Washington State Auditor's Office

Financial Statements Audit Report

King County Water District No. 54

Audit Period
January 1, 2011 through December 31, 2012

Report No. 1011243

Issue Date
February 10, 2014

WASHINGTON
TROY KELLEY
STATE AUDITOR

Washington State Auditor
Troy Kelley

February 10, 2014

Board of Commissioners
King County Water District No. 54
Des Moines, Washington

Report on Financial Statements

Please find attached our report on King County Water District No. 54's financial statements.

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

Sincerely,

Troy X. Kelley

TROY KELLEY
STATE AUDITOR

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King County Water District No. 54
January 1, 2011 through December 31, 2012

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*

King County Water District No. 54
January 1, 2011 through December 31, 2012

Board of Commissioners
King County Water District No. 54
Des Moines, 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 King County Water District No. 54, King County, Washington, as of and for the years ended December 31, 2012 and 2011, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated January 31, 2014.

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.

In addition, we noted certain matters that we have reported to the management of the District in a separate letter dated January 31, 2014.

COMPLIANCE AND OTHER MATTERS

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

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

PURPOSE OF THIS REPORT

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

Troy X. Kelley

TROY KELLEY
STATE AUDITOR

January 31, 2014

Independent Auditor's Report on Financial Statements

King County Water District No. 54
January 1, 2011 through December 31, 2012

Board of Commissioners
King County Water District No. 54
Des Moines, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of King County Water District No. 54, King County, Washington, as of and for the years ended December 31, 2012 and 2011, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed on page 5.

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 King County Water District No. 54, as of December 31, 2012 and 2011, 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.

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

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated January 31, 2014 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Troy X. Kelley

TROY KELLEY
STATE AUDITOR

January 31, 2014

Financial Section

King County Water District No. 54
January 1, 2011 through December 31, 2012

REQUIRED SUPPLEMENTARY INFORMATION

BASIC FINANCIAL STATEMENTS

Brief Discussion of the Basic Financial Statements

The District's financial statements include a Statement of Net Position; a Statement of Revenues, Expenses & Changes in Fund Net Position; a Statement of Cash Flows; and Notes to the Financial Statements. The financial statements are prepared using the accrual basis of accounting and conform to generally accepted accounting principles as applicable to proprietary funds of governments. The intent of the management's discussion and analysis is to provide highlights of the District's financial activities for the years ended December 31, 2012 and 2011. Readers are encouraged to read this section in conjunction with the accompanying financial statements.

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

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

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

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

Condensed Comparative Statement of Net Position

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

	2012	2011	2010
Assets			
Current Assets	$ 1,764,817	$ 2,328,796	$ 999,724
Noncurrent Assets:			
Capital Assets - Net	5,354,339	4,983,347	4,285,107
Unamortized Debt Issue Costs	15,007	16,349	-
Total Assets	$ 7,134,163	$ 7,328,492	$ 5,284,831
Liabilities			
Current Liabilities	$ 216,488	$ 460,320	$ 189,355
Noncurrent Liabilities:			
Long-Term Debt	2,408,294	2,584,805	1,086,314
Total Liabilities	$ 2,624,782	$ 3,045,125	$ 1,275,669

Net Position			
Invested in Capital Assets - Net of Related Debt	$ 2,784,542	$ 2,238,382	$ 3,056,776
Restricted for Capital Projects	602,815	935,770	300,837
Unrestricted	1,122,024	1,109,215	651,549
Total Net Position	$ 4,509,381	$ 4,283,367	$ 4,009,162

Analysis of the Condensed Comparative Statement of Net Position

Assets

Current assets consist of cash and cash equivalents held in the maintenance fund, which is unrestricted and can be used for day-to-day operations. In the course of operations the balance in the maintenance fund can vary from year to year for a variety of reasons. Current assets also include the construction fund, debt service fund, customer accounts receivable, cash and cash equivalents restricted for various purposes, accounts receivable - other, inventories, prepaid expenses and employee advances. The construction fund decreased by $566,675 in 2012 due to expenses related to the construction of water mains. The remaining balances did not change significantly in 2012 as compared with 2011. In 2011, the construction fund and the debt service fund increased by $885,507 and $ 289,034 respectively, due to the issuance of a new bond. The remaining balances did not change significantly in 2011 as compared with 2010.

Noncurrent assets contain net capital assets, which include land, construction work in progress, utility plant, equipment, and intangible assets less accumulated depreciation. Capital assets increased by $370,992 in 2012 which reflects the District's investment in plant and equipment less depreciation for the year. In 2011, net capital assets increased by $698,240.

Liabilities

Current liabilities include accounts payable, accrued interest payable on debt, and the current portion of long-term debt. Current liabilities decreased by $243,832 reflecting the payments of a large portion of the accounts payable from the construction fund. Current liabilities increased by $270,965 in 2011. This is reflective of the issuance of the water revenue bond as well as an increase in accounts payable from the construction fund.

Noncurrent liabilities contain the long-term portion of Public Works Trust Fund loans and water revenue bond. Noncurrent liabilities decreased in 2012 in accordance with the amount of the required principal payments made during the year. Noncurrent liabilities increased by $1,498,491 in 2011, due to the issuance of the water revenue bond.

Net Position

Net position consists of total assets less total liabilities. Between 2012 and 2011 the net position increased by $226,014 and by $274,205 between 2011 and 2010. Over time, increases or decreases in the District's net position are an indicator of the District's overall financial strength. An increase in net position is a positive sign of the District's financial strength.

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

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

	2012	2011	2010
Revenues			
Operating Revenues	$ 943,640	$ 914,055	$ 858,275
Nonoperating Revenues	17,059	10,270	9,462
Total Revenues	$ 960,699	$ 924,325	$ 867,737
Expenses			
Operating Expenses	$ 513,348	$ 502,225	$ 509,803
Depreciation	135,320	118,966	130,779
Nonoperating Expenses	86,017	28,929	31,614
Total Expenses	$ 734,685	$ 650,120	$ 672,196
Change in Net Position before Capital Contributions	$ 226,014	$ 274,205	$ 195,541
Capital Contributions	0	0	0
Change in Net Position	226,014	274,205	195,541
Total Net Position, January 1	$ 4,283,367	$ 4,009,162	$ 3,813,621
Total Net Position, December 31	$ 4,509,381	$ 4,283,367	$ 4,009,162

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

Revenues

Operating revenues increased by $29,585 in 2012 after increasing $55,780 in 2011. The increase in 2012 is due to a slight increase in consumption related to a fairly dry summer. Nonoperating revenues consist of interest income from investments. Nonoperating revenues increased by $6,789 in 2012 due to an increase in interest income from the cash balances related to the issuance of the 2011 revenue bond.

Expenses

Operating expenses increased by $11,123 in 2012. In 2011, operating expenses decreased by $7,578.

Capital Contributions

Capital contributions remained the same in 2012 and in 2011.

Change in Net Position

Net position increased $226,014 in 2012 and $274,205 in 2011 reflecting the fact that total revenues exceeded total expenses in both years.

Analysis of Overall Financial Condition

The District's overall financial condition improved in 2012, with an increase in net assets, adequate liquid assets and positive operating cash flow.

Capital Assets

Capital assets consist of land, construction in progress, utility plant and equipment. The total increase in the District's investment in capital assets for the current year was $370,992. For 2011 there was an increase of $698,240. The principal projects included in 2012 capital spending were the Marine View Drive water main, and the Comprehensive Plan. Over the next five years it is anticipated that capital spending will be in the range of $949,000. The area of major emphasis in the capital budget is water main replacement.

Capital assets activity for the year ended December 31, 2012 was as follows:

	Balance 12/31/12	Balance 12/31/11	Change
Land	$ 184,000	$ 184,000	$ -
Construction in Progress	8,869	884,237	(875,368)
Utility Plant	6,769,035	5,469,890	1,299,145
Equipment	203,691	165,739	37,952
Intangibles	189,106	144,526	44,580
Accumulated Depreciation	(2,000,362)	(1,865,045)	(135,317)
Total Capital Assets, Net	$ 5,354,339	$ 4,983,347	$ 370,992

Capital assets activity for the year ended December 31, 2011 was as follows:

	Balance 12/31/11	Balance 12/31/10	Change
Land	$ 184,000	$ 184,000	$ 0
Construction in Progress	884,237	746,589	137,648
Utility Plant	5,469,890	4,790,331	679,559
Equipment	165,739	165,739	0
Intangibles	144,526	144,526	0
Accumulated Depreciation	(1,865,045)	(1,746,078)	(118,967)
Total Capital Assets, Net	$ 4,983,347	$ 4,285,107	$ 698,240

Long-Term Debt

At December 31, 2012, the District had total Public Works Trust Fund loans outstanding of $949,805. At the end of 2011 the District had total Public Works Trust Fund loans outstanding in the amount of $1,086,314. The public works trust fund long-term debt of the District decreased by $136,509 during both 2012 and 2011. In both cases the decline is accounted for by principal payments made on Public Works Trust Fund Loans. The District also had Water Revenue Bonds outstanding of $1,635,000 in 2012 and $1,675,000 in 2011. This decrease reflects the principal payments of $40,000.

Water District No. 54 of King County
Statement of Net Position
December 31, 2012 and 2011

	2012	2011
ASSETS		
Current Assets		
Maintenance Fund:		
- Cash & Cash Equivalents	$ 665,046	$ 664,696
- Accrued Interest	300	276
Capital Improvement Fund:		
- Cash & Cash Equivalents	288,023	246,630
- Accrued Interest Receivable	129	110
Accounts Receivable	136,833	144,618
Accounts Receivable - Other	0	35,701
Restricted Assets:		
Construction Fund:		
- Cash & Cash Equivalents	607,867	1,174,542
- Accrued Interest Receivable	275	596
Inventory	50,234	47,434
Prepaid Expenses	14,454	12,537
Employee Advances	1,656	1,656
Total Current Assets	$ 1,764,817	$ 2,328,796
Noncurrent Assets		
Capital Assets (Net)	$ 5,354,339	$ 4,983,347
Unamortized Debt Issue Costs	15,007	16,349
Total Noncurrent Assets	$ 5,369,346	$ 4,999,696
Total Assets	$ 7,134,163	$ 7,328,492

See accompanying notes.

Water District No. 54 of King County
Statement of Net Position
December 31, 2012 and 2011

	2012	2011
LIABILITIES		
Current Liabilities		
Accounts Payable - Maintenance	$ 27,571	$ 32,324
Public Works Trust Fund Loans (Current Portion)	136,509	136,509
Water Revenue Bonds (Current Portion)	40,000	40,000
Due to Developers	-	4,000
Accrued Interest - Public Works Trust Fund Loans	6,952	8,010
Payable from Restricted Assets:		
Accounts Payable - Construction	5,456	239,477
Total Current Liabilities	$ 216,488	$ 460,320
Noncurrent Liabilities		
Public Works Trust Fund Loans (Less Current Portion)	$ 813,294	$ 949,805
Water Revenue Bond (Less Current Portion)	1,595,000	1,635,000
Total Noncurrent Liabilities	$ 2,408,294	$ 2,584,805
Total Liabilities	$ 2,624,782	$ 3,045,125
NET POSITION		
Net Investment in Capital Assets	$ 2,784,542	$ 2,238,382
Restricted for Capital Projects	602,815	935,770
Unrestricted	1,122,024	1,109,215
Total Net Position	$ 4,509,381	$ 4,283,367

See accompanying notes.

Water District No. 54 of King County
Statement of Revenues, Expenses and Changes in Fund Net Position
Years Ended December 31, 2012 and 2011

	2012	2011
Operating Revenues		
Water Sales	$ 839,711	$ 814,094
Fire Protection & Bulk Water	22,625	22,753
Late Charges & Penalties	9,191	8,919
Miscellaneous Revenue	72,113	68,289
Total Operating Revenues	$ 943,640	$ 914,055
Operating Expenses		
Maintenance & Operations (Schedule)	$ 232,768	$ 249,647
Administrative & General (Schedule)	280,580	252,578
Depreciation & Amortization	136,663	119,640
Total Operating Expenses	$ 650,011	$ 621,865
Operating Income	$ 293,629	$ 292,190
Nonoperating Revenues (Expenses)		
Investment Income	$ 17,059	$ 10,270
Interest on Public Works Trust Fund Loans	(84,674)	(28,255)
Total Nonoperating Revenues (Expenses)	$ (67,615)	$ (17,985)
Income Before Contributions	$ 226,014	$ 274,205
Capital Contributions	0	0
Change in Net Position	$ 226,014	$ 274,205
Total Net Position, January 1	4,283,367	4,009,162
Total Net Position, December 31	$ 4,509,381	$ 4,283,367

See accompanying notes.

Water District No. 54 of King County
Statement of Cash Flows
Years Ended December 31, 2012 and 2011

	2012	2011
Cash Flows From Operating Activities		
Cash Received From Customers	$ 951,425	$ 907,619
Cash Paid to Suppliers	(247,930)	(260,648)
Cash Paid to Employees	(274,889)	(251,161)
Net Cash Provided by Operating Activities	$ 428,606	$ 395,810
Cash Flows From Capital & Related Financing Activities		
Acquisition and Construction of Capital Assets	$ (740,335)	$ (583,237)
Proceeds from Issuance of Revenue Bonds		1,675,000
Principal Payments on Water Revenue Bonds	(40,000)	
Principal Payments on Public Works Trust Fund Loans	(136,509)	(136,509)
Bond Issue Costs		(17,022)
Interest Paid on Long-Term Debt	(85,732)	(29,313)
Contributions in Aid of Construction	31,701	8,019
Net Cash Provided/(Used) by Capital & Related Financing Activities	$ (970,875)	$ 916,938
Cash Flows From Investing Activities		
Interest Received on Investments	$ 17,337	$ 9,708
Net Cash Provided by Investing Activities	$ 17,337	$ 9,708
Net Increase (Decrease) in Cash & Cash Equivalents	$ (524,932)	$ 1,322,456
Cash & Cash Equivalents at Beginning of Year	$ 2,085,868	$ 763,412
Cash & Cash Equivalents at End of Year	$ 1,560,936	$ 2,085,868

See accompanying notes.

Water District No. 54 of King County
Statement of Cash Flows
Years Ended December 31, 2012 and 2011

	2012	2011
Reconciliation of Net Operating Income to Net Cash Provided by Operating Activities		
Net Operating Income	$ 293,629	$ 292,190
Adjustments to Reconcile Net Operating Income to Net Cash Provided by Operating Activities		
Depreciation & Amortization	$ 136,663	$ 119,640
Change in Assets & Liabilities:		
(Increase) Decrease in Accounts Receivable	7,785	(6,436)
(Increase) Decrease in Misc. A/R	0	0
(Increase) Decrease in Prepaid Expenses	(1917)	(367)
(Increase) Decrease in Inventory	(2,800)	(3,270)
Increase (Decrease) in Accrued Wages	1,954	17,935
Increase (Decrease) in Accounts Payable - Maintenance Fund	(6,708)	(23,882)
Total Adjustments	$ 134,977	$ 103,620
Net Cash Provided by Operating Activities	$ 428,606	$ 395,810

See accompanying notes.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Water District No. 54 conform to generally accepted accounting principles (GAAP) as applicable to proprietary funds of governments. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the most significant accounting policies of the District:

a. Reporting Entity

Water District No. 54 is a municipal corporation governed by an elected, three member board. The District's primary activity is to provide water service to residential and commercial customers within the District's boundaries in the area of Des Moines, Washington. As required by generally accepted accounting principles, management has considered all potential component units in defining the reporting entity. The District has no component units.

b. Basis of Accounting and Presentation

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

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

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

c. Cash and Cash Equivalents

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

d. Capital Assets

Utility plant in service is recorded at cost. Donations by developers are recorded at the contract price. Depreciation is calculated on the straight-line method with useful lives of five to fifty years. Upon retirement, sale, or other disposition of an asset, the cost of the assets and the related accumulated depreciation are removed from the property accounts and the net gain or loss is reflected in the statement of revenues, expenses and changes in fund net position.

Repairs and maintenance are expensed as incurred, while major renewals, replacements and betterments are capitalized.

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

See Note 3.

e. Restricted Funds

In accordance with the District's loan agreements, separate restricted funds are required to be established. The assets held in these funds are restricted for specific uses. Restricted funds include the following at December 31, 2012 and 2011:

	12/31/12	12/31/11
Construction Bond Fund	$ 320,534	$ 885,507
Debt Service Collection Fund	$ 287,333	$ 289,035

f. Receivables

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

g. Inventories

Inventory of materials is recorded at cost on the first-in/first-out basis and a physical inventory is taken at the end of each calendar year.

h. Investments

Investments are recorded at market value. See Note 2.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

i. Compensated Absences

Compensated absences are absences for which employees will be paid, such as vacation and sick leave. The District records unpaid leave for compensated absences as an expense and liability when incurred.

j. Unamortized Debt Discount

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

k. Subsequent Events

Management has evaluated subsequent events through May 29, 2013, the date that the financial statements were available to be issued.

NOTE 2 - DEPOSITS & INVESTMENTS

The District's cash and investment balances at year-end are shown below.

	12/31/12	12/31/11
Petty Cash Fund	$ 40	$ 40
Bank Deposit Accounts - FDIC Insured	1,830	2,483
Investment in King County Investment Pool	1,559,066	2,083,345
Total Cash & Investments	$ 1,560,936	$ 2,085,868

The District's deposits in bank accounts are entirely covered by federal depository insurance (FDIC).

In accordance with state law, the District's governing body has entered into a formal interlocal agreement with the District's *ex officio* treasurer, King County, to have all its funds not required for immediate expenditure to be invested in the King County Investment Pool (Pool).

As of December 31, 2012, the District had the following investments:

Investment Type	Fair Value	Effective Duration
King County Investment Pool	$ 1,559,066	1.36 Years

NOTE 2 - DEPOSITS & INVESTMENTS (Continued)

Impaired Investments. As of December 31, 2012, all impaired commercial paper investments have completed enforcement events. The King County impaired investment pool (Impaired Pool) held one commercial paper asset where the Impaired Pool accepted an exchange offer and is receiving the cash flows from the investment's underlying securities. The Impaired Pool also held the residual investments in four commercial paper assets that were part of completed enforcement events, where the Impaired Pool accepted the cash-out option. The District's share of the impaired investment pool principal is $4,424, and the District's fair value of these investments is $2,171.

Interest Rate Risk. As of December 31, 2012, the Pool's average duration was 1.36 years. As a means of limiting its exposure to rising interest rates, securities purchased in the Pool must have a final maturity, or weighted average life, no longer than five years. While the Pool's market value is calculated on a monthly basis, unrealized gains and losses are not distributed to participants. The Pool distributes earnings monthly using an amortized cost methodology.

Credit Risk. As of December 31, 2012, the district's investment in the Pool was not rated by a nationally recognized statistical rating organization (NRSRO). In compliance with state statutes, Pool policies authorize investments in U. S. Treasury securities, U.S. agency securities and mortgage-backed securities, municipal securities (rated at least "A" by two NRSROs), commercial paper (rated at least the equivalent of "A-1" by two NRSROs), certificates of deposits issued by qualified public depositaries, repurchase agreements, and the Local Government Investment Pool managed by the Washington State Treasurer's office.

NOTE 3 - CAPITAL ASSETS

Capital assets activity for the year ended December 31, 2012 was as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not being depreciated:				
Land	$ 184,000	$ -	$ -	$ 184,000
Construction in Progress	884,237	468,356	1,343,724	8,869
Total capital assets not being depreciated	1,068,237	468,356	1,343,724	192,869
Capital assets being depreciated:				
Plant	5,469,890	1,299,141	-	6,769,035
Machinery & Equipment	165,739	37,956	-	203,691
Intangibles	144,526	44,580	-	189,106
Total capital assets being depreciated	5,780,155	1,381,677	-	7,161,832
Less accumulated depreciation for:				
Plant	1,573,878	124,233	-	1,698,111
Machinery & Equipment	146,640	6,626	-	153,266
Intangibles	144,527	4,458	-	148,985
Total accumulated depreciation	1,865,045	135,317	-	2,000,362
Total capital assets being depreciated, net	3,915,110	1,246,360	-	5,161,470
TOTAL CAPITAL ASSETS, NET	$ 4,983,347	$ 1,714,716	$ 1,343,724	$ 5,354,339

NOTE 3 - CAPITAL ASSETS (Continued)

Capital assets activity for the year ended December 31, 2011 was as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not being depreciated:				
Land	$ 184,000	$ -	$ -	$ 184,000
Construction in Progress	746,589	817,206	679,558	884,237
Total capital assets not being depreciated	930,589	817,206	679,558	1,068,237
Capital assets being depreciated:				
Plant	4,790,331	679,559	-	5,469,890
Machinery & Equipment	165,739	-	-	165,739
Intangibles	144,526		-	144,526
Total capital assets being depreciated	5,100,596	679,559	-	5,780,155
Less accumulated depreciation for:				
Plant	1,459,644	114,234	-	1,573,878
Machinery & Equipment	141,907	4,733	-	146,640
Intangibles	144,527		-	144,527
Total accumulated depreciation	1,746,078	118,967	-	1,865,045
Total capital assets being depreciated, net	3,354,518	560,592	-	3,915,110
TOTAL CAPITAL ASSETS, NET	$ 4,285,107	$ 1,377,798	$ 679,558	$ 4,983,347

NOTE 4 - CONSTRUCTION IN PROGRESS

Construction in progress represents expenses to date on projects whose authorizations total $150,000.

Project	Authorized	Expended 12/31/12	Committed	Required Financing
Well 6 Project	$ 150,000	$ 8,869	$ 141,131	$ -
	$ 150,000	$ 8,869	$ 141,131	$ -

NOTE 5 - LONG TERM DEBT

a. Revenue Bonds

A summary of bonds outstanding at December 31, 2012 and 2011 is as follows:

	2012	2011
2011 Revenue Bonds, 1.50% - 4.00%, maturing serially through 2031	$ 1,635,000	$ 1,675,000
	$ 1,635,000	$ 1,675,000

The principal and interest on water revenue bonds are payable from and secured by a pledge of net operating revenues, collection of Utility Local Improvement District assessments, if any, including interest thereon, and certain money and investments held in the Bond Fund.

On August 19, 2011, the District issued a series of water revenue bonds in the aggregate principal amount of $1,675,000, for the purpose of providing funds to upgrade existing water mains.

The annual requirements to amortize all revenue bond debts outstanding as of December 31, 2012, including interest, are as follows:

	Principal	Interest	Total
2013	$ 40,000	$ 59,175	$ 99,175
2014	45,000	58,575	103,575
2015	45,000	57,900	102,900
2016	45,000	57,000	102,000
2017 - 2021	355,000	263,900	618,900
2022 - 2026	570,000	176,625	746,625
2027 - 2030	535,000	54,800	589,800
	$ 1,635,000	$ 727,975	$ 2,362,975

NOTE 5 - LONG TERM DEBT (Continued)

b. Public Works Trust Fund Loans

The District has entered into agreements with the Department of Community, Trade and Economic Development of the State of Washington to receive the following Public Works Trust Fund loans:

	12/31/12	12/31/11
1994 loan - payable at $11,611 annually through the year 2014, plus interest at 2% per annum Original debt: $220,618	$ 23,223	$ 34,834
1999 loan - payable at $60,316 annually through the year 2019, plus interest at 2% per annum Original debt: $1,123,682	422,212	482,529
1998 loan - payable at $57,111 annually through the year 2019, plus interest at 4.35% per annum Original debt: $999,100	399,773	456,885
2006 loan - payable at $7,471 annually through the year 2026, plus interest at 0.5% per annum Original debt: $141,950	104,595	112,066
	$ 949,803	$ 1,086,314

The annual requirements to amortize all Public Works Trust Fund loans outstanding as of December 31, 2012, including interest, are as follows:

	Principal	Interest	Total
2013	$ 136,509	$ 22,600	$ 159,109
2014	136,509	19,242	155,751
2015	124,898	15,886	140,784
2016	124,898	12,761	137,659
2017-2021	389,633	20,019	409,654
2022-2026	37,356	560	37,916
	$ 949,803	$ 91,068	$ 1,040,873

NOTE 5 - LONG TERM DEBT (Continued)

c. Changes in Long-Term Debt

During the year ended December 31, 2012, the following changes occurred in long-term debt:

	Balance 1/1/12	Additions	Reductions	Balance 12/31/12	Due Within One Year
Revenue Bonds Payable	$ 1,675,000	$	$ 40,000	$ 1,635,000	$ 40,000
Public Works Trust Fund Loans	1,086,314		136,509	949,805	136,509
	$ 2,761,314	$	$ 176,509	$ 2,584,805	$ 176,509

NOTE 6 - PENSION PLAN

Substantially all District full-time and qualifying part-time employees participate in one of the following statewide retirement systems administered by the Washington State Department of Retirement Systems, under cost-sharing multiple-employer public employee defined benefit retirement plans. The Department of Retirement Systems (DRS), a department within the primary government of the State of Washington, issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for each plan. The DRS CAFR may be obtained by writing to: Department of Retirement Systems, Communications Unit, P.O. Box 48380, Olympia, WA 98504-8380; or it may be downloaded from the DRS website at www.drs.wa.gov. The following disclosures are made pursuant to GASB Statement 27, *Accounting for Pensions by State and Local Government Employers* and the GASB Statement 50, *Pension Disclosures, an Amendment of GASB Statements No. 25 and No. 27.*

NOTE 6 - PENSION PLAN (Continued)

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

Plan Description

The Legislature established PERS in 1947. Membership in the system includes: elected officials; state employees; employees of the Supreme, Appeals, and Superior courts; employees of legislative committees; community and technical colleges, college and university employees not participating in higher education retirement programs; employees of district and municipal courts; and employees of local governments. Approximately 50 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. Notwithstanding, PERS Plan 2 and Plan 3 members may opt out of plan membership if terminally ill, with less than five years to live.

PERS is comprised of and reported as three separate plans for accounting purposes: Plan 1, Plan 2/3, and Plan 3. Plan 1 accounts for the defined benefits of Plan 1 members. Plan 2/3 accounts for the defined benefits of plan 2 members and the defined benefit portion of benefits for Plan 3 members. Plan 3 accounts for the defined contribution portion of benefits for Plan 3 members. Although members can only be a member of either Plan 2 or Plan 3, the defined benefit portions of Plan 2 and Plan 3 are accounted for in the same pension trust fund. All assets of this Plan 2/3 defined benefit plan may legally be used to pay the defined benefits of any of the Plan 2 or Plan 3 members or beneficiaries, as defined by the terms of the plan. Therefore, Plan 2/3 is considered to be a single plan for accounting purposes.

PERS Plan 1 and Plan 2 retirement benefits are financed from a combination of investment earnings and employer and employee contributions. Employee contributions to the PERS Plan 1 and Plan 2 defined benefit plans accrue interest at a rate specified by the Director of DRS. During DRS' Fiscal Year 2012, the rate was five and one-half percent compounded quarterly. Members in PERS Plan 1 and Plan 2 can elect to

NOTE 6 - PENSION PLAN (Continued)

Plan Description (Continued)

withdraw total employee contributions and interest thereon 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 after 30 years of service, or at the age of 60 with 5 years of service, or at the age of 55 with 25 years of service. 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 AFC. The AFC is the monthly average of the 24 consecutive highest-paid service credit months.

The monthly benefit is subject to a minimum for retirees who have 25 years of service and have been retired 20 years, or who have 20 years of service and have been retired 25 years. If a survivor option is chosen, the benefit is reduced. Plan 1 members retiring from inactive status prior to the age of 65 may also receive actuarially reduced benefits. 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 1 members can receive credit for military service while actively serving in the military if such credit makes them eligible to retire. Members can also purchase up to 24 months of service credit lost because of an on-the-job injury.

The survivor of a PERS Plan 1 member who dies after having earned ten years of service credit has the option, upon the member's death, of either a monthly survivor benefit or the lump sum of contributions plus interest.

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.

NOTE 6 - PENSION PLAN (Continued)

Plan Description (Continued)

The AFC is the monthly average of the 60 consecutive highest-paid service months. There is no cap on years of service credit; and a cost-of-living allowance is granted (based on the Consumer Price Index), capped at 3 percent annually.

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

PERS Plan 2 members who have 30 or more years of service credit and are at least 55 years old can retire under one of two provisions:

- 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 retirement benefits are also actuarially reduced to reflect the choice, if made, of a survivor option. The surviving spouse or eligible child(ren) of a PERS Plan 2 member who dies after having earned ten years of service credit has the option of either a monthly benefit or a lump sum payment of the member's contributions plus interest.

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. 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 investments are made in the same portfolio as that of the PERS 2/3 defined benefit plan.

For DRS' fiscal year 2012, PERS Plan 3 employee contributions were $95.2 million, and plan refunds paid out were $66.2 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

NOTE 6 - PENSION PLAN (Continued)

Plan Description (Continued)

in PERS Plan 2 by June 1, 2003. Plan 3 members are immediately vested in the defined contribution portion of their plan.

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

- If they have at least ten service credit years and are 55 years old, the benefit is reduced by an ERF that varies with age, for each year before age 65.
- If they have 30 service credit years and are at least 55 years old, 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.

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

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

PERS Plan 2 and Plan 3 members may have up to ten years of interruptive military service credit; five years at no cost and five years that may be purchased by paying the required contributions.

PERS Plan 2 and Plan 3 members who become totally incapacitated for continued employment while serving the uniformed services, or a surviving spouse or eligible child(ren), may request interruptive military service credit.

PERS Plan 2 and Plan 3 members can purchase up to 24 months of service credit lost because of an on-the-job injury.

PERS members may also purchase up to five years of additional service credit once eligible for retirement. This credit can only be purchased at the time of retirement and can be used only to provide the member with a monthly annuity that is paid in addition to the member's retirement benefit.

Beneficiaries of a PERS Plan 2 or Plan 3 member with ten years of service who is killed in the course of employment receive retirement benefits without actuarial reduction. This provision applies to any member killed in the course of employment, on or after June 10, 2004, if found eligible by the Director of the Department of Labor and Industries.

NOTE 6 - PENSION PLAN (Continued)

Plan Description (Continued)

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

There are 1,184 participating employers in PERS. Membership in PERS consisted of the following as of the latest actuarial valuation date for the plans as of June 30, 2011:

Retirees and Beneficiaries Receiving Benefits	79,363
Terminated Plan Members Entitled To But Not Yet Receiving Benefits	29,925
Active Plan Members Vested	105,578
Active Plan Members Non-vested	46,839
Total	261,705

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, based on member choice. Two of the options are graduated rates dependent on the employee's age.

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

NOTE 6 - PENSION PLAN (Continued)

Funding Policy (Continued)

The required contribution rates expressed as a percentage of current-year covered payroll, as of December 31, 2012 were as follows:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
Employer*	7.21%**	7.21%**	7.21%***
Employee	6.00%****	4.64%****	*****

*The employer rates include the employer administrative expense fee currently set at 0.16%.

**The employer rate for state elected officials is 10.74% for Plan 1 and 7.21% for Plan 2 and Plan 3.

***Plan 3 defined benefit portion only.

****The employee rate for state elected officials is 7.5% for Plan 1 and 4.64% for Plan 2.

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

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

	PERS Plan 1	PERS Plan 2	PERS Plan 3
2012	$ 0	$	$
2011	$ 0	$ 19,939	$ 1,313
2010	$ 0	$ 16,238	$ 1,118

NOTE 7 - RISK MANAGEMENT

The District is a member of the Water and Sewer Risk Management Pool (Pool). Chapter 48.62 RCW authorizes the governing body of any one or more governmental entities to form together into or join a pool or organization for the joint purchasing of insurance, and/or joint self-insuring, and/or joint hiring or contracting for risk management services to the same extent that they may individually purchase insurance, self-insurance, or hire or contract for risk management services. An agreement to form a pooling arrangement was made pursuant to the provisions of Chapter 39.34 RCW, the Interlocal Cooperation Act. The Pool was formed in November 1987 when water and sewer districts in the State of Washington joined together by signing an Interlocal Governmental Agreement to pool their self-insured losses and jointly purchase insurance and administrative services. The Pool currently has 68 members. The Pool's fiscal year is November 1st through October 31st.

The Pool allows members to jointly purchase insurance coverage, establish a plan of self-insurance coverage, and provide related services, such as risk management and loss prevention. The Pool provides the following forms of group purchased insurance coverage for its members: Property (including Building, Electronic Data Processing, Boiler and Machinery, and Mobile Equipment); General Liability; Automotive Liability; Excess Liability; Crime; Public Officials Liability; Identity Fraud Reimbursement Program; and bonds of various types. All coverages are on an "occurrence" basis.

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

Coverage	**Subject to Self-Insured Retention by Pool**	**Description**
General Liability	$200,000	Includes General Liability, Public Officials Liability and Automobile Liability);
Property Insurance	$25,000	Except earthquake and flood which is subject to a deductible of 5% of the values at risk at the time of the loss subject to a minimum of $100,000. Properties located in NFIP Flood Zones A and V are subject to a $250,000 deductible
Boiler & Machinery	$25,000	
Crime	$25,000	Per occurrence

Pool members are responsible for a deductible on each coverage and the Pool is responsible for the remainder of the self-insured retention listed in the table above. The insurance carriers then cover the loss to the maximum limit of the policy. Each member is responsible for the full deductible applicable to the perils of earthquake and flood (the Pool is not responsible for any deductible or self-insured retention for earthquake and flood claims).

NOTE 7 - RISK MANAGEMENT (Continued)

Upon joining, the members contract to remain in the Pool for one full policy period. Following completion of one full policy period, members must give six months notice before terminating participation (e.g. to withdraw from the Pool on November 1, 2012, written notice must be in the Pool possession by April 30, 2012). The Interlocal Governmental Agreement is renewed automatically each year. Even after termination of relationship with the Pool, a member is still responsible for contributions to the Pool for any unresolved, unreported, and in process claims, for the period that the District was a signatory to the Interlocal Governmental Agreement.

The Pool is fully funded by its member participants. Claims are filed by members with the Pool who determines coverage and performs claims adjustment in consultation with Arcadia Claims Services. In FY 2011-2012 the Pool engaged AssetWorks who performed appraisal services valued at $15,607, for approximately one third of all member structures values at $250,000 or more.

The Pool is governed by a Board of Directors, which is comprised of one designated representative from each participating member. An Executive Committee is elected at the annual meeting, and is responsible for overseeing the business affairs of the Pool and providing policy direction to the Pool's Executive Director.

NOTE 8 - USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 9 - CONTINGENT LIABILITIES

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

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 as an advocate for government accountability. 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.

The State Auditor's Office employees are located around the state to deliver services effectively and efficiently.

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 and fraud, whistleblower and citizen hotline investigations.

The results of our work are widely distributed through a variety of reports, which are available on our Web site and through our free, electronic subscription service.

We take our role as partners in accountability seriously. We provide training and technical assistance to governments and have an extensive quality assurance program.

State Auditor	**Troy Kelley**
Chief of Staff	**Doug Cochran**
Director of Performance and State Audit	**Chuck Pfeil, CPA**
Director of Local Audit	**Kelly Collins, CPA**
Deputy Director of State Audit	**Jan M. Jutte, CPA, CGFM**
Deputy Director of Local Audit	**Sadie Armijo**
Deputy Director of Local Audit	**Mark Rapozo, CPA**
Deputy Director of Quality Assurance	**Barb Hinton**
Deputy Director of Communications	**Thomas Shapley**
Local Government Liaison	**Mike Murphy**
Public Records Officer	**Mary Leider**
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