Washington State Auditor's Office

Financial Statements Audit Report

King County Water District No. 90

Audit Period
January 1, 2012 through December 31, 2012

Report No. 1011391

Issue Date
March 10, 2014

WASHINGTON
TROY KELLEY
STATE AUDITOR

Washington State Auditor
Troy Kelley

March 10, 2014

Board of Commissioners
King County Water District No. 90
Renton, Washington

Report on Financial Statements

Please find attached our report on King County Water District No. 90'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

Table of Contents

King County Water District No. 90
January 1, 2012 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. 90
January 1, 2012 through December 31, 2012

Board of Commissioners
King County Water District No. 90
Renton, 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. 90, 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 February 25, 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.

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

February 25, 2014

Independent Auditor's Report on Financial Statements

King County Water District No. 90
January 1, 2012 through December 31, 2012

Board of Commissioners
King County Water District No. 90
Renton, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of King County Water District No. 90, 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. 90, 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 11 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 25, 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

February 25, 2014

Financial Section

King County Water District No. 90
January 1, 2012 through December 31, 2012

REQUIRED SUPPLEMENTARY INFORMATION

BASIC FINANCIAL STATEMENTS

King County Water District No. 90
Management's Discussion and Analysis
Year Ended December 31, 2012

The following *Management's Discussion and Analysis* is intended to serve as an introduction to King County Water District 90's financial activities for the year ended December 31, 2012. Readers are encouraged to review this section in conjunction with the accompanying financial statements.

SUMMARY OF ORGANIZATION AND BUSINESS

King County Water District No. 90 (KCWD90 or The District) is a Special Purpose District located in the Renton Highlands area of unincorporated King County and portions of the city of Renton. The District is a municipal corporation as set forth in the Revised Code of Washington (RCW) Title 57 and authorized by King County ordinances. Three local citizens are elected to KCWD90's Board of Commissioners by voters living within the District's Boundaries. The Board of Commissioners establishes District water rates, sets policies, and oversees operations. The Board meets regularly on the first and third Tuesday of each month at 4:45 p.m. All meetings are open to the public. Day to Day District administrative and operational duties are carried out by a twelve-member staff along with consulting engineers and legal counsel.

DISCUSSION OF BASIC FINANCIAL STATEMENTS

The financial statements of KCWD90 report information about the District using 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.

The Comparative Statement of Net Position presents information on all of the District's assets and liabilities with the difference between the two reported as net assets. This statement provides a "snap shot" of the assets and liabilities of the District at the close of the fiscal year. Increases and decreases in net assets may serve as an indicator of whether the financial position of the District is improving or deteriorating.

All of the current year's revenues and expenses are accounted for in *The Comparative Statement of Revenues, Expenses and Changes in Net Fund Position*. This statement measures the success of the District's operations over the past fiscal year and can be used to determine whether the District has successfully recovered all the costs through its user fees.

The Comparative Statement of Cash Flows accounts for the net change in cash and cash equivalents by summarizing cash receipts and cash disbursements resulting from operating activities, capital and related financing activities and investment activities. This statement assists the user in determining the source of cash coming into the District, the items for which cash was expended, and the beginning and ending cash balance.

The notes provide additional information that is essential to a full understanding of the data provided in the District's Financial Statements.

FINANCIAL ANALYSIS

The overall financial condition of the District remains strong. The District is run in a very conservative manner. District Commissioners and staff have worked hard to stabilize rates, invest in infrastructure, and keep expenses down wherever possible.

CONDENSED STATEMENTS OF NET POSITION

	2012	2011	2010	Variance 2012 vs. 2011	Change%
Assets					
Current Assets					
Cash	$2,971,006	$3,532,544	$4,465,261	(561,538)	-15.9%
Other Current Assets	691,924	638,685	594,212	53,239	8.3%
Noncurrent Assets:					
Total noncurrent Assets	29,978,957	29,588,428	28,461,516	390,529	1.3%
Total Assets	33,641,887	33,759,657	33,520,989	(117,770)	-0.3%
Liabilities					
Current Liabilities	201,551	144,126	330,809	57,425	39.8%
Restricted Liabilities	464,918	455,556	410,360	9,362	2.1%
Long Term Debt	1,044,990	1,292,949	1,532,883	(247,959)	-19.2%
Total Liabilities	1,711,459	1,892,631	2,274,052	(181,172)	-9.6%
Net-Assets					
Invested in Capital Assets, net of related debt	28,712,948	28,078,366	26,707,401	634,602	2.3%
Restricted	1,304,033	1,947,891	1,822,459	(643,858)	-33.1%
Unrestricted	1,913,447	1,840,769	2,717,077	72,678	3.9%
Total Net-Assets	31,930,428	31,867,026	31,246,937	63,422	0.2%
Total Net Assets and Liabilities	$33,641,887	$33,759,657	$33,520,989	(117,770)	-0.3%

Assets

In 2012, the balance of Current Assets, in the form of cash, decreased by approximately $561,500 or just under 16%. Although, operating net income increased cash by over $230,000 (please see *The Comparative Statement of Cash Flows – Operating* for additional detail) after non operating income and expenses are factored in the net decrease to cash was $561,538. This change in cash is almost entirely attributable to the Districts large construction-in-progress project spending; the largest of these projects in 2012 was the 2012 *Water Main Replacement* (aka *156th AVE SE Water Main Replacement*) Project. The District spent nearly $844,000 on the 2012 Main

Replacement Project. This project was completed early in 2013 and will be transferred to Assets in 2013.

<u>Noncurrent assets</u>
Noncurrent assets in the form of property, plant and equipment increased only slightly, up 1.3%. This increase is accounted for by construction work in progress, donated systems, completed construction projects and equipment purchases that have increased Net Utility Plant Assets by approximately $390,000 in 2012. Please see Note 5; *Utility Plant* for additional information on noncurrent assets.

Major capital events transferred to assets in 2012 include the following:

- Completion of the *2012 Water Main Replacement Project also called the "156th Ave SE Main Replacement Project"*. Construction on this project was started in the spring of 2012 and was completed early in 2013. The 2012 WMRP included installation of 3800 lineal feet of 12 inch and 8 inch DI pipe, along with all water services, fire hydrants, valves and connections to the existing system. Total cost of the 2012 WMRP project was approximately $880,000. Of that amount $844,000 was spent in 2012. This project was started and completed quickly in order to take advantage of the City of Renton overlay of the road surface along the new main. By partnering with the City on this project the District estimates that we saved approximately $75,000 on road restoration costs.

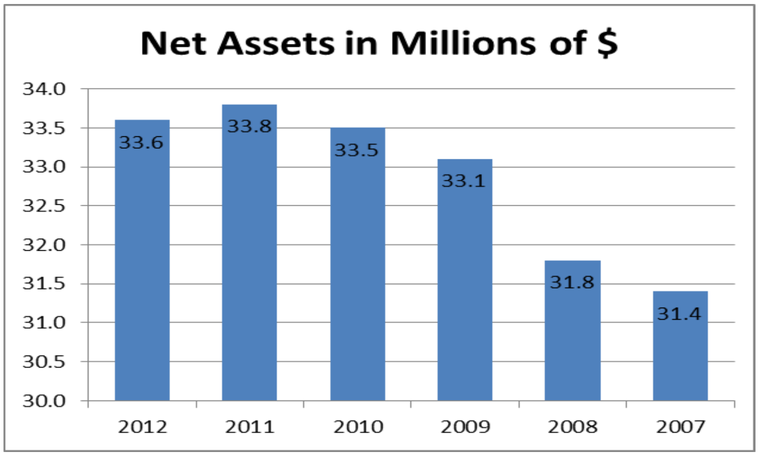
- *New Operations and Administration Buildings Project* - This project, started in 2010, was expected to be closed out and transferred to capital assets in 2011. Punch list items and negotiations over the final pay estimate have delayed the closing of this project. Spending on the building project in 2012 was minimal at only 27 thousand dollars. The District estimates the total building costs to be about $3.0 million. The Building was added to Capital assets in 2012 even though negotiations over the final change order are still ongoing at this time

- Completion of smaller projects such as; On-Line Bill Pay upgrade and Fencing upgrades at the Well site.

<u>Liabilities</u>
Current Liabilities increased by nearly 40% or $57,425 compared to 2011. This increase is attributable to an increase in accounts payable balances. It is typical for accounts payable to fluctuate with the receipt of vendor invoices.

<u>Long-Term Debt</u>
Long-Term Debt decreased in 2012 due to principal payments made on outstanding PWTF Loans in the amount of $244,053. Total outstanding long term debt as of December 31, 2012 was $1,266,009. In addition, this payment to long term debt was the most significant component of the decrease in restricted funds, See Note 2 for additional information on long term debt.

Total Net Assets and Liabilities

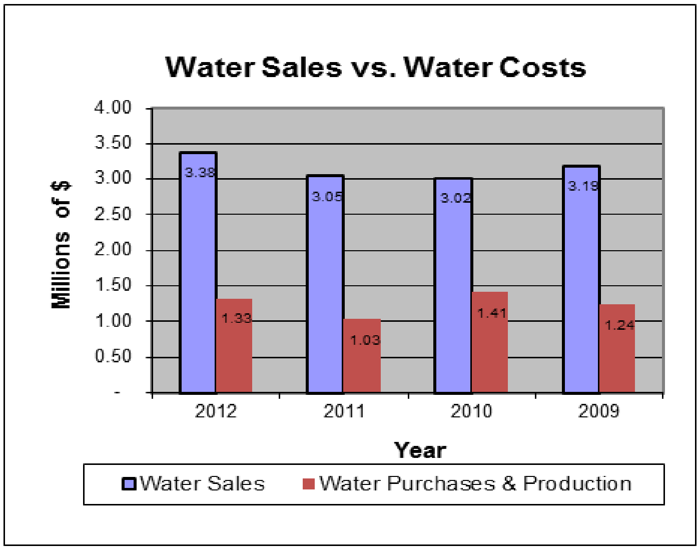


Total net assets and liabilities have continued to grow at a steady pace over the past five years. The chart to the left shows net assets in millions of dollars from 2007 through 2012. Overall growth rate of Net Assets has slowed since 2007 but is still increasing each year until 2012 when net assets decreased slightly (-0.3%).

CONDENSED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND POSITION

	2012	2011	2010	Variance	Change %
Operating Revenues				2012 vs. 2011	
Water Sales	$3,381,152	$3,046,163	$3,019,653	334,989	11.0%
Other Operating Revenue	212,315	201,203	187,689	11,112	5.5%
Subtotal - Operating Revenue	3,593,467	3,247,366	3,207,342	346,101	10.7%
Non-Operating Revenues					
Interest Income	76,805	28,464	61,444	48,341	169.8%
Connection Charges and Other	356,630	526,920	775,560	(170,290)	-32.3%
Gain on Sale of Asset	0	909	5,771	(909)	-100.0%
Radio Tower Lease Income	40,800	40,800	40,800	-	0.0%
Subtotal - Non-Operating Revenue	474,235	597,093	883,575	-122,858	-20.6%
Total Revenues	$ 4,067,702	$ 3,844,459	$ 4,090,917	223,243	5.8%
Operating Expenses					
Operating Expenses	2,990,806	2,598,065	2,556,673	392,741	15.1%
Depreciation Expense	955,466	875,894	841,151	79,572	9.1%
Subtotal - Operating Expenses	3,946,272	3,473,959	3,397,824	472,313	13.6%
Non-Operating Expenses					
Interest Expense	13,880	16,321	18,762	(2,441)	-15.0%
Total Expenses	3,960,152	3,490,280	3,416,586	469,872	13.5%
Excess or Deficiency	107,550	354,179	674,331	-246,629	-69.6%
Donated Systems	308,630	265,910	0	42,720	n/a
Change in Net Assets	416,180	620,089	674,331	(203,909)	-32.9%
Total Net Assets, January 1	31,514,248	31,246,937	30,572,606	267,311	0.9%
Prior Period Adjustment		(352,778)	-	-	0.0%
Total Net Assets, December 31	$31,930,428	$31,514,248	$31,246,937	416,180	1.3%

<u>Analysis of Changes in Revenues and Expenses in 2012 as compared with 2011</u>



<u>Operating Revenue</u>

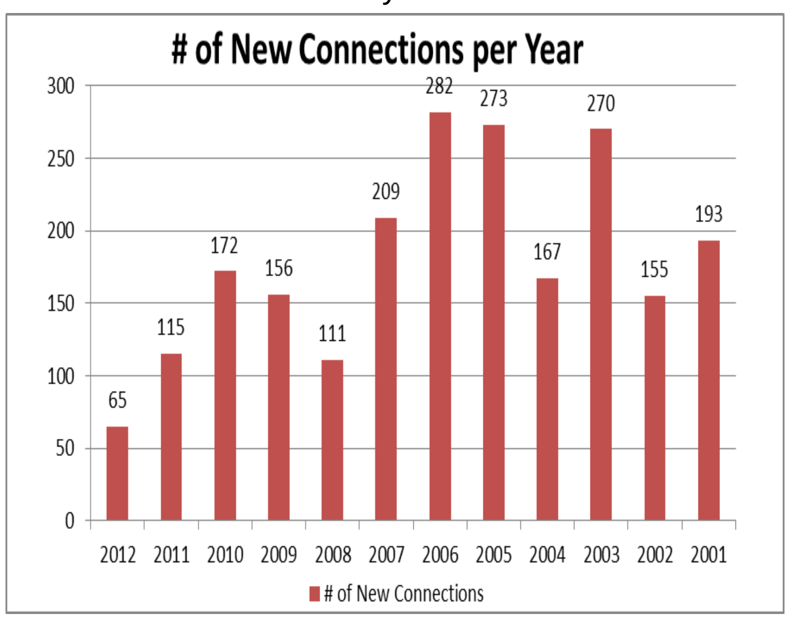
In 2012 the District's Operating Revenue was nearly $3.6 million. Of this amount, Customer Water Sales, of $3.38 million, increased 11%. This is mostly attributable to the 7% rate increase implemented at the beginning of 2012 along with a hotter and drier fall in 2012.

Water Sales can increase or decrease dramatically depending on summer weather conditions. 2012 had a wet and cool spring, but the fall was record breaking; the Seattle region experienced 81 straight days without rain, making the fall of 2012 the driest fall on record for the Seattle Region. 2011 was more of an average summer; not particularly hot with an average amount of rainfall. By comparison the 2010 summer was not particularly hot and was bookended by a wet spring and fall. In 2009 the Puget Sound area experienced a record breaking hot summer, which is demonstrated by Water Sales $170,000 higher than in 2010.

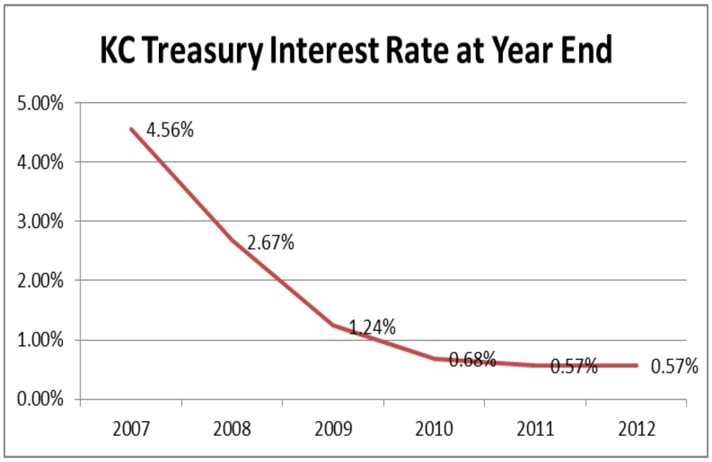
The largest single expense for the Water District is the cost of water purchases from Seattle Public Utilities (SPU). This cost has increased significantly in recent years. Water Purchases in 2010 also include one-time new contract fees with SPU (see Note 9 for additional detail). As of January 2012, SPU increased the wholesale water rate by approximately 28%. This increase has led to the 7% rate increase by the District in 2012 as well as a 9% increase in 2013 to offset the increased cost of wholesale water. KCWD90 purchases roughly 70% of our water from SPU.

<u>Non Operating Revenue</u>

Non operating revenue in the form of Connection Charges decreased about 32% from 2011. Connection Charges include General Facility Charges, Local Facility Charges and Meter Purchases for new water customers. In 2012 the District added only 65 new services. As you can see by the chart to the right; this is the lowest number of new services in over 10 years.



One other major component of Non-Operating Revenue is Interest Income. Interest Income increased significantly, and unexpectedly, in 2012 due to settlements reached with Rhinebridge (August of 2012 for $6,936.05) and Merrill Lynch (October of 2012 for $45,987.65). These settlements were reached in 2012 in response to lawsuits filed by King County Treasury to recover damages related to commercial paper investment loss recorded in 2007 & 2008.

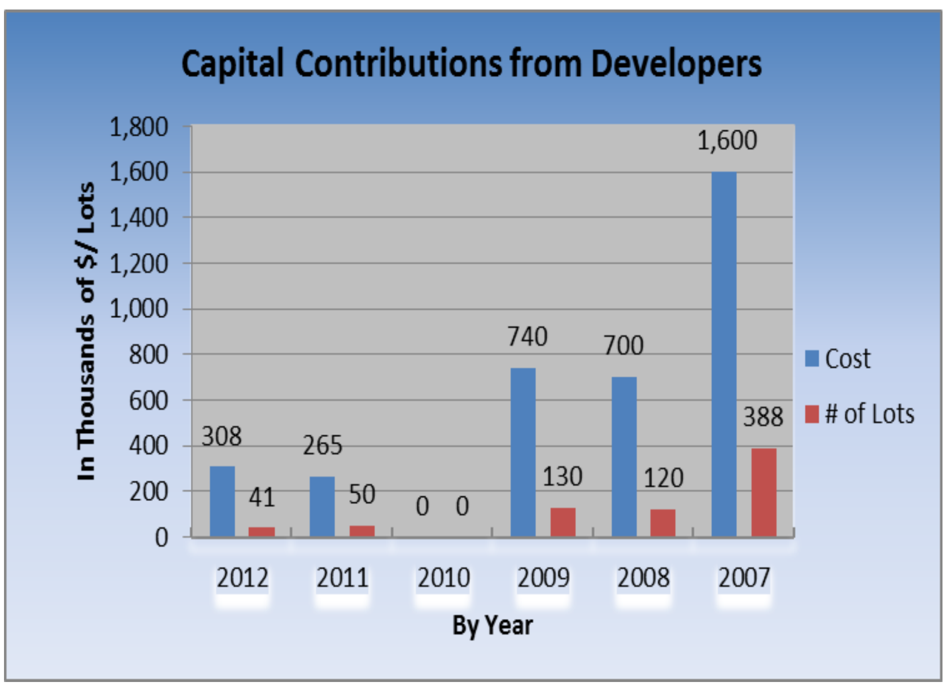


In 2012 the District earned only $23,881 in Interest income after excluding the settlements from Rhinebridge and Merrill Lynch. Looking at the investment income only, it is easy to follow the trend of declining investment rates from King County Treasury over the past six years.

Additional Comments

The District added 41 new lots over four (4) developments completed in 2012. Developments ranged in size from six (6) buildable lots to 15 buildable lots. The total Capital Contributions from developers (also called donated systems) was $308,630 in 2012. This is a continuing sign of growth after no new developments were added in 2010. The effects of the "Great Recession" are easy to see when reviewing the historic growth of the District.

The chart to the right shows the total value, in thousands of dollars, of the donated systems for a six (6) year period, in blue. The corresponding number of new buildable lots is represented by year in red.



King County Water District No. 90
Comparative Statement of Net Position
December 31, 2012 and 2011

MCAG No. 2252

ASSETS	2012	2011
Current Assets		
Cash, Cash Equivalent, & Pooled Investments	$ 1,397,301	$ 1,262,357
Deposit with Fiscal Agent	48,807	110,794
Receivables		
Accrued Interest Receivable	1,301	1,485
Accounts Receivable	450,803	423,816
Inventory	180,400	153,862
Prepaids	59,420	59,522
Subtotal of Unrestricted Assets	2,138,032	2,011,836
Restricted Assets		
Cash, Cash Equivalents & Pooled Investments	1,524,898	2,159,393
Total Current Assets	3,662,930	4,171,229
Non-Current Assets		
Capital Assets Not Being Depreciated		
Land & Easements	281,354	266,844
Construction Work in Progress	1,009,510	2,883,858
Subtotal of Capital Assets not Depreciated	1,290,864	3,150,702
Capital Assets Being Depreciated		
Plant in Service	41,346,150	38,140,318
Less Accumulated Depreciation	(12,658,057)	(11,702,592)
Subtotal of Capital Assets Depreciated	28,688,093	26,437,726
Total Non-Current Assets	29,978,957	29,588,428
Total Assets	$ 33,641,887	$ 33,759,657

See accompanying notes

King County Water District No. 90
Comparative Statement of Net Position
December 31, 2012 and 2011

MCAG No. 2252

LIABILITIES	2012	2011
Current Liabilities		
Unrestricted Liabilities		
Accounts Payable - Maintenance Fund	$ 137,220	$ 103,888
Accounts Payable - Construction Fund	39,759	16,935
Accrued Wages Payable	24,572	23,303
Subtotal of Unrestricted Liabilities	201,551	144,126
Payables from Restricted Assets		
PWTF Loans (Current Portion)	244,053	244,054
Accrued Interest Payable - PWTF Loans	6,330	7,550
Developer Deposits and Other Payables	214,535	203,952
Subtotal of Payables from Restricted Assets	464,918	455,556
Total Current Liabilities	666,469	599,682
Non-Current Liabilities		
Compensated Absences	23,034	26,941
Loans Payable to Other Governments	1,021,956	1,266,008
Total Non-Current Liabilities	1,044,990	1,292,949
Total Liabilities	1,711,459	1,892,631
Net-Position		
Net Investment in Capital Assets	28,712,948	28,078,366
Restricted (Less DE Deposits & Accrued PWTF Interest)	1,304,033	1,947,891
Unrestricted	1,913,447	1,840,769
Total Net Position	31,930,428	31,867,026
Total Liabilities and Net Assets	$ 33,641,887	$ 33,759,657

See accompanying notes

King County Water District No. 90

Comparative Statement of Revenue, Expenses, and Changes in Fund Net Position

For the Years Ended December 31, 2012 and 2011

MCAG No. 2252

	2012	2011
Operating Revenues		
Water Sales	$ 3,381,152	$ 3,046,163
Street Lights	82,438	86,021
Water Availability	15,250	19,275
Developer Revenue	17,566	12,316
Miscellaneous Services	49,225	33,404
Billing Penalties	47,836	50,187
Total Operating Revenue	3,593,467	3,247,366
Operating Expenses (See Detailed Schedule)		
Operating & Maintenance Expenses	2,405,420	2,050,610
General & Administrative	406,211	389,724
Taxes	179,175	157,731
Depreciation	955,466	875,894
Total Operating Expense	3,946,272	3,473,959
Net Operating Income (Loss)	(352,805)	(226,593)
Non-Operating Revenues (Expenses)		
Interest on Investments	76,805	28,464
Public Works Trust Fund Loans Interest	(13,880)	(16,321)
Connection Charges and Other	356,630	526,920
Gain on Sale of Asset	-	909
Radio Tower Lease	40,800	40,800
Total non-operating revenues (expenses)	460,355	580,772
Net Income (loss) Before Contributions	107,550	354,179
Capital Contributions	308,630	265,910
Change in Net Position	416,180	620,089
Total Net Position		
January 1,	31,514,248	31,246,937
Prior Period Adjustment		(352,778)
Total Net Position		
December 31,	$ 31,930,428	$ 31,514,248

See accompanying notes

King County Water District No. 90
Comparative Statement of Cash Flows
For the Year Ended December 31, 2012 and 2011

MCAG No. 2252

	2012	2011
Cash Flows From Operating Activities		
Cash Received From Customers & Related	$ 3,570,201	$ 3,226,970
Cash Paid to Suppliers & Employees	(3,338,822)	(2,624,521)
Net Cash Provided by Operating Activities	231,379	602,449
Cash Flows From Capital & Related Financing Activities		
Acquisition and Construction of Capital Assets	(1,014,574)	(1,868,254)
		-
Principal Payments on Public Works Trust Fund Loan	(244,053)	(244,053)
Interest Paid on Public Works Trust Fund Loan	(15,100)	(17,542)
Connection Charges & Other	356,630	526,920
Cell Tower Lease Payments	40,800	40,800
Interest Received on Investments - Capital	51,964	16,005
Interest (Loss) or Gain on Investments - Capital	7,067	4,778
Developer & Other Deposits	6,895	(2,252)
Net Cash Provided by Capital Activities	(810,371)	(1,543,598)
Cash Flows From Investing Activities		
Interest Received on Investments - Maintenance	15,812	7,291
Interest Loss on Investments - Maintenance	1,642	1,141
Net Cash Provided (Used) by Investing Activities	17,454	8,432
Net Increase (Decrease) in Cash Balance	(561,538)	(932,717)
Cash Balance - January 1	3,532,544	4,465,261
Cash Balance - December 31	$ 2,971,006	$ 3,532,544
Noncash Investing, Capital & Financing Activities		
Contributions of Capital Assets from Developers	$ 308,630	$ 265,910

See accompanying notes

King County Water District No. 90
Comparative Statement of Cash Flows - Operating
For the Year Ended December 31, 2012 and 2011

MCAG No. 2252

	2012	2011
Reconciliation of Net Operating Income to Net Cash Provided by Operating Activities		
Net Operating Income (Loss)	$ (352,805)	$ (226,593)
Adjustments to Reconcile Net Operating Income to Net Cash Provided by Operating Activities		
Investment Service Fees	504	207
Depreciation	955,466	875,894
Subtotal Adjustments	955,970	876,101
Change in Assets & Liabilities		
(Increase) Decrease in Accounts Receivable	(23,266)	(20,395)
(Increase) Decrease in Prepaid Expenses	102	(2,731)
(Increase) Decrease in Inventory	(26,538)	(16,999)
Increase (Decrease) In Accounts Payable - Maint	(319,446)	(10,272)
Increase (Decrease) in Accrued Vacation	(3,907)	4,116
Increase (Decrease) in Accrued Wages	1,269	(778)
Subtotal Change in Assets & Liabilities	(371,786)	(47,059)
Total Adjustments	584,184	829,042
Net Cash Provided by Operating Activities	$ 231,379	$ 602,449

See accompanying notes

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of King County Water District #90 conform to Generally Accepted Accounting Principles (GAAP) as applicable to proprietary funds of governments. King County Water District #90 has elected to apply Financial Accounting Standards Board (FASB) guidance issued after November 30, 1989 to the extent that it does not conflict with or contradict guidance of the Governmental Accounting Standards Board (GASB). GASB is the accepted standard setting body for establishing governmental accounting and financial reporting principles. In June 1999, GASB approved statement 34, *Basic Financial Statements – and Management Discussion and Analysis – for State and Local Governments.* This and consecutive statements are reflected in the accompanying financial statements (including notes to financial statements). The following is a summary of the most significant policies (including identification of those polices which result in material departures from GAAP).

A. Reporting Entity

King County Water District No. 90 is a municipal corporation governed by an elected three-member board. As required by GAAP, management has considered all potential component units in defining the reporting entity. King County Water District #90 has no component units. The District's primary activity is to provide water service to residential and commercial customers within the District's boundaries. The following is a summary of the District's more significant accounting policies:

B. Basis of Accounting & Presentation

The accounting records of the District are maintained in accordance with methods prescribed by the Washington State Auditor under the authority of Chapter 43.09 RCW.

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.

The District distinguishes between operating revenues and expenses from non-operating ones. Operating revenues and expenses result from providing services and producing and delivering goods in connection with the Districts principal ongoing operations. The principal operating Revenues of the District are charges to customers for water sales. The District also recognizes as operating revenue; street light charges, billing penalties, water availability certificates and developer overhead. Operating expenses for the district include operating and maintenance expenses, general and administrative expenses, taxes and depreciation.

All revenue and expenses not meeting this definition are reported as non-operating revenues and expenses. Unbilled utility service receivables are recorded at year end. Operating income includes gains and losses from the disposal of utility plant.

C. Cash and Cash Equivalents

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

D. Utility Plant & Depreciation

See detail on Note 5.

E. Restricted Funds

See detail on Note 4.

F. Receivables

Receivables consist primarily of amounts due from water customers. There may also be amounts due from developers. All receivables are recorded when earned. A small allowance for uncollectible accounts was provided in 2012, since the District has power to record liens for its receivables it generally does not experience significant uncollectible amounts.

G. Inventories

Inventory of materials is recorded at cost using the average cost method. A physical inventory is taken at the end of each calendar year. Inventories are valued at $180,000 which approximates the market value.

H. Investments

See detail on Note 3.

I. Compensated Absences

Employees earn vacation based upon date of hire and years of service. One hundred percent of vacation hours earned in one year may be carried over to the following year. Any unused vacation hours carried over from a preceding year must be used in the following year.

Any unused earned vacation hours carried over that have not been used the year following the year earned, will be paid at a rate of 50%. At the time of termination of employment, an employee is paid for all accrued vacation hours. Upon resignation or termination of an employee, any outstanding sick leave is lost.

NOTE 2 - <u>LONG-TERM DEBT</u>

On May 15, 1995, the District entered into an agreement with the Department of Community Development of the State of Washington. Under the terms of this agreement, the District was authorized to receive a Public Works Trust Fund Loan for the purpose of financing water line replacement and system reliability improvement projects. The terms of the loan authorize a borrowing not to exceed $1,658,440 for a period of 20 years at an interest rate of 1% per annum. As of December 31, 2012, the District had borrowed $1,658,440 and had made principal payments of $1,391,751. Loan balance as of 12/31/12 is $266,689.

On April 4, 1996, the District entered into an additional agreement with the Department of Community Development of the State of Washington. Under the terms of this agreement, the District was authorized to receive a Public Works Trust Fund Loan for the purpose of financing the well water treatment facility and water main replacement projects. The terms of the loan authorize a borrowing not to exceed $654,500 for a period of 20 years at an interest rate of 1% per annum. As of December 31, 2012, the District had borrowed $654,500 and had made principal payments of $511,790. Loan balance as of 12/31/12 is $142,710.

On May 20, 1998, the District entered into an additional agreement with the Department of Community Development of the State of Washington. Under the terms of this agreement, the District was authorized to receive a Public Works Trust Fund Loan for the purpose of financing water main replacement projects and the acquisition of land for a treatment plant. The terms of the loan authorize a borrowing not to exceed $958,300 for a period of 20 years at an interest rate of 1% per annum. As of December 31, 2012, the District had borrowed $929,966 and had made principal payments of $632,296. Loan balance as of 12/31/12 is $297,670.

On March 30, 2000, the District entered into an additional agreement with the Department of Community, Trade and Economic Development of the State of Washington. Under the terms of this agreement, the District was authorized to receive a Public Works Trust Fund Loan for the purpose of financing pump station and vault upgrades. The terms of the loan authorize a borrowing not to exceed $290,500 for a period of 20 years at an interest rate of 1% per annum. As of December 31, 2012, the District had borrowed $290,500 and had made principal payments of $160,794. Loan balance as of 12/31/12 is $129,706.

On March 30, 2000, the District entered into an additional agreement with the Department of Community, Trade and Economic Development of the State of

Washington. Under the terms of this agreement, the District was authorized to receive a Public Works Trust Fund Loan for the purpose of financing water main replacement projects. The terms of the loan authorize the borrowing not to exceed $965,542 for a period of 20 years at an interest rate of 1% per annum. As of December 31, 2012, the District had borrowed $965,542 and had made principal payments of $536,308. Loan balance as of 12/31/12 is $429,234.

The following amounts of interest and principal are due on the Public Works Trust Fund Loans in the next five years:

Year	Interest Payments	Loan Payments	Total
2013	$ 12,660	$ 244,053	$ 256,713
2014	10,220	244,053	254,273
2015	7,779	244,053	251,832
2016	5,339	155,157	160,496
2017	3,787	119,479	123,266
Thereafter	4,688	259,214	263,902
	$ 44,473	$ 1,266,009	$ 1,310,482

Changes in Long-Term Liabilities

During the year ended December 31, 2012, the following changes occurred in our long-term liabilities.

	Beginning Balance 1/31/11	Additions	Reductions	Ending Balance 12/31/12	Due within one year
Public Works Trust Fund Loans	$1,510,062	-	$ (244,053)	$1,266,009	$ 244,053

NOTE 3 - DEPOSITS & INVESTMENTS

The District's cash and investments are held by the King County Comptroller with the exception of a bank deposit account from which transfers are made to the County. The District is a participant in the King County Investment Pool. All of the District's funds held by the County at December 31, 2012 had been deposited to the King County Investment Pool. The District's bank deposits held at December 31, 2012 are insured by a combination of Federal Depository Insurance and the Washington Public Deposit Protection Commission.

Statutes authorize the District to invest in obligations of the U.S. Government, U.S. Agency issues, and obligations of the State of Washington, general obligations of Washington State municipalities, the State Treasurer's Investment Pool, bankers' acceptance, or certificates of deposit with Washington State banks and savings and loan institutions.

The District's cash and investment balances at December 31, 2012 and 2011 are listed below:

FUND	2012	2011
Petty Cash Fund and Working Fund	$ 10,225	$ 2,725
Bank Deposit Accounts	38,582	108,069
Investment in King County Investment Pool	2,922,199	3,421,750
Total Cash & Investments	$ 2,971,006	$ 3,532,544

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, 2011, the District had the following investments (total Funds held with King County Investment Pool ($3,421,750) times the "Net asset value at fair value price per share" of 1.0025).

As of December 31, 2012, the District had the following investments (total Funds held with King County Investment Pool ($2,922,199) times the "Net asset value at fair value price per share" of 1.0032).

Investment Type	Fair Value	Effective Duration
King County Investment Pool	$2,931,550	1.36 Years (2012)
King County Investment Pool	$3,430,304	0.72 Years (2011)

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 $39,836 and the District's fair value of these investments is $19,602.

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 Dec. 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 4 - RESTRICTED ASSETS

In accordance with Public Works Trust Fund loan agreements, separate restricted funds are required to be established. The assets held in these funds are restricted for specific uses, including construction and debt service requirements. Restricted also includes Contract Retainage and Developer Deposits. In 2011, restricted assets also include cash set aside to pay the remaining one-time new contract payment to Seattle Public Utilities (SPU). This Liability was paid in January of 2012. (See Note 9 for additional detail on SPU contract payments.) Restricted funds include the following at December 31, 2012 and 2011:

DESCRIPTION	2012	2011
Contractor Retainage	$ 113,578	$ 109,890
Developer Deposits	100,958	94,062
SPU, New Contract Liability	0	385,805
Outstanding PWTF Loan Debt and Interest	1,266,009	1,569,636
Total Restricted Funds	$ 1,480,545	$ 2,159,393

King County Water District #90
Notes to Financial Statements
December 31, 2012 and 2011

NOTE 5 - UTILITY PLANT

Utility plant consists of the following at December 31, 2012 & 2011:

CATEGORY	12/31/2011	Increase	Decrease	12/31/2012
Utility plant not being depreciated:				
Land	266,844	14,510	-	281,354
Construction Work-in-Progress (WIP)	2,883,858	1,017,235	(2,891,582)	1,009,510
Total utility plant not being depreciated	3,150,702	1,031,745	(2,891,582)	1,290,865
Utility plant being depreciated:				
Plant	35,515,183	3,097,068		38,612,251
Equipment	2,625,135	108,763		2,733,898
Total utility plant being depreciated	38,140,318	3,205,831	-	41,346,149
Less accumulated depreciation for:				
Plant	(10,002,614)	(832,198)		(10,834,812)
Equipment	(1,699,978)	(123,267)		(1,823,245)
Total accumulated depreciation	(11,702,592)	(955,465)	-	(12,658,057)
-				
Total utility plant being depreciated, net	26,437,726	2,250,366	-	28,688,092
TOTAL UTILITY PLANT, NET	29,588,428	3,282,111	(2,891,582)	29,978,957

CATEGORY	12/31/2010	Increase	Decrease	12/31/2011
Utility plant not being depreciated:				
Land	266,844	-	-	266,844
Construction Work-in-Progress (WIP)	2,009,878	1,764,699	(890,719)	2,883,858
Total utility plant not being depreciated	2,276,722	1,764,699	(890,719)	3,150,702
Utility plant being depreciated:				
Plant	34,474,805	1,040,378		35,515,183
Equipment	2,538,578	88,739	(2,182)	2,625,135
Total utility plant being depreciated	37,013,383	1,129,117	(2,182)	38,140,318
Less accumulated depreciation for:				
Plant	(9,237,968)	(764,646)		(10,002,614)
Equipment	(1,590,621)	(111,248)	1,891	(1,699,978)
Total accumulated depreciation	(10,828,589)	(875,894)	1,891	(11,702,592)
-				
Total utility plant being depreciated, net	26,184,794	253,223	(291)	26,437,726
TOTAL UTILITY PLANT, NET	28,461,516	2,017,922	(891,010)	29,588,428

Utility plant in service is recorded at cost. Items over $1,500.00 are depreciated. Provision for depreciation is calculated on the straight-line method with useful lives of three 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 income and retained earnings. 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. Donations by developers are recorded at cost.

King County Water District #90 has a number of projects currently in various phases of construction. Construction in Progress at December 31, 2012 is composed of the following:

	Project Authorization	Expended to 12/31/2012	Future Committed	Req. Future Financing
NE 4th Street Water Main Improvement	$490,000	$67,938	$422,062	PWTF LOAN
156th Ave SE Water Main Replacement	882,000	844,827	37,173	None
Well #3 and SCADA modifications	805,000	22,462	782,538	PWTF LOAN
Tank #2 Recoating & Tank #4 Ladder	921,000	8,564	912,436	None
Other Projects under $50,000	50,000	20,846	29,154	None
	3,148,000	964,637	2,183,363	

NE 4th Street Water Main Improvement Project – the District has applied for and has been approved (as of April 2012) for a Public Works Trust Fund Loan in the amount of $195,000. This project is a cooperative effort between the District and the City of Renton. The project consists of constructing 580 Lineal Feet of 16" transmission main and 170 Lineal Feet of 8" DI water main in NE 4th Street. By partnering with the City of Renton the District expects the overall cost to be much less than if the project was completed independently.

Well #3 and SCADA Modifications – Construction of Well #3 to provide additional water supply. Project includes related SCADA (telemetry) modifications to the well(s) and water treatment plant.

Tank #2 Recoating & Tank #4 Ladder – Recoating of interior and exterior of the District's #2 water tank. Also includes minor repairs to exterior coating for Tanks 3A, 3B and 5. Project includes safety improvements at the majority of the District's tanks, including railings around top of tanks, covered locks and an interior stainless steel ladder for Reservoir #4.

NOTE 6 - PENSION PLAN

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

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

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 (other than judges currently in the Judicial Retirement System); employees of legislative committees; community and technical colleges, college and university employees not participating in higher education retirement programs; judges of district and municipal courts; and employees of local governments. 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 PERS Plan 3. The option must be exercised within 90 days of employment. An employee is reported in Plan 2 until a choice is made. Employees who fail to choose within 90 days default to PERS 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 account 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 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 five years of service, or at the age of 55 with 25 years of service. The monthly benefit is 2% of the average final compensation (AFC) per year of service, but the benefit may not exceed 60% of the AFC. The AFC is the monthly average of the 24 consecutive highest-paid service credit months.

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% annually. To offset the cost of this annual adjustment, the benefit is reduced.

PERS Plan 1 provides duty and non-duty disability benefits. Duty disability retirement benefits for disablement prior to the age of 60 consist of a temporary life annuity. The benefit amount is $350 a month, or two-thirds of the monthly AFC, whichever is less. The benefit is reduced by any workers' compensation benefit and is payable as long as the member remains disabled or until the member attains the age of 60, at which time the benefit is converted to the member's service retirement amount. A member with five years of covered employment is eligible for non-duty disability retirement. Prior to the age of 55, the benefit amount is 2% of the AFC for each year of service reduced by 2% for each year that the member's age is less than 55. The total benefit is limited to

60% of the AFC and is actuarially reduced to reflect the choice of a survivor option. Plan 1 members may elect to receive an optional COLA amount (based on the Consumer Price Index), capped at 3% annually. To offset the cost of this annual adjustment, the benefit is reduced.

PERS Plan 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 ofservice. The monthly benefit is 2% of the AFC per year of service. The AFC is the monthly average of the 60 consecutive highest-paid service months. There is no cap on years of service credit; and a cost-of-living allowance is granted (based on the Consumer Price Index), capped at 3% annually.

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

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

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

PERS Plan 2 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% to 15% of salaries, based on member choice. There are currently no requirements for employer contributions to the defined contribution component of PERS Plan 3.

PERS Plan 3 defined contribution retirement benefits are dependent upon the results of investment activities. Members may elect to self-direct the investment of their contributions. Any expenses incurred in conjunction with self-directed investments are paid by members. Absent a member's self-direction, PERS Plan 3 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% of the AFC per year of service. The AFC is the monthly average of the 60 consecutive highest-paid service months. There is no cap on years of service credit, and Plan 3 provides the same cost-of-living allowance as Plan 2.

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

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

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

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

PERS 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.

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

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

Members Not Participating in JBM:

	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 7.50% 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 ending December 31 were as follows:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
2012	$ 0	$ 56,466	$ 0
2011	3,406	42,429	0
2010	4,298	33,648	0

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 67 members as of FY ending 10-31-12. 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 which are subject to a per occurrence deductible or self-insured retention 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	$15,000	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 on the table above. The insurance carriers then cover the loss to the maximum limit of the policy. Each member is responsible for the full deductible applicable to the perils of earthquake and flood (the Pool is not responsible for any deductible or self-insured retention for earthquake and flood claims).

Upon joining, the members contract to remain in the Pool for one full policy period. Following completion of one full policy period, members must give six months' notice before terminating participation (e.g. to withdraw from the Pool on November 1, 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, 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 Service. In FY 2011-12 the Pool engaged AssetWorks who performed appraisal services valued at $15,607, for approximately one third of all member structures valued 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 conducting the business affairs of the Pool and providing 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 financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 9- PRIOR PERIOD ADJUSTMENTS

Total net one-time contract payments, equaling $352,778, have been treated as a prior period adjustment as the fees are related to the cost of water purchases prior to December 31, 2010.

- In 2011, The District signed a new 50 year wholesale water supply contract with Seattle Public Utilities (SPU). The Districts previous contract with SPU was the "1982 Water Purveyor Contract" and had a 30 year contract life. Contract negotiations were expected to take two years (2011 & 2012) but were finished in one. As part of the contract, the District along with six (6) other water wholesale customers, agreed to pay an early contract signing fee in addition to a contract "true-up" balance.

- The early contract signing fee in the amount of $21,471 was paid in June of 2011. By signing the contract 18 months early the District was able to participate in reduced wholesale water rates without waiting until 12/31/2012 when the contract would have officially ended. The District's wholesale water rates for off-peak consumption were reduced from $1.40 to $1.16, and peak consumption was reduced from $2.15 to $1.79 per CCF. The District saved nearly $103,000 in Water Purchases in 2011 by moving to the new rates earlier than expected.

- Under the existing 1982 Purveyor Contract with SPU, the District and other wholesale customers agreed to distribute 70% of the proceeds or deficits in SPU's "Purveyor Balance Account" as of 12/31/2010." At that time, the total deficit in the account to be distributed was nearly $20 million dollars. KCWD 90's portion of that balance was calculated based on the District's percentage of 2010 annual flow times the total existing regional deficit or surplus times 70%. The net "true-up" payment to SPU has been determined to be $331,307.

- $385,805 is due to SPU in January of 2012 (without interest). SPU is also contributing toward the "true-up" amount and issued a credit to the District in January 2012 in the amount of $54,498.

NOTE 10- SUBSEQUENT EVENTS

In August of 2013 the District received a loan from the Drinking Water State Revolving Fund (DWSRF) in the amount of $1,383,902. The project is called the SE 149th Water Main Replacement Program and will begin in the spring of 2014. The project will replace approximately 4,300 feet of 4" and 6" steel main and all related services, hydrants, and appurtenances.

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 Performance Audit	**Lou Adams, CPA**
Deputy Director of Quality Assurance	**Barb Hinton**
Deputy Director of Communications	**Thomas Shapley**
Local Government Liaison	**Mike Murphy**
Public Records Officer	**Mary Leider**
Main number	**(360) 902-0370**
Toll-free Citizen Hotline	**(866) 902-3900**

Website	**www.sao.wa.gov**
Subscription Service	**www.sao.wa.gov/EN/News/Subscriptions**