Compensated Absences	151,083
PWTF Loan Payable	186,378
PWTF Loan Payable - Port District	699,317
Bond Discounts / Premiums	109,639
Payables from Restricted Assets:	
Bonds, Notes and Loans Payable	11,740,000
TOTAL NONCURRENT LIABILITIES	<u>12,886,417</u>

TOTAL LIABILITIES	<u>14,184,118</u>
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DEFERRED INFLOWS OF RESOURCES

Accumulated Increase in Fair Value of Hedging Derivatives	
Advance Payments of Special Assessments	
Deferred Gain on Refunding	
Grants Received in Advance	\$ -
TOTAL DEFERRED INFLOWS OF RESOURCES	

NET POSITION

Net Investment in Capital Assets	21,619,692
Restricted - Bond	224,241
Restricted - Bond Reserve	498,824
Restricted - Construction	-
Unrestricted	9,174,123
TOTAL NET POSITION	<u>31,516,880</u>

TOTAL LIABILITIES AND NET POSITION	<u>\$ 45,700,998</u>
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Notes to the Financial Statements are an integral part of this statement.

Douglas County Sewer District No. 1

STATEMENT OF NET POSITION

December 31, 2013

ASSETS

Current Assets:

Cash and Cash Equivalents	\$	80,692
Deposits with Fiscal Agents/Trustees		6,978,885
Short-Term Investments		
Receivables (Net):		
Service Revenue		302,812
Restricted Assets:		
Debt Service		1,212,652
Construction Accounts		-
Prepayments		89,772
Other Current Assets		
TOTAL CURRENT ASSETS		<u>8,664,813</u>

Noncurrent Assets:

Restricted Assets:		
Debt Service Reserve		498,824
Long-Term Investments		-
ULID Assessments		47,546
Bond Issue Costs		-
Port District PWTF		877,853
Capital Assets Not Being Depreciated		
Land		6,246
Construction in Progress		124,252
Capital Assets Being Depreciated		
Plant		27,445,617
Collection System		18,688,906
Machinery & Equipment		966,421
Less Accumulated Depreciation		(11,474,078)
Total Capital Assets (Net)		<u>35,757,364</u>

TOTAL NONCURRENT ASSETS		<u>37,181,587</u>
TOTAL ASSETS	\$	<u><u>45,846,400</u></u>

DEFERRED OUTFLOWS OF RESOURCES

Accumulated Decrease in Fair Value of		
Hedging Derivatives		
Deferred Loss on Refunding		
Grants Paid in Advance		
TOTAL DEFERRED OUTFLOWS OF RESOURCES	\$	-

Notes to the Financial Statements are an integral part of this statement.

Douglas County Sewer District No. 1

**STATEMENT OF NET POSITION
December 31, 2013**

LIABILITIES

Current Liabilities:

Accounts/Vouchers Payable	\$	42,804
Payables from Restricted Assets:		
Bonds, Notes and Loans Payable		800,646
Accrued Interest		202,870
Developer Extension Deposits		24,652
TOTAL CURRENT LIABILITIES		<u>1,070,972</u>

Noncurrent Liabilities:

Compensated Absences		143,098
PWTF Loan Payable		372,755
PWTF Loan Payable - Port District		788,585
Bond Discounts / Premiums		121,998
Payables from Restricted Assets:		
Bonds, Notes and Loans Payable		12,465,000
TOTAL NONCURRENT LIABILITIES		<u>13,891,436</u>

TOTAL LIABILITIES		<u>14,962,408</u>
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DEFERRED INFLOWS OF RESOURCES

Accumulated Increase in Fair Value of Hedging Derivatives		
Advance Payments of Special Assessments		
Deferred Gain on Refunding		
Grants Received in Advance	\$	-
TOTAL DEFERRED INFLOWS OF RESOURCES		

NET POSITION

Net Investment in Capital Assets		21,330,378
Restricted - Bond		1,212,652
Restricted - Bond Reserve		498,824
Restricted - Construction		-
Unrestricted		7,842,137

NET POSITION		<u>30,883,991</u>
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TOTAL LIABILITIES AND NET POSITION	\$	<u><u>45,846,399</u></u>
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Notes to the Financial Statements are an integral part of this statement.

Douglas County Sewer District No. 1

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
For the Year Ended December 31, 2014

OPERATING REVENUES:

Utility Sales and Service Fees	\$ 3,379,313
Connection Fees	359,616
Other Charges for Services	8,439
Other Operating Revenue-ULID Assessments	
	<hr/>
Total Operating Revenue	<hr/> 3,747,368

OPERATING EXPENSES:

Operations:	
General Operations	791,226
Contracted Processing and Operations	
Cost of Power	132,281
Cost of Goods Sold	
Maintenance	108,016
Customer Services and Marketing	
Administration:	
General Administration	619,626
Planning, Conservation, Research/Development	
Depreciation/Amortization/Depletion	1,188,603
Property, Excise and B&O Taxes	64,402
Other Operating Expenses	
	<hr/>
Total Operating Expenses	<hr/> 2,904,154

OPERATING INCOME (LOSS)	843,214
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Notes to the Financial Statements are an integral part of this statement.

Douglas County Sewer District No. 1

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
For the Year Ended December 31, 2014

NONOPERATING REVENUES (EXPENSES):

Operating Assessments and Tax Levies	
External Operating Subsidies	
Revenue - Merchandising, Jobbing and Contract Work	
(Costs - Merchandising, Jobbing and Contract Work)	
Interest and Dividend Income	\$ 16,352
(Interest Expense and Related Charges)	(483,668)
Equity in Income (Loss) of Joint Ventures/Subsidies	
Gains (Losses) on Capital Asset Disposition	(8,026)
Other Nonoperating Revenues	13,424
(Other Nonoperating Expenses)	
	<hr/>
Total Nonoperating Revenues (Expenses)	(461,917)
	<hr/>
Income Before Contributions, Transfers and	381,297
Extraordinary Items	
	<hr/>
Capital Contributions:	251,592
Extraordinary/Special Items	

CHANGE IN NET POSITION	<hr/> 632,889
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TOTAL NET POSITION, January 1	30,883,991
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TOTAL NET POSITION, December 31	<hr/> <hr/> \$ 31,516,880
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Notes to the Financial Statements are an integral part of this statement.

Douglas County Sewer District No. 1

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
For the Year Ended December 31, 2013

OPERATING REVENUES:

Utility Sales and Service Fees	\$ 3,304,416
Connection Fees	310,816
Other Charges for Services	2,933
Other Operating Revenue-ULID Assessments	
	<hr/>
Total Operating Revenue	<hr/> 3,618,165

OPERATING EXPENSES:

Operations:	
General Operations	596,639
Contracted Processing and Operations	
Cost of Power	102,592
Cost of Goods Sold	
Maintenance	53,119
Customer Services and Marketing	
Administration:	
General Administration	670,970
Planning, Conservation, Research/Development	
Depreciation/Amortization/Depletion	1,228,851
Property, Excise and B&O Taxes	67,310
Other Operating Expenses	
	<hr/>
Total Operating Expenses	<hr/> 2,719,481

OPERATING INCOME (LOSS)	898,684
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Notes to the Financial Statements are an integral part of this statement.

Douglas County Sewer District No. 1

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
For the Year Ended December 31, 2013

NONOPERATING REVENUES (EXPENSES):

Operating Assessments and Tax Levies	
External Operating Subsidies	
Revenue - Merchandising, Jobbing and Contract Work	
(Costs - Merchandising, Jobbing and Contract Work)	
Interest and Dividend Income	\$ 21,636
(Interest Expense and Related Charges)	(593,250)
Equity in Income (Loss) of Joint Ventures/Subsidies	
Gains (Losses) on Capital Asset Disposition	22,865
Other Nonoperating Revenues	7,303
(Other Nonoperating Expenses)	

Total Nonoperating Revenues (Expenses)	<u>(541,446)</u>
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Income Before Contributions, Transfers and Extraordinary Items	<u>357,240</u>
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Capital Contributions: Extraordinary/Special Items	49,864
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CHANGE IN NET POSITION	<u>407,104</u>
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TOTAL NET POSITION, January 1	30,887,642
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Prior Period Adjustment (Note 16)	(240,239)
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Retrospective Application of New Accounting Principle (Note 24)	<u>(170,516)</u>
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TOTAL NET POSITION, December 31	<u><u>\$ 30,883,991</u></u>
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Notes to the Financial Statements are an integral part of this statement.

Douglas County Sewer District No. 1

STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2014

CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers	\$ 3,761,332
Payments to suppliers	(751,273)
Payments to employees	<u>(907,477)</u>
Net cash provided by operating activities	2,102,582
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Borrowings from long-term debt	-
Payments on long-term debt	(800,646)
Interest paid	(489,679)
Acquisition of capital assets	<u>(438,039)</u>
Net cash used by capital and related financing activities	(1,728,364)
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest received	16,352
Proceeds from sale of investments	-
Purchase of investments	-
Advances on notes receivable	-
Payments received on notes receivable	<u>89,268</u>
Net cash provided by investing activities	<u>105,620</u>
INCREASE IN CASH	479,838
CASH - BEGINNING	<u>8,771,053</u>
CASH - ENDING	<u><u>\$ 9,250,891</u></u>

Notes to the Financial Statements are an integral part of this statement.

Douglas County Sewer District No. 1

STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2014

**RECONCILIATION OF CHANGE IN NET ASSETS TO
CASH PROVIDED BY OPERATING ACTIVITIES**

Net Operating Income	\$	843,214
Noncash and nonoperating Income		
Other Non-Operating Income		13,424
Gain on disposal of capital asset		(8,026)
ULID assessments		
Contributions in aid to construction		
Noncash and nonoperating expenses		
Depreciation and amortization		1,188,603
(Increase) decrease in operating assets		
Accounts receivable		(3,466)
Prepaid expenses		16,077
ULID Assessments		12,031
Increase (decrease) in operating liabilities		
Accounts payable		32,739
Accrued vacation and sick payable		7,985
Net cash provided by operating activities	\$	<u>2,102,581</u>

**SUPPLEMENTAL SCHEDULE OF NON-CASH CAPITAL AND
RELATED FINANCING ACTIVITIES**

Capital assets contributed by developers	251,592
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Notes to the Financial Statements are an integral part of this statement.

Douglas County Sewer District No. 1

**Statement of Cash Flows
For the Year Ended December 31, 2013**

CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers	\$ 3,654,312
Payments to suppliers	(658,795)
Payments to employees	<u>(972,396)</u>
Net cash provided by operating activities	2,023,121
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Borrowings from long-term debt	2,930,000
Payments on long-term debt	(4,020,646)
Interest paid	(505,685)
Acquisition of capital assets	<u>(205,468)</u>
Net cash used by capital and related financing activities	(1,801,799)
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest received	21,636
Proceeds from sale of investments	
Purchase of investments	
Advances on notes receivable	
Payments received on notes receivable	<u>89,268</u>
Net cash provided by investing activities	<u>110,904</u>
INCREASE IN CASH	332,226
CASH - BEGINNING	<u>8,438,826</u>
CASH - ENDING	<u><u>\$ 8,771,052</u></u>

Notes to the Financial Statements are an integral part of this statement.

Douglas County Sewer District No. 1

**Statement of Cash Flows
For the Year Ended December 31, 2013**

**RECONCILIATION OF CHANGE IN NET ASSETS TO
CASH PROVIDED BY OPERATING ACTIVITIES**

Net Operating Income	\$	898,685
Noncash and nonoperating Income		
Other Non-Operating Income		7,303
Gain on disposal of capital asset		22,865
ULID assessments		
Contributions in aid to construction		
Noncash and nonoperating expenses		
Depreciation and amortization		1,228,851
(Increase) decrease in operating assets		
Accounts receivable		(14,318)
Prepaid expenses		315
ULID Assessments		20,296
Increase (decrease) in operating liabilities		
Accounts payable		(3,288)
Accrued vacation and sick payable		(137,587)
Net cash provided by operating activities	\$	<u>2,023,122</u>

**SUPPLEMENTAL SCHEDULE OF NON-CASH CAPITAL AND
RELATED FINANCING ACTIVITIES**

Capital assets contributed by developers	49,864
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Notes to the Financial Statements are an integral part of this statement.

Douglas County Sewer District No. 1

NOTES TO FINANCIAL STATEMENTS January 1, 2014 through December 31, 2014

THESE NOTES ARE AN INTEGRAL PART OF THE ACCOMPANYING FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Douglas County Sewer District No. 1 conform to generally accepted accounting principles (GAAP) as applicable to proprietary funds of governments. The following is a summary of the most significant policies (including identification of those policies which result in material departures from generally accepted accounting principles):

A. Reporting Entity

Douglas County Sewer District No. 1 is a municipal corporation governed by an elected three member board. As required by generally accepted accounting principles, management has considered all potential component units in defining the reporting entity. The Douglas County Sewer District No. 1 has no component units.

B. Basis of Accounting and Presentation

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

The district uses the full-accrual basis of accounting where revenues are recognized when earned and expenses are recognized when incurred except for ULID assessment interest and penalties. Assessment interest and penalties are not recorded until funds are received. This practice is not in accordance with general accepted accounting principles (GAAP). Capital asset purchases are capitalized and long-term liabilities are accounted for in the appropriate funds.

The district distinguishes between operating revenues and expenses from nonoperating ones. Operating revenues and expenses result from providing services and producing and delivering goods in connection with a district's principal ongoing operations. The principal operating revenues of the district are charges to customers for sewer service. The district also recognizes as operating revenue connection fees and developer extension fees. Operating expenses for the district include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Unbilled utility service receivables are not recorded at year end, which is a departure from generally accepted accounting principles.

C. Cash and Cash Equivalents

For purposes of the Statement of Cash Flows, the district considers all highly liquid investments (including restricted assets) with a maturity of 3 months or less when purchased to be cash equivalents.

Douglas County Sewer District No. 1

NOTES TO FINANCIAL STATEMENTS
January 1, 2014 through December 31, 2014

D. Utility Plant and Depreciation

Utility plant in service is recorded at cost. Depreciation is computed on the straight-line method with useful lives of 2 to 70 years. Initial depreciation on utility plant is recorded in the year subsequent to purchase. Preliminary costs incurred for proposed projects are deferred pending construction of the facility. Costs relating to projects ultimately constructed are transferred to utility plant. Charges that relate to abandoned projects are expensed.

See Note # 4

E. Restricted Assets

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

Bond Fund	\$224,241
Bond Reserve Fund	498,824
Construction Fund	0
Totals	<u>\$723,065</u>

F. Receivables

The district has the power to file liens against the property when sewer service charges are not paid. Consequently, there are no write-offs of uncollectible accounts, nor an allowance for uncollectible receivables.

G Investments

All investments of the district funds are in the form of TCD's, accounts with banking institutions, and money market and state pool accounts utilized through the Douglas County Treasurer's Office.

H Compensated Absences

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

Vacation pay, which may be accumulated up to 480 hours, is payable upon retirement, death or separation from employment, unless terminated for intentional misconduct as determined by the District.

Sick leave may accumulate indefinitely. Upon retirement, death or separation from employment, accumulated sick leave will be paid up to a maximum of 240 hours, unless terminated for

Douglas County Sewer District No. 1

NOTES TO FINANCIAL STATEMENTS
January 1, 2014 through December 31, 2014

intentional misconduct as determined by the District.

The recorded liability for unpaid vacations benefits at December 31, 2014 was \$57,828.
At December 31, 2014 the recorded liability for sick pay was \$93,255.

I Unamortized Debt Expense

Premiums/discounts relating to the sale of bonds are deferred and amortized over the lives of the various bond issues.

NOTE 2 - VIOLATION OF FINANCE-RELATED LEGAL AND CONTRACTUAL PROVISIONS

The 2014 Annual Report was submitted to the State of Washington Auditor's Office after the due date of May 30, 2015.

NOTE 3 - DEPOSITS AND INVESTMENTS

A. Deposits

The district's deposits and certificates of deposit are entirely covered by Federal Depository Insurance Corporation (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (PDPC). The district's treasurer is the Douglas County Treasurer and all cash funds are controlled and invested by that office.

B. Investments

Investment balances as of December 31, 2014

State investment pool	\$9,153,827
U.S. Treasuries	
Bankers' acceptance	-
Repurchase agreements	-
Other	-
Total	<hr/> \$9,153,827

Custodial credit risk is the risk that in event of a failure of the counterparty to an investment transaction the District would not be able to recover the value of the investment or collateral securities. The district's investments are very low-risk, as they are exclusively certificates of deposit orchestrated by the Douglas County Treasurer.

Investments are recorded at purchase price.

Douglas County Sewer District No. 1

NOTES TO FINANCIAL STATEMENTS

January 1, 2014 through December 31, 2014

NOTE 4 - CAPITAL ASSETS

Capital assets are defined by the District as assets with initial individual cost of more than \$5,000.00 and an estimated useful life in excess of 1 year.

Major expenses for capital assets, including capital leases and major repairs that increase useful lives, are capitalized. Maintenance, repairs, and minor renewals are accounted for as expenses when incurred.

Utility plant in service, and other capital assets, are recorded at cost where the historical cost is known. Where the historical cost is not known, assets are recorded at market value. Donations by developers and customers are recorded at the contract price and donor cost or appraised value.

	Beginning Balance	Reclassify	Increase	Decrease	Ending Balance
Capital Assets Not Being Depreciated:					
Land	6,246		69,485		75,731
Construction in progress	124,252		117,379		241,630
Total Capital Assets Not Being Depreciated	130,498		186,864	0	317,362
Capital Assets Being Depreciated:					
Buildings	27,180,226		90,144		27,270,370
Machinery & Equipment	966,421		70,294		1,036,716
Infrastructure	18,688,906		282,991		18,971,897
Other Improvements	265,391		59,337		324,728
Total Capital Assets Being Depreciated	47,100,944	0	502,766	0	47,603,711
Less Accumulated Depreciation for:					
Building	6,545,758.38		856,630.33		7,402,388.71
Machinery & Equipment	566,519.59		61,872.89		628,392.48
Infrastructure	4,098,573.25		280,311.89		4,378,885.14
Other Improvements	263,226.47		2,147.44		265,373.91
Total Accumulated Depreciation	11,474,077.69	0.00	1,200,962.55	0.00	12,675,040.24
Total Capital Assets Being Depreciated, Net	35,626,867	0	-698,196	0	34,928,671
Total Capital Assets, Net	35,757,364	0	-511,332	0	35,246,032

Douglas County Sewer District No. 1

NOTES TO FINANCIAL STATEMENTS

January 1, 2014 through December 31, 2014

The original cost of operating property retired or otherwise disposed of and the cost of installation, less salvage, is charged to accumulated depreciation. However, in the case of the sale of a significant operating unit or system, the original cost is removed from the capital assets accounts, accumulated depreciation is charged with the accumulated depreciation related to the property sold, and the net gain or loss is credited or charged to income.

An allowance for funds used during construction is capitalized as part of the cost of utility plant. While cash is not received currently from such allowance, it is realized under the rate-making process over the service life of the related property through increased revenue resulting from a higher rate base and higher depreciation expense. The procedure is intended to remove the cost of financing construction activity from the income statement and to treat such cost in the same manner as construction labor and material costs.

Depreciation is computed using the straight-line method with useful lives of over 1 to 66.67 years. Initial depreciation on capital assets is recorded in the year subsequent to purchase.

Preliminary costs incurred for proposed projects are deferred pending construction of the facility. Costs relating to projects ultimately constructed are transferred to capital assets; charges that related to abandoned projects are expensed.

No expenses include an impairment loss for 2014.

NOTE 5 - CONSTRUCTION IN PROGRESS

The District completed \$160,222 worth of construction in progress, leaving \$241,630 in progress. The following projects were in progress at year end:

	Project Authorization	Expended thru 12/31/14	Committed	Required Future Financing
N Baker Avenue Extension		4,943		TBD*
Empire Way Extension		68,131		TBD*
Kentucky Lift Station Upgrade or Replacement	10,000	20,016		TBD*
Kentucky Lift Station Canal Crossing		4,607		TBD*
Sewer & Connection Fee Rate Study	39,605	34,102	5,503	None
Headworks Screening		20,139		None
Grant Road Realignment		1,171		None
WWTP Odor Control Study	52,121	65,370		None
Lift Station Standard Specifications		11,744		None
Cascade Lift Station Improvements	15,419	11,407	4,012	None
	\$ 117,145	\$ 241,630	\$ 9,515	\$ -

Douglas County Sewer District No. 1

NOTES TO FINANCIAL STATEMENTS

January 1, 2014 through December 31, 2014

* To Be Determined

NOTE 6 - SHORT-TERM DEBT

Currently, the District does not have any short-term debt in the form of loans. The District has booked accrued interest and principal due within one year, which is reflected on the Statement of Net Position.

NOTE 7 - LONG-TERM DEBT

The District issues revenue bonds to finance construction of WWTP upgrades and projects. Bonded indebtedness has also been entered into (currently and in prior years) to advance refund several revenue bonds. The revenue bonds are being repaid by proprietary fund reserves.

At December 31, 2014, the District has \$224,241 available in debt service funds to service the bonded debt. Restricted assets in proprietary funds contain \$723,065 in sinking funds and reserves as required by bond indentures. There are a number of other limitations and restrictions contained in the bond indentures. The District is in compliance with all significant limitations and restrictions.

The District has pledged future enterprise revenues, net of enterprise operating expenses, to repay \$12,465,000 in sewer revenue bonds issued in 2006, 2008 and 2013.

The District's revenue bonds are payable solely from sewer revenues and are payable through 2026. Annual principal and interest payments on the bonds are expected to require less than 40 percent of net revenues. The total principal and interest remaining to be paid on the bonds is \$17,224,494. Principal and interest paid for the current year and total enterprise revenue were \$1,197,505 and \$3,747,369 respectively.

See attached Note 7 Long-Term Debt Graph

NOTE 8 - RESTRICTED COMPONENT OF NET POSITION

The District's Statement of Net Position reports \$723,065 of restricted component of net assets, of which \$723,065 is restricted by bond covenants.

Douglas County Sewer District No. 1
NOTES TO FINANCIAL STATEMENTS
January 1, 2014 through December 31, 2014

NOTE 7 - LONG-TERM DEBT

A. Long-Term Debt

The annual requirements to amortize all debts outstanding as of December 31, 2014, including interest, are:

Year	1996 PWTF WWTP Upgrade	Interest	2006 WWTP Upgrade Bond	Interest	2008 WWTP Upgrade Bond	Interest	2013 Refunding Bonds	Interest	2001 PWTF Port Dist PreCon	Interest	2003 PWTF Port Dist Const	Interest	Total Long- Term Debt and Interest
2015	186,378	3,728	215,000	326,825		99,290	510,000	41,180	7,414	259	81,854	3,683	1,475,611
2016	186,378	1,864	220,000	317,688		99,290	515,000	36,080	7,414	222	81,854	3,274	1,469,064
2017			420,000	308,338		99,290	520,000	31,960	7,414	185	81,854	2,865	1,471,906
2018			480,000	290,488		99,290	525,000	26,500	7,414	148	81,854	2,456	1,513,149
2019			500,000	270,088		99,290	535,000	13,375	7,414	111	81,854	2,046	1,509,178
2020- 2024			5,855,000	767,338		496,450			14,827	111	327,418	4,093	7,465,236
2025- 2026					2,170,000	150,350							2,320,350
Totals	372,755	5,591	7,690,000	2,280,763	2,170,000	1,143,250	2,605,000	149,095	51,895	1,038	736,690	18,417	17,224,494
ID#	263.82		252.11		252.11		252.11		263.82		263.82		
Original Amount	3,500,000		8,440,000		2,170,000		2,930,000		179,962		1,555,235		
Interest Rate	1.00%		4.20%		4.70%		1.56%		0.50%		0.50%		
Dated	4/26/96		11/15/06		7/29/08		5/28/13		3/19/01		7/29/03		
Maturity	2016		2024		2026		2019		2021		2023		
Last Pmt	7/1/2016		8/1/24		8/1/26		8/1/19		7/1/21		7/1/23		

Douglas County Sewer District No. 1

NOTES TO FINANCIAL STATEMENTS **January 1, 2014 through December 31, 2014**

NOTE 9 - PENSION PLANS

Substantially all district full-time and qualifying part-time employees participate in one of the following statewide retirement systems administered by the Washington State Department of Retirement Systems, under cost-sharing multiple-employer public employee defined benefit retirement plans. The Department of Retirement Systems (DRS), a department within the primary government of the State of Washington, issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for each plan. The DRS CAFR may be obtained by writing to: Department of Retirement Systems, Communications Unit, P.O. Box 48380, Olympia, WA 98504-8380; or it may be downloaded from the DRS website at www.drs.wa.gov.

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

Plan Description

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

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

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

PERS is comprised of and reported as three separate plans for accounting purposes: Plan 1, Plan 2/3, and Plan 3. Plan 1 accounts for the defined benefits of Plan 1 members. Plan 2/3 accounts for the defined benefits of Plan 2 members, and the defined benefit portion of benefits for Plan 3 members. Plan 3 accounts for the defined contribution portion of benefits for Plan 3 members. Although members can only be a member of either Plan 2 or Plan 3, the defined benefit portions of Plan 2 and Plan 3 are accounted for in the same pension trust fund. All assets of this Plan 2/3 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.

Douglas County Sewer District No. 1

NOTES TO FINANCIAL STATEMENTS
January 1, 2014 through December 31, 2014

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.

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.

Douglas County Sewer District No. 1

NOTES TO FINANCIAL STATEMENTS January 1, 2014 through December 31, 2014

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.

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

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Douglas County Sewer District No. 1

NOTES TO FINANCIAL STATEMENTS January 1, 2014 through December 31, 2014

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

If they have 30 service credit years, are at least 55 years old, and were hired after May 1, 2013, they have the option to retire early by accepting a reduction of 5 percent for each year before age 65.

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

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

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

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

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

Judges in PERS Plan 3 could elect a 1.6 percent of pay per year of service benefit, capped at 37.5 percent of AFC.

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

There are 1,176 participating employers in PERS. Membership in PERS consisted of the following as of the latest actuarial valuation date for the plans of June 30, 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
Terminated Plan Members Nonvested:	101,191
Total:	368,272

Douglas County Sewer District No. 1

NOTES TO FINANCIAL STATEMENTS January 1, 2014 through December 31, 2014

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.

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

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

The required contribution rates expressed as a percentage of current-year covered payroll, as of December 31, 2014, are as follows:

Members Not Participating in JBM:

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

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

** The employer rate for state elected officials is 13.73% for Plan 1 and 9.21% for Plan 2 and Plan 3.

*** Plan 3 defined benefit portion only.

**** The employee rate for state elected officials is 7.50% for Plan 1 and 4.92% for Plan 2.

***** Variable from 5.0% minimum to 15.0% maximum based on rate selected by the PERS 3 member.

Members Participating in JBM:

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

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

** Plan 3 defined benefit portion only.

***Minimum rate.

Douglas County Sewer District No. 1

NOTES TO FINANCIAL STATEMENTS January 1, 2014 through December 31, 2014

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

	PERS Plan 1	PERS Plan 2	PERS Plan 3
2014	\$ 0	\$52,342	\$ 239
2013	\$71,734	\$46,222	\$ 0

NOTE 10 - DEFERRED DEBITS (CREDITS)

In accordance with generally accepted accounting principles for regulated businesses, the District deferred bond premiums and discounts. Any amounts are being amortized over the life of the corresponding bond. Amortization for 2014 was a credit of \$12,359.

Other deferred debits consist of U.L.I.D. receivables. These charges would have been included in net income for 2014 in non-regulated businesses, but for rate making purposes, they are treated as applicable to future periods.

NOTE 11 - RISK MANAGEMENT

Douglas County Sewer District No. 1 is a member of Enduris. Chapter 48.62 RCW provides the exclusive source of local government entity authority to individually or jointly self-insure risks, jointly purchase insurance or reinsurance, and to contract for risk management, claims, and administrative services. Enduris was formed July 10, 1987 pursuant to the provisions of Chapter 48.62 RCW, Chapter 200-100 WAC, and Chapter 39.34 RCW. Two (2) counties and two (2) cities in the State of Washington joined together by signing an Interlocal Governmental Agreement to fund their self-insured losses and jointly purchase insurance and administrative services. As of August 31, 2014, there are 491 Enduris members representing a broad array of special purpose districts throughout the state.

Enduris members share in the self-insured retention, jointly purchase excess and/or reinsurance coverage and provide risk management services and other related administrative services. Enduris provides "per occurrence" based policies for all lines of liability coverage including Public Official's Liability. The Property coverage is written on an "all risk", blanket basis using current Statement of Values. The Property coverage includes but is not limited to mobile equipment, electronic data processing equipment, business interruption, course of construction and additions, property in transit, fine arts, and automobile physical damage to insured vehicles. Boiler and machinery coverage is included on a blanket limit of \$100 million for all members. Enduris offers crime coverage up to a limit of \$1,000,000 per occurrence.

Members make an annual contribution to fund Enduris. Enduris acquires reinsurance from unrelated insurance companies on a "per occurrence" basis:

Douglas County Sewer District No. 1

NOTES TO FINANCIAL STATEMENTS
January 1, 2014 through December 31, 2014

\$1,000,000 deductible on liability loss - the member is responsible for the first \$1,000 of the deductible amount of each claim, while Enduris is responsible for the remaining \$999,000 on liability loss.

\$250,000 deductible on property loss - the member is responsible for the first \$1,000 of the deductible amount of each claim, while Enduris is responsible for the remaining \$249,000 on property loss.

Enduris is responsible for the \$4,000 deductible on boiler and machinery loss.

Insurance carriers cover all losses over the deductibles as shown on the policy maximum limits. Since Enduris is a cooperative program, there is a joint liability among the participating members.

The contract requires members to continue membership for a period of not less than one (1) year and must give notice 60 days before terminating participation. The Master Agreement (Intergovernmental Contract) is automatically renewed after the initial one (1) full fiscal year commitment.

Even after termination, a member is still responsible for contribution to Enduris for any unresolved, unreported and in-process claims for the period they were a signatory to the Master Agreement.

Enduris is fully funded by its member participants. Claims are filed by members with Enduris and are administered in house.

A Board of Directors consisting of seven (7) board members governs Enduris. Its members elect the Board and the positions are filled on a rotating basis. The Board meets quarterly and is responsible for conducting the business affairs of Enduris.

Settlement claims have not exceeded insurance coverage for any of the past three years.

DOUGLAS COUNTY SEWER DISTRICT NO. 1

NOTES TO FINANCIAL STATEMENTS January 1, 2013 through December 31, 2013

THESE NOTES ARE AN INTEGRAL PART OF THE ACCOMPANYING FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Douglas County Sewer District No. 1 conform to generally accepted accounting principles (GAAP) as applicable to proprietary funds of governments. The following is a summary of the most significant policies (including identification of those policies which result in material departures from generally accepted accounting principles).

A. Reporting Entity

Douglas County Sewer District No. 1 is a municipal corporation governed by an elected three member board. As required by generally accepted accounting principles, management has considered all potential component units in defining the reporting entity. The Douglas County Sewer District No. 1 has no component units.

B. Basis of Accounting and Presentation

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

The district uses the full-accrual basis of accounting where revenues are recognized when earned and expenses are recognized when incurred except for ULID assessment interest and penalties. Assessment interest and penalties are not recorded until funds are received. This practice is not in accordance with general accepted accounting principles (GAAP). Capital asset purchases are capitalized and long-term liabilities are accounted for in the appropriate funds.

The district distinguishes between operating revenues and expenses from nonoperating ones. Operating revenues and expenses result from providing services and producing and delivering goods in connection with a district's principal ongoing operations. The principal operating revenues of the district are charges to customers for sewer service. The district also recognizes as operating revenue connection fees and developer extension fees. Operating expenses for the district include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Unbilled utility service receivables are not recorded at year end, which is a departure from generally accepted accounting principles.

C. Cash and Cash Equivalents

For purposes of the Statement of Cash Flows, the district considers all highly liquid investments (including restricted assets) with a maturity of 3 months or less when purchased to be cash equivalents.

DOUGLAS COUNTY SEWER DISTRICT NO. 1

NOTES TO FINANCIAL STATEMENTS January 1, 2013 through December 31, 2013

D. Utility Plant and Depreciation

Utility plant in service is recorded at cost. Depreciation is computed on the straight-line method with useful lives of 3 to 70 years. Initial depreciation on utility plant is recorded in the year subsequent to purchase. Preliminary costs incurred for proposed projects are deferred pending construction of the facility. Costs relating to projects ultimately constructed are transferred to utility plant. Charges that relate to abandoned projects are expensed.

See Note # 4

E. Restricted Assets

In accordance with bond resolutions, and certain related agreements, separate restricted funds are required to be established. The assets held in these funds are restricted for specific uses, including construction, debt service and other special reserve requirements.

Restricted funds balances are as follows:

Bond Fund	\$1,212,652
Bond Reserve Fund	498,824
Construction Fund	0
Totals	<u>\$1,711,476</u>

F. Receivables

The district has the power to file liens against the property when sewer service charges are not paid. Consequently, there are no write-offs of uncollectible accounts, nor an allowance for uncollectible receivables.

G. Investments

All investments of the district funds are in the form of TCD's, accounts with banking institutions, and money market and state pool accounts utilized through the Douglas County Treasurer's Office.

H. Compensated Absences

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

Vacation pay, which may be accumulated up to 480 hours, is payable upon retirement, death or separation from employment, unless terminated for intentional misconduct as determined by the District.

Sick leave may accumulate indefinitely. Upon retirement, death or separation from employment, accumulated sick leave will be paid up to a maximum of 240 hours, unless terminated for intentional misconduct as determined by the District.

DOUGLAS COUNTY SEWER DISTRICT NO. 1

NOTES TO FINANCIAL STATEMENTS January 1, 2013 through December 31, 2013

The recorded liability for unpaid vacations benefits at December 31, 2013 was \$54,168.
At December 31, 2013 the recorded liability for sick pay was \$88,930.

I Unamortized Debt Expense

Premiums/discounts relating to the sale of bonds are deferred and amortized over the lives of the various bond issues.

NOTE 2 - VIOLATION OF FINANCE-RELATED LEGAL AND CONTRACTUAL PROVISIONS

The 2013 Annual Report was submitted to the State of Washington Auditor's Office after the due date of May 30, 2014.

NOTE 3 - DEPOSITS AND INVESTMENTS

A. Deposits

The district's deposits and certificates of deposit are entirely covered by Federal Depository Insurance Corporation (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (PDPC). The district's treasurer is the Douglas County Treasurer and all cash funds are controlled and invested by that office.

B. Investments

Investment balances as of December 31, 2013

State investment pool	\$8,690,361
U.S. Treasuries	-
Bankers' acceptance	-
Repurchase agreements	-
Other	-
Total	<hr/> \$8,690,361

Custodial credit risk is the risk that in event of a failure of the counterparty to an investment transaction the District would not be able to recover the value of the investment or collateral securities. The district's investments are very low-risk, as they are exclusively certificates of deposit orchestrated by the Douglas County Treasurer.

Investments are recorded at purchase price.

DOUGLAS COUNTY SEWER DISTRICT NO. 1

NOTES TO FINANCIAL STATEMENTS January 1, 2013 through December 31, 2013

NOTE 4 - CAPITAL ASSETS

Capital assets are defined by the District as assets with initial individual cost of more than \$5,000.00 and an estimated useful life in excess of 1 year.

Major expenses for capital assets, including capital leases and major repairs that increase useful lives, are capitalized. Maintenance, repairs, and minor renewals are accounted for as expenses when incurred.

Utility plant in service, and other capital assets, are recorded at cost where the historical cost is known. Where the historical cost is not known, assets are recorded at market value. Donations by developers and customers are recorded at the contract price and donor cost or appraised value.

	Beginning Balance	Reclassify	Increase	Decrease	Ending Balance
Capital Assets Not Being Depreciated:					
Land	6,246				6,246
Construction in progress	94,569		29,683		124,252
Total Capital Assets Not Being Depreciated	100,815		29,683	0	130,498
Capital Assets Being Depreciated:					
Buildings	27,080,000	54,248	84,725	-38,747	27,180,226
Machinery & Equipment	1,139,409	-3,868	25,457	-194,577	966,421
Infrastructure	18,625,882		63,024		18,688,906
Other Improvements	315,771	-50,380			265,391
Total Capital Assets Being Depreciated	47,161,061	0	173,207	-233,324	47,100,944
Less Accumulated Depreciation for:					
Building	5,676,843.26	53,191.82	852,129.18	-36,405.88	6,545,758.38
Machinery & Equipment	694,046.42	-2,812.66	65,768.73	-190,482.90	566,519.59
Infrastructure	3,819,206.44	0.28	279,366.53		4,098,573.25
Other Improvements	311,459.19	-50,380.16	2,147.44		263,226.47
Total Accumulated Depreciation	10,501,555.31	-0.72	1,199,411.88	-226,888.78	11,474,077.69
Total Capital Assets Being Depreciated, Net	36,659,506	1	-1,026,205	-6,435	35,626,867
Total Capital Assets, Net	36,760,321	1	-996,523	-6,435	35,757,365

DOUGLAS COUNTY SEWER DISTRICT NO. 1

NOTES TO FINANCIAL STATEMENTS

January 1, 2013 through December 31, 2013

The original cost of operating property retired or otherwise disposed of and the cost of installation, less salvage, is charged to accumulated depreciation. However, in the case of the sale of a significant operating unit or system, the original cost is removed from the capital assets accounts, accumulated depreciation is charged with the accumulated depreciation related to the property sold, and the net gain or loss is credited or charged to income.

An allowance for funds used during construction is capitalized as part of the cost of utility plant. While cash is not received currently from such allowance, it is realized under the rate-making process over the service life of the related property through increased revenue resulting from a higher rate base and higher depreciation expense. The procedure is intended to remove the cost of financing construction activity from the income statement and to treat such cost in the same manner as construction labor and material costs.

Depreciation is computed using the straight-line method with useful lives of 3 to 50 years. Initial depreciation on capital assets is recorded in the year subsequent to purchase.

Preliminary costs incurred for proposed projects are deferred pending construction of the facility. Costs relating to projects ultimately constructed are transferred to capital assets; charges that related to abandoned projects are expensed.

No expenses include an impairment loss for 2013.

NOTE 5 - CONSTRUCTION IN PROGRESS

The District completed \$99,617 worth of construction in progress, leaving \$124,252 in progress. The following projects were in progress but not under contract at year end:

	Project Authorization	Expended thru 12/31/13	Committed	Required Future Financing
N Baker Avenue Extension 21st - 23rd		4,943		TBD*
Empire Way Extension		68,131		TBD*
Kentucky Lift Station Upgrade		6,074		TBD*
Kentucky Lift Station Canal Crossing		2,245		TBD*
Administrative Lot Purchase		5,035		None
Update Existing Hydrolic System	41,906	37,177	4,729	None
Sewer & Connection Fee Rate Study	30,000	646	29,354	None
	\$ 71,906	\$ 124,252	\$ 34,083	\$ -

* To Be Determined

DOUGLAS COUNTY SEWER DISTRICT NO. 1

NOTES TO FINANCIAL STATEMENTS

January 1, 2013 through December 31, 2013

NOTE 6 - SHORT-TERM DEBT

Currently, the District does not have any short-term debt in the form of loans. The District has booked accrued interest and principal due within one year, which is reflected on the Statement of Net Position.

NOTE 7 - LONG-TERM DEBT

A. Long-Term Debt

The District issues revenue bonds to finance the construction of WWTP upgrades and projects. Bonded indebtedness has also been entered into (currently and in prior years) to advance refund several revenue bonds. The revenue bonds are being repaid by proprietary fund reserves.

At December 31, 2013, the District has \$1,212,652 available in debt service funds to service the bonded debt. Restricted assets in proprietary funds contain \$1,711,476 in sinking funds and reserves as required by bond indentures.

The District has pledged future enterprise revenues, net of enterprise operating expenses, to repay \$12,990,000 in sewer revenue bonds issued in 2006, 2008 and 2013. Proceeds from sewer revenue refunding bonds, issued in 2013, provided for the refinancing of the District's 2003 sewer revenue refunding bonds on 5/28/2013. See Note B below for details.

The District's revenue bonds are payable solely from sewer revenues and are payable through 2026. Annual principal and interest payments on the bonds are expected to require less than 40 percent of net revenues. The total principal and interest remaining to be paid on the bonds is \$17,016,623. Principal and interest paid for the current year and total enterprise revenue were \$1,331,960 and \$3,618,166 respectively.

B. Refunded Debt

The District issued \$2,930,000 of revenue obligations refunding bonds to provide cash that was placed in an irrevocable trust for the purpose of retiring future debt service payments on \$2,935,000 of refunded debt. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the statement of net position. This current refunding was undertaken to reduce total debt service payments over the next 6 years by \$206,122 and resulted in an economic gain of \$203,670.

DOUGLAS COUNTY SEWER DISTRICT NO. 1

NOTES TO FINANCIAL STATEMENTS

January 1, 2013 through December 31, 2013

The District retired outstanding 2002 Sewer Revenue Bonds on August 16, 2013 using approximately \$71,000 of surplus debt service reserve funds and \$115,000 of bond funds to retire \$185,000 of the principal maturities 2013 - 2017 in aggregate, plus accrued interest.

NOTE 8 - RESTRICTED COMPONENT OF NET POSITION

The District's Statement of Net Position reports \$1,711,476 of restricted component of net assets, of which \$1,711,476 is restricted by bond covenants.

DOUGLAS COUNTY SEWER DISTRICT NO. 1

NOTES TO FINANCIAL STATEMENTS

January 1, 2013 through December 31, 2013

NOTE 7 - LONG-TERM DEBT

A. Long-Term Debt

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

Year	1996 PWTF WWTP Upgrade	Interest	2002 ULID #24 Revenue Bonds	Interest	2006 WWTP Upgrade Bond	Interest	2008 WWTP Upgrade Bond	Interest	2013 Refunding Bonds	Interest	2001 PWTF Port Dist PreCon	2003 PWTF Port Dist Const	Port Dist Interest	Total Long- Term Debt and Interest
2014	186,378	5,591			200,000	335,325		99,290	325,000	44,430	7,414	81,854	4,389	1,289,671
2015	186,378	3,728			215,000	326,825		99,290	510,000	41,180	7,414	81,854	3,943	1,475,611
2016	186,378	1,864			220,000	317,688		99,290	515,000	36,080	7,414	81,854	3,497	1,469,064
2017					420,000	308,338		99,290	520,000	31,960	7,414	81,854	3,050	1,471,906
2018					480,000	290,488		99,290	525,000	26,500	7,414	81,854	2,604	1,513,149
2019- 2023					5,085,000	983,450		496,450	535,000	13,375	22,241	409,272	6,362	7,551,150
2024- 2029					1,270,000	53,975	2,170,000	249,640						3,743,615
Totals	559,133	11,183	0	0	7,890,000	2,616,088	2,170,000	1,242,540	2,930,000	193,525	59,308	818,545	23,844	18,514,166
ID#	263.82		253.11		252.11		252.11		252.11		263.82	263.82		

Original Amount	3,500,000	470,000	7,755,000	8,440,000	2,170,000	2,930,000	179,962	1,555,235
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Interest Rate	1.00%	4.59%	3.26%	4.20%	4.70%	1.56%	0.50%	0.50%
Maturity	2016	2017	2019	2024	2026	2019	2021	2023

There are \$1,711,476 in restricted assets of the district. These represent sinking funds and reserve requirements as contained in the various indentures. There are a number of other limitations and restrictions contained in the various bond indentures. The district is in compliance with all significant limitations and restrictions.

DOUGLAS COUNTY SEWER DISTRICT NO. 1

NOTES TO FINANCIAL STATEMENTS

January 1, 2013 through December 31, 2013

NOTE 9 - CHANGES IN LONG-TERM LIABILITIES

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

	Beginning Balance	Additions	Reductions	Ending Balance 12/31/13	Principal Due Within One Year
Bonds Payable: Revenue Bonds	13,805,000	2,930,000	-3,745,000	12,990,000	525,000
Less Deferred Amounts: For issuance discounts On refunding					
Total bonds payable:	13,805,000	2,930,000	-3,745,000	12,990,000	525,000
PWTF - Plant Upgrade	745,511		-186,378	559,133	186,378
PWTF - Doug Co Port Dist	967,121		-89,268	877,853	89,268
Capital Leases	0			0	
Compensated absences	280,685		-137,587	143,098	Unknown
Claims and judgements	0			0	
Total long-term liabilities	15,798,317	2,930,000	-4,158,233	14,570,084	800,646

DOUGLAS COUNTY SEWER DISTRICT NO. 1

NOTES TO FINANCIAL STATEMENTS January 1, 2013 through December 31, 2013

NOTE 10 - PENSION PLANS

Substantially all district full-time and qualifying part-time employees participate in one of the following statewide retirement systems administered by the Washington State Department of Retirement Systems, under cost-sharing multiple-employer public employee defined benefit retirement plans. The Department of Retirement Systems (DRS), a department within the primary government of the State of Washington, issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for each plan. The DRS CAFR may be obtained by writing to: Department of Retirement Systems, Communications Unit, P.O. Box 48380, Olympia, WA 98504-8380; or it may be downloaded from the DRS website at www.drs.wa.gov.

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

Plan Description

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

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

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

PERS is comprised of and reported as three separate plans for accounting purposes: Plan 1, Plan 2/3, and Plan 3. Plan 1 accounts for the defined benefits of Plan 1 members. Plan 2/3 accounts for the defined benefits of Plan 2 members, and the defined benefit portion of benefits for Plan 3 members. Plan 3 accounts for the defined contribution portion of benefits for Plan 3 members. Although members can only be a member of either Plan 2 or Plan 3, the defined benefit portions of Plan 2 and Plan 3 are accounted for in the same pension trust fund. All assets of this Plan 2/3 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.

DOUGLAS COUNTY SEWER DISTRICT NO. 1

NOTES TO FINANCIAL STATEMENTS January 1, 2013 through December 31, 2013

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.

DOUGLAS COUNTY SEWER DISTRICT NO. 1

NOTES TO FINANCIAL STATEMENTS

January 1, 2013 through December 31, 2013

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.

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

DOUGLAS COUNTY SEWER DISTRICT NO. 1

NOTES TO FINANCIAL STATEMENTS January 1, 2013 through December 31, 2013

If they have at least ten service credit years and are 55 years old, the benefit is reduced by an ERF that varies with age, for each year before age 65.

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

If they have 30 service credit years, are at least 55 years old, and were hired after May 1, 2013, they have the option to retire early by accepting a reduction of 5 percent for each year before age 65.

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

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

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

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

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

There are 1,176 participating employers in PERS. Membership in PERS consisted of the following as of the latest actuarial valuation date for the plans of June 30, 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
Terminated Plan Members Nonvested:	101,191
Total:	368,272

DOUGLAS COUNTY SEWER DISTRICT NO. 1

NOTES TO FINANCIAL STATEMENTS January 1, 2013 through December 31, 2013

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.

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

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

The required contribution rates expressed as a percentage of current-year covered payroll, as of December 31, 2014, are as follows:

Members Not Participating in JBM:

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

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

** The employer rate for state elected officials is 13.73% for Plan 1 and 9.21% for Plan 2 and Plan 3.

*** Plan 3 defined benefit portion only.

**** The employee rate for state elected officials is 7.50% for Plan 1 and 4.92% for Plan 2.

***** Variable from 5.0% minimum to 15.0% maximum based on rate selected by the PERS 3 member.

Members Participating in JBM:

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

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

** Plan 3 defined benefit portion only.

*** Minimum rate.

DOUGLAS COUNTY SEWER DISTRICT NO. 1

NOTES TO FINANCIAL STATEMENTS January 1, 2013 through December 31, 2013

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

PERS Plan 1 PERS Plan 2 PERS Plan 3

NOTE 11 - DEFERRED DEBITS (CREDITS)

In accordance with generally accepted accounting principles for regulated businesses, the District deferred bond premiums and discounts. Any amounts are being amortized over the life of the corresponding bond. The total expense for 2013 is \$29,439.

Other deferred debits consist of U.L.I.D. receivables. These charges would have been included in net income for 2013 in non-regulated businesses, but for rate making purposes, they are treated as applicable to future periods.

NOTE 12 - ACCOUNTING CHANGES

Other than as required by GASB in Note 24, the District currently has no material changes in accounting policy.

NOTE 13 - PRIOR PERIOD ADJUSTMENTS

During preparation of the 2013 financial statements, it was recognized that accrued interest was not reported in the 2012 or prior financial statements. Accrued interest for December 31, 2012 should have been \$240,239, which has been accounted for through a prior period adjustment.

NOTE 14 - RISK MANAGEMENT

The District is a special district member of the Cities Insurance Association of Washington (the "CIAW"). Chapter 48.62 RCW authorizes the governing body of any one or more governmental entities to form together into or join a pool or organization for the joint purchasing of insurance, and/or joint self-insuring, and/or joint hiring or contracting for risk management services to the same extent that they may individually purchase insurance, self-insure, or hire or contract for risk management services. An agreement to form a pooling arrangement was made pursuant to the provisions of chapter 30.34 RCW, the Interlocal Cooperation Act. The pool was formed on September 1, 1988 when 34 cities in the State joined together by signing an Interlocal Governmental Agreement to pool their self-insured losses and jointly purchase insurance and administrative services. As of September 1, 2013, there are 236 members in the program.

The pool provides the following forms of joint self-insurance and excess coverage for its members: Property, including Automobile Comprehensive, and Collision; Equipment Breakdown, and Crime Protection; and Liability, including General, Automobile, and Wrongful Acts, are included to fit members' various needs.

DOUGLAS COUNTY SEWER DISTRICT NO. 1

NOTES TO FINANCIAL STATEMENTS January 1, 2013 through December 31, 2013

The program acquires liability insurance through their Administrator, Canfield, that is subject to a per-occurrence self-insured retention of \$100,000. The standard member deductible is \$1,000 for each claim (deductible may vary per member), while the program is responsible for the \$100,000 self-insured retention. Insurance carriers cover insured losses over \$101,000 to the limits of each policy. Since the program is a cooperative program, there is a joint liability among the participating members towards the sharing of the \$100,000 of the self-insured retention. The program also purchases a Stop Loss Policy, with an attachment point of \$3,247,000, to cap the total claims paid by the program in any one year.

Property insurance is subject to a per-occurrence self-insured retention of \$25,000. Members are responsible for a \$1,000 deductible for each claim. The program bears the \$25,000 self-insured retention, in addition to the deductible.

Equipment Breakdown insurance is subject to a per-occurrence deductible of \$2,500 (\$10,000 for Pumps and Motors). Members are responsible for the deductible amount of each claim. There is no program self-insured retention on the coverage.

Members contract to remain in the program for a minimum of one year, and must give notice before August 31 terminating participation the following September 1. The Interlocal Agreement is renewed automatically each year. In the event of termination, a member is still responsible for contributions to the program for any unresolved, unreported, and in-process claims for the period they were a signatory to the Interlocal Agreement.

A board of ten members is selected by the membership from three geographic areas of the state on a staggered term basis and is responsible for conducting the business affairs of the program. The program has no employees. Claims are filed by members with Canfield, which has been contracted to perform program administration, claims adjustment and administration, and loss prevention for the program. Fees paid to the third party administrator under this arrangement for the year ending August 31, 2013, were \$1,423,059.12.

Settlement claims have not exceeded insurance coverage for any of the past three years.

NOTE 15 - RETROSPECTIVE APPLICATION OF NEW ACCOUNTING PRINCIPLE

In 2013, the District adopted GASB Statement No. 65, Items Previously Reported as Assets and Liabilities, which requires debt issue costs to be recognized as expense in the period incurred. The financial statements have been retroactively restated for the change, which resulted in a decrease in the change of net position of \$170,516. Net position at the beginning of the year has been adjusted for the retroactive application of the new standard.

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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