

Washington State Auditor's Office
Financial Statements Audit Report

**Sammamish Plateau Water and Sewer
District
King County**

Audit Period
January 1, 2012 through December 31, 2012

Report No. 1011685

Issue Date
April 24, 2014



Washington State Auditor
Troy Kelley

Independence • Respect • Integrity



Washington State Auditor Troy Kelley

April 24, 2014

Board of Commissioners
Sammamish Plateau Water and Sewer District
Sammamish, Washington

Report on Financial Statements

Please find attached our report on the Sammamish Plateau Water and Sewer District's financial statements.

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

Sincerely,

A handwritten signature in black ink that reads "Troy X. Kelley". The signature is written in a cursive style with a large "X" for the middle initial.

TROY KELLEY
STATE AUDITOR

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King County
January 1, 2012 through December 31, 2012**

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

**Sammamish Plateau Water and Sewer District
King County
January 1, 2012 through December 31, 2012**

Board of Commissioners
Sammamish Plateau Water and Sewer District
Sammamish, Washington

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the Sammamish Plateau Water and Sewer District, 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 April 14, 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.

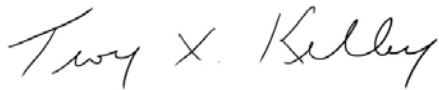
COMPLIANCE AND OTHER MATTERS

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 KELLEY
STATE AUDITOR

April 14, 2014

Independent Auditor's Report on Financial Statements

Sammamish Plateau Water and Sewer District King County January 1, 2012 through December 31, 2012

Board of Commissioners
Sammamish Plateau Water and Sewer District
Sammamish, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the Sammamish Plateau Water and Sewer District, 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 the Sammamish Plateau Water and Sewer District, 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.

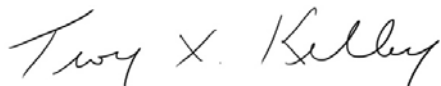
Other Matters

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 12 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 April 14, 2014 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.



TROY KELLEY
STATE AUDITOR

April 14, 2014

Financial Section

**Sammamish Plateau Water and Sewer District
King County
January 1, 2012 through December 31, 2012**

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2012 and 2011

BASIC FINANCIAL STATEMENTS

Statement of Net Position – 2012 and 2011

Statement of Revenues, Expenses and Changes in Fund Net Position – 2012 and 2011

Statement of Cash Flows – 2012 and 2011

Notes to Financial Statements – 2012 and 2011



INTRODUCTION

Sammamish Plateau Water and Sewer District was founded in 1948 and provides water and sewer services to customers residing within the District boundaries.

The District is located adjacent to Lake Sammamish approximately 15 miles east of the City of Seattle and within the boundaries of King County. The District boundaries include areas within the City of Sammamish, City of Issaquah, and unincorporated King County and encompasses approximately 30 square miles.

Our mission is to provide excellent customer service by supplying our customers safe, reliable and efficient water and sewer service, in a manner which recognizes that our customers are our neighbors; to provide our employees a working environment that protects their health and safety, promotes teamwork, encourages professional development and motivates personal growth; and to instill the belief that ultimate and continued success relies on constantly improving our products and services.

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of management's discussion and analysis presents our review of the District's financial position as of December 31, 2012 and 2011 and our financial performance for the years then ended. Please read these comments in conjunction with the District's financial statements, which follow this section.

OVERVIEW OF THE FINANCIAL STATEMENTS

The financial statements include a statement of net position, statement of revenues, expenses and changes in fund net position, statement of cash flows and notes to the financial statements.

The statement of net position 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 a basis for evaluating the capital structure of the District and assessing its liquidity and financial flexibility.

The statement of revenues, expenses and changes in fund 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, and to evaluate our profitability and credit worthiness.

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

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

CONDENSED FINANCIAL INFORMATION

CONDENSED STATEMENT OF NET POSITION AT DECEMBER 31

	2012	2011	2010
Capital assets	\$ 160,522,967	\$ 164,323,929	\$ 162,164,337
Other assets	39,614,822	32,626,047	29,382,277
Total assets	200,137,789	196,949,976	191,546,614
Long term liabilities	16,888,841	18,982,006	21,100,413
Other liabilities	5,412,289	6,165,314	5,371,610
Total liabilities	22,301,130	25,147,320	26,472,023
Net investment in capital assets	142,665,525	144,338,322	140,125,324
Restricted amounts	4,484,318	4,989,208	5,418,328
Unrestricted amounts	30,686,816	22,475,126	19,530,939
Total net position	\$ 177,836,659	\$ 171,802,656	\$ 165,074,591

CONDENSED STATEMENTS OF REVENUES, EXPENSES

AND CHANGES IN FUND NET POSITION FOR THE YEAR ENDED DECEMBER 31

	2012	2011	2010
Water distribution revenue	\$ 10,473,744	\$ 9,035,244	\$ 8,211,091
Sewer service revenue	9,873,680	9,210,012	8,060,615
Other revenues	588,825	462,905	431,389
Total operating revenues	20,936,249	18,708,161	16,703,095
Water and sewer operating expenses	15,587,319	14,665,430	12,346,777
Depreciation and amortization	6,668,265	5,908,898	5,861,242
Total operating expenses	22,255,584	20,574,328	18,208,019
Operating loss	(1,319,335)	(1,866,167)	(1,504,924)
Non-operating revenues:			
Interest	537,777	278,705	360,777
Rental and other income	333,004	321,099	99,868
Non-operating expenses:			
Interest and amortization	(680,947)	(572,968)	(495,351)
Loss on abandonment and disposition of assets	(9,129)	(191,643)	-
Loss before capital contributions	(1,138,630)	(2,030,974)	(1,539,630)
Capital contributions	7,172,633	8,759,039	4,756,126
Increase in net position	\$ 6,034,003	\$ 6,728,065	\$ 3,216,496

FINANCIAL POSITION

The District's overall financial position continues to be strong with sufficient liquidity and revenues, and debt capacity to finance large future capital improvements if necessary. The District is financed primarily by equity and substantial liquid assets are available to fund liabilities and construction. Capital assets decreased in 2012 due to depreciation in excess of construction activity and donated systems. Capital assets increased in 2011 primarily due to significant

donated systems. Investments are continuing to be made to upgrade and replace necessary capital infrastructure and facilities. Net position has also increased each year. An increase in net position over time typically indicates improving financial condition.

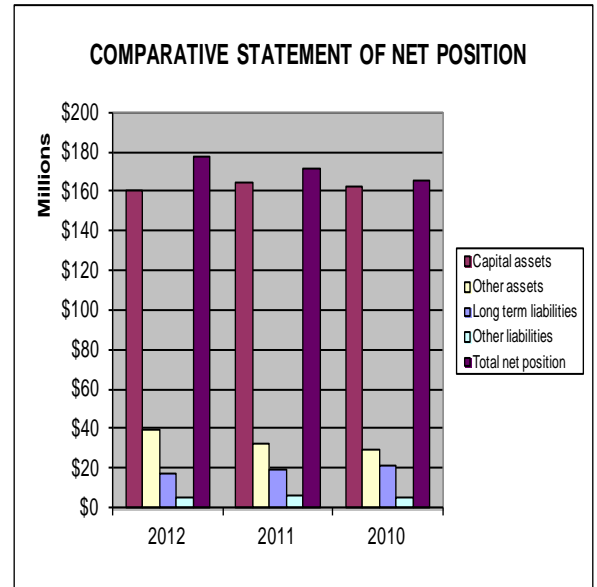
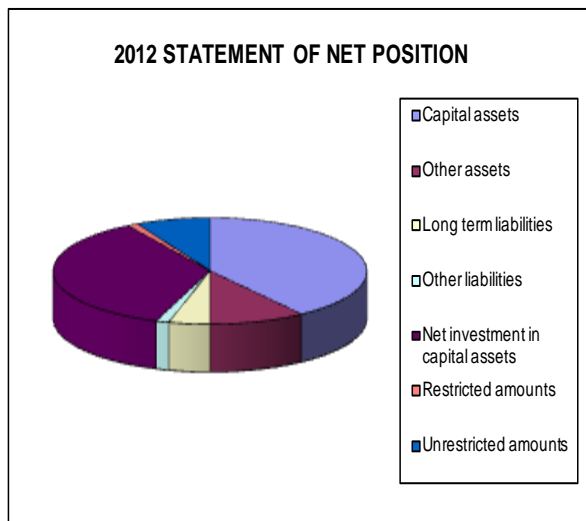
Standard and Poor's, a national credit rating agency, reviewed the District's financial position in 2013. As a result of the review, the District's credit rating continues to be AAA.

The following tables summarize the growth in the District's customer base for water and sewer over the last six years.

YEAR	WATER CONNECTIONS	TOTAL INCREASE - CONNECTIONS
2007	16,020	88
2008	16,085	65
2009	16,210	125
2010	16,340	130
2011	16,516	176
2012	16,795	279

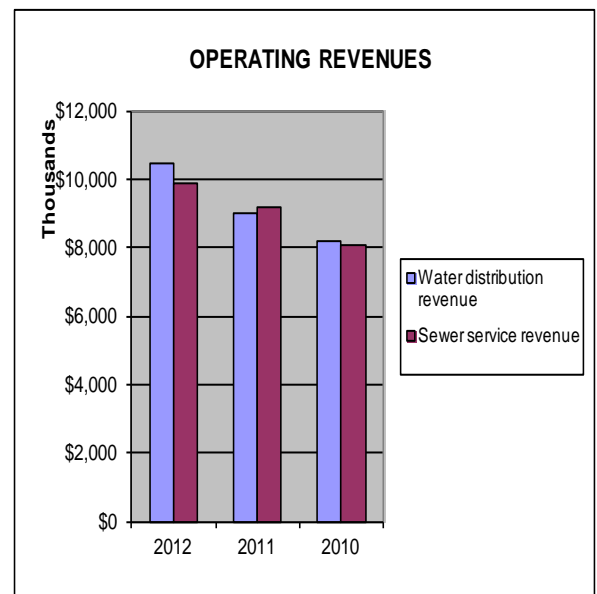
YEAR	SEWER CONNECTIONS	TOTAL INCREASE - CONNECTIONS
2007	9,859	67
2008	9,979	120
2009	10,076	97
2010	10,246	170
2011	10,452	206
2012	10,671	219

The following charts indicate the components of financial position.



RESULTS OF OPERATIONS

Operating revenues are received principally from two sources: water service and sewer service. The following chart indicates operating revenue over the last three years.



The water revenue in 2010 was substantially lower than 2011 and 2012 as a result of the cooler, wetter summer weather than the region typically experiences. The increase in water revenues over the three years is due to increases in the District's water rates. The

increase in sewer revenues over the three years is due to combined increases in the District's sewer rates and King County Metro increases.

The growth in additional water and sewer customers has stabilized and has a minor effect on revenues compared to earlier high growth years.

Historical Water Rate Increases

(Based on single family bi-monthly water use of 2000 cubic feet)

Year	Rate	% Increase
2007	\$ 46.95	—
2008	\$ 51.22	9.1%
2009	\$ 54.77	6.9%
2010	\$ 58.86	7.5%
2011	\$ 66.38	12.8%
2012	\$ 80.56	21.4%

Historical Sewer Rate Increases

(Includes charges from King County Metro passed through to sewer customers. Based on single family bi-monthly average winter water use of 1500 cubic feet)

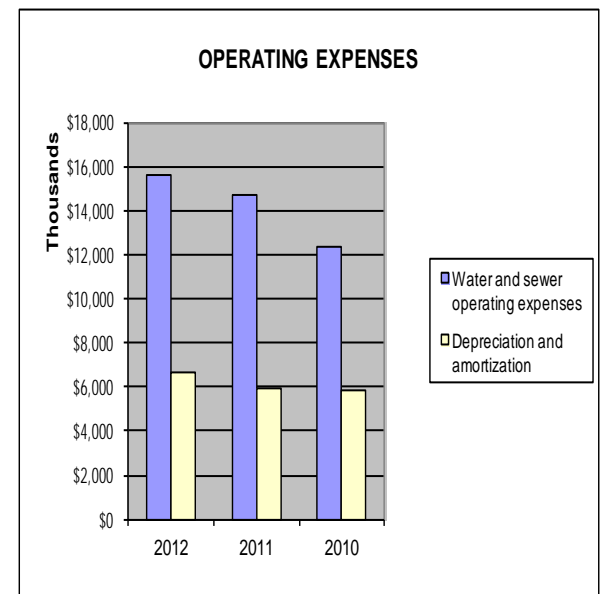
2007	\$ 88.29	5.6%
2008	\$ 91.16	3.3%
2009	\$101.48	11.3%
2010	\$104.33	2.8%
2011	\$118.21	13.3%
2012	\$122.54	3.7%

The rate increases were necessary due to the continued increase in the cost to treat water and wholesale sewage treatment costs as well as inflationary increases in other expenses and for funding the District's Long Term Capital Reinvestment Plan for Repair and Replacement.

During 2012 and 2011 the District utilized a financial consulting firm to perform a cost of service study for water and sewer service rates. As a result of the study, the District made modifications to its previous water and sewer rate structure. Rather than embracing an across the board approach to rates, the District considered a rate structure which reflects the true costs of providing water and sewer service while providing revenue stability to fund fixed costs during periods of

fluctuating demands. The major change that was considered and implemented focused on a greater reliance on fixed monthly base charges for water and sewer service to enhance revenue certainty for the District. An additional component of the rate adjustment is the continued establishment of capital reserves to provide for future system maintenance and replacement.

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

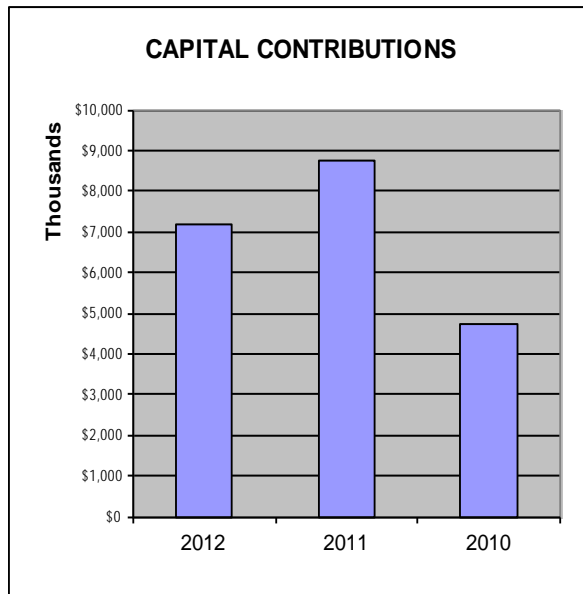


The District operated at a loss in 2012, 2011 and 2010. The losses were a result of the District not providing for the full amount of depreciation in the rates charged to customers. The District's current general philosophy is to only provide for a certain portion of depreciation through rates based on the principal that capital contributions are a component of assets acquired. Operating losses are mitigated or completely offset by earnings on investments and other non-operating revenues, less non-operating expenses, and capital contributions.

The increase in operating expenses in 2012 and 2011 is the net result of 1) increased sewer treatment charges from King County Wastewater Treatment Division (KCWTD/Metro), 2) increases in water

purchases and other Cascade Water Alliance costs and 3) increase in repairs and maintenance costs.

The District collects capital contributions from new customers and developers. These contributions consist of connection charges, grants, ULID assessments and donated systems. The following chart indicates capital contributions over the last three years.



The contributions are indicative of the growth of the District and include donated systems totaling \$2,301,362, \$6,200,133 and \$2,914,706 for the years ended December 31, 2012, 2011 and 2010.

CAPITAL ASSETS AND LONG-TERM DEBT

Capital assets decreased in 2012 due to depreciation in excess of construction activity and donated systems. Capital assets increased in 2011 due to the growth in customer base and substantial construction efforts by the District to increase capacity.

The construction has been financed from cash reserves, rates, connection charges and the issuance of long-term debt.

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

The District's total plant, property and equipment value, not including accumulated depreciation, is \$241,364,647. The estimated replacement cost of these assets utilizing the District's Long Term Capital Reinvestment Study data and in recent years a Construction Price Index component is estimated to be \$848,650,404.

In July 2008, the District established Utility Capital Facilities Replacement Accounts for the purpose of accumulating funding for long term capital replacement of water and sewer system facilities. As of the end of 2012, the balance in the Water Capital Replacement account is \$7,061,815 and the balance in the Sewer Capital Replacement account is \$4,154,793.

The District's Capital Improvement Program is focused on replacing infrastructure that is nearing the end of its useful life, identifying opportunities to expand or improve the District's facilities in conjunction with other public works projects to take advantage of the economies of scale, and constructing key infrastructure components to provide for the expansion of water and sewer facilities into previously un-served areas within the District's corporate boundaries.

The 2013 Capital Plan expenditures of approximately \$4.94 million include the following:

Water CIP By Category

Administration	\$	233,612
Wells/Production	\$	35,000
Storage	\$	165,000
Water Mains / Appurtenances	\$	1,450,481
Meters	\$	19,500
Building and Grounds	\$	510,000
Planning	\$	116,088
Customer Service - Inside	\$	50,778
Finance	\$	25,763
Total	\$	2,606,222

Water CIP By Fund

Water Operating Fund	\$	1,125,601
Water Capital Replacement Fund	\$	596,270
Water General Facilities Fund	\$	33,700
Water Local Facilities Fund	\$	-
Water ULID / DEA	\$	850,651
Total	\$	2,606,222

Sewer CIP By Category

Administration	\$	225,888
Lift Stations	\$	623,248
Grinder Pumps	\$	310,000
Sewer Mains / Appurtenances	\$	580,755
Building and Grounds	\$	340,000
Planning	\$	218,423
Customer Service - Inside	\$	21,762
Finance	\$	11,041
Total	\$	2,331,117

Sewer CIP By Fund

Sewer Operating Fund	\$	670,776
Sewer Capital Replacement Fund	\$	604,385
Sewer General Facilities Fund	\$	995,956
Sewer Local Facilities Fund	\$	60,000
Total	\$	2,331,117

The District anticipates funding the capital improvement plan from rates, long-term debt, existing cash, and Developer and ULID funding.

ADDITIONAL COMMENTS

The District is dependent on other government entities for the treatment of sewage collected by the District. The cost for this service continues to increase. The District intends to adjust rates to compensate for increases in its direct cost.

While many of the local governments in the Seattle metropolitan area have been purchasing water from the City of Seattle, the District has, and continues to maintain, its own independent source of supply. In order to provide adequate supply for the future, the District joined with the City of Bellevue, Covington Water District, the City of Issaquah, the City of Kirkland, the City of Redmond, Skyway Water and Sewer District and the City of Tukwila in forming the Cascade Water Alliance ("CWA"). CWA was formed pursuant to the Interlocal Cooperation Act on April 1, 1999 and the District joined on November 8, 1999. The purpose of CWA is to provide for the water supply needs of its members in a cost-effective and environmentally sound manner.

The District has a supply commitment from CWA. This commitment means that CWA will provide water supply for the District's needs over that which can be supplied by the District's independent supply. In order to meet the supply commitment to the District (and its other Members), CWA has completed a Transmission and Supply Plan that defines a resource strategy to meet the projected supply needs of the District and CWA's other members through 2050. That strategy includes purchase of water from the cities of Seattle and Tacoma, acquisition and development of transmission facilities, and development of new water supply sources and treatment facilities.

This financial report is designed to provide a general overview of Sammamish Plateau Water and Sewer District's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Finance Department, Sammamish Plateau Water and Sewer District, 1510 228th Avenue SE, Sammamish WA 98075.

SAMMAMISH PLATEAU WATER AND SEWER DISTRICT

STATEMENT OF NET POSITION

December 31, 2012 and 2011

ASSETS

	<u>2012</u>	<u>2011</u>
<i>Current assets:</i>		
Unrestricted:		
Cash and cash equivalents	\$ 29,251,960	\$ 21,916,273
Accounts receivable - users	3,168,330	2,980,408
Accounts receivable - other	28,217	85,344
Interest receivable	32,776	28,535
General facility and in lieu of assessments charges receivable - current portion	56,770	51,753
Inventory	132,533	229,749
Prepaid expenses	248,451	158,629
Deposits	20,169	19,668
	<u>32,939,206</u>	<u>25,470,359</u>
Restricted:		
Cash and cash equivalents	5,394,847	5,694,407
Interest receivable	1,740	1,745
Assessments receivable - current portion	131,875	135,025
	<u>5,528,462</u>	<u>5,831,177</u>
<i>Noncurrent assets:</i>		
Unrestricted:		
General facility and in lieu of assessment charges receivable, less current portion	323,141	369,406
Deferred annexation and connection charges	66,158	54,095
	<u>389,299</u>	<u>423,501</u>
Restricted:		
Assessments receivable, less current portion	757,855	901,010
Capital assets not being depreciated:		
Land and land rights	4,389,131	4,389,131
Construction in progress	1,507,274	2,362,945
Capital assets being depreciated:		
Plant in service	236,975,516	234,573,217
Less accumulated depreciation	<u>(82,348,954)</u>	<u>(77,001,364)</u>
Net capital assets	<u>160,522,967</u>	<u>164,323,929</u>
	<u><u>\$ 200,137,789</u></u>	<u><u>\$ 196,949,976</u></u>

SAMMAMISH PLATEAU WATER AND SEWER DISTRICT

**STATEMENT OF NET POSITION
(CONTINUED)**

December 31, 2012 and 2011

LIABILITIES AND NET POSITION

	<u>2012</u>	<u>2011</u>
<i>Current liabilities:</i>		
Payable from unrestricted assets:		
Accounts payable	\$ 814,135	\$ 1,032,526
Accrued salaries and benefits	229,956	240,292
Accrued compensated absences	482,558	437,119
Deposits payable	76,365	76,235
Developer deposits	994,819	1,461,257
Retainage payable	35,526	162,271
Accrued interest	8,330	9,034
Long-term debt - current maturities	233,253	233,253
	<u>2,874,942</u>	<u>3,651,987</u>
 Payable from restricted assets:		
Accounts payable	549,161	483,689
Accrued interest	48,186	54,638
Long-term debt - current maturities	1,940,000	1,975,000
	<u>2,537,347</u>	<u>2,513,327</u>
 <i>Non-current liabilities:</i>		
Long-term debt payable from unrestricted assets, net of current maturities	<u>2,711,852</u>	<u>2,945,106</u>
 Long-term debt payable from restricted assets, net of current maturities	<u>14,176,989</u>	<u>16,036,900</u>
 Total liabilities	<u>22,301,130</u>	<u>25,147,320</u>
 <i>Net position:</i>		
Net investment in capital assets	142,665,525	144,338,322
Restricted for debt service	4,390,703	4,881,522
Restricted for impaired investments	93,615	107,686
Unrestricted	30,686,816	22,475,126
Total net position	<u>177,836,659</u>	<u>171,802,656</u>
	<u><u>\$ 200,137,789</u></u>	<u><u>\$ 196,949,976</u></u>

SAMMAMISH PLATEAU WATER AND SEWER DISTRICT

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION

Years Ended December 31, 2012 and 2011

	2012	2011
<i>Operating revenues:</i>		
Water service	\$ 10,473,744	\$ 9,035,244
Sewer service	9,873,680	9,210,012
Street lights	114,916	103,100
Sewer inspections	53,197	45,900
Miscellaneous revenue	420,712	313,905
	<u>20,936,249</u>	<u>18,708,161</u>
<i>Operating expenses:</i>		
Salaries and wages	3,623,605	3,506,245
Payroll taxes and pensions	656,673	594,173
Employee benefits	645,103	651,225
Operation costs	1,656,038	1,542,324
Sewage treatment	5,631,725	5,699,179
Repairs and maintenance of system	988,746	912,357
Professional services	399,678	221,384
Business taxes	574,624	549,031
Dues and subscriptions	358,590	206,116
Engineering	29,054	34,310
Office and administration	264,510	259,378
Insurance	173,474	137,446
Miscellaneous	273,418	67,706
Public information	27,448	20,910
Utilities	115,824	97,791
Water conservation	168,809	165,855
Depreciation	6,668,265	5,908,898
	<u>22,255,584</u>	<u>20,574,328</u>
Operating loss	<u>(1,319,335)</u>	<u>(1,866,167)</u>
<i>Non-operating revenues:</i>		
Investment income, net of service fees	461,306	178,158
Assessment and in lieu of assessment interest income	76,471	100,547
Rental income	284,243	307,847
Miscellaneous revenue	48,761	13,252
	<u>870,781</u>	<u>599,804</u>

SAMMAMISH PLATEAU WATER AND SEWER DISTRICT

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
(CONTINUED)**

Years Ended December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
<i>Non-operating expenses:</i>		
Interest on long-term debt - net of amount capitalized	600,858	483,122
Amortization of debt discount, premium, issue costs and loss on refunding	80,089	89,846
Net loss on disposition and abandonment of assets	9,129	191,643
	<u>690,076</u>	<u>764,611</u>
Loss before capital contributions	(1,138,630)	(2,030,974)
Capital contributions	7,172,633	8,759,039
Change in net position	6,034,003	6,728,065
Net position, January 1	171,802,656	165,074,591
Net position, December 31	<u>\$ 177,836,659</u>	<u>\$ 171,802,656</u>

SAMMAMISH PLATEAU WATER AND SEWER DISTRICT

STATEMENT OF CASH FLOWS

Years Ended December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
<i>Cash flows from operating activities:</i>		
Cash received from customers	\$ 20,805,454	\$ 17,868,920
Cash paid to suppliers	(11,262,983)	(8,497,143)
Cash paid to and for employees and commissioners	(4,897,693)	(4,716,092)
Rental and other income	333,004	321,099
Net cash provided by operating activities	<u>4,977,782</u>	<u>4,976,784</u>
<i>Cash flows from capital financing activities:</i>		
Contributions in aid of construction	4,830,385	2,515,840
Collections on ULID assessments receivable	146,305	136,138
Collections on general facility and in lieu of assessment charges receivable	82,134	69,535
Interest received on contracts and assessments	74,455	96,498
Proceeds from sale of assets and reimbursed costs	25,161	29,056
Recovery (payment) of annexation costs	(12,063)	13,786
Expenditures for plant in service and construction	(730,850)	(2,406,438)
Payment of long-term debt	(2,208,254)	(2,143,253)
Interest paid on long-term debt, net of amount capitalized	(608,014)	(466,745)
Net cash provided by (used in) financing activities	<u>1,599,259</u>	<u>(2,155,583)</u>
<i>Cash flows from investing activities:</i>		
Interest received on investments	459,086	179,653
Net cash provided by investing activities	<u>459,086</u>	<u>179,653</u>
Net increase in cash and cash equivalents	7,036,127	3,000,854
Cash and cash equivalents, beginning of year	27,610,680	24,609,826
Cash and cash equivalents, end of year	<u><u>\$ 34,646,807</u></u>	<u><u>\$ 27,610,680</u></u>
Cash and cash equivalents balance is composed of the following at December 31:		
Cash and cash equivalents - current assets	\$ 29,251,960	\$ 21,916,273
Cash and cash equivalents - current restricted assets	5,394,847	5,694,407
	<u><u>\$ 34,646,807</u></u>	<u><u>\$ 27,610,680</u></u>

SAMMAMISH PLATEAU WATER AND SEWER DISTRICT

**STATEMENT OF CASH FLOWS
(CONTINUED)**

Years Ended December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
<i>Reconciliation of operating loss to net cash provided by operating activities:</i>		
Net operating loss	\$ (1,319,335)	\$ (1,866,167)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation	6,668,265	5,908,898
(Increase) decrease in assets:		
Accounts receivable - users	(187,922)	(759,287)
Accounts receivable - other	57,127	(79,954)
Prepaid expenses	(89,822)	391,738
Inventory	97,216	32,148
Deposits	(501)	(1,399)
Increase (decrease) in liabilities:		
Accounts payable, accrued expenses and deposits	(113,812)	626,309
Developer deposits	(466,438)	403,399
Rental and other income	<u>333,004</u>	<u>321,099</u>
Net cash provided by operating activities	<u><u>\$ 4,977,782</u></u>	<u><u>\$ 4,976,784</u></u>
<i>Supplemental schedule of significant non-cash financing and investing activities:</i>		
Utility plant donations received	\$ 2,301,362	\$ 6,200,132
General facility charge contracts issued	\$ 40,886	\$ 43,067

SAMMAMISH PLATEAU WATER AND SEWER DISTRICT

NOTES TO FINANCIAL STATEMENTS

December 31, 2012 and 2011

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

Description of business, nature of operations and reporting entity - Sammamish Plateau Water and Sewer District, a municipal corporation organized under the laws of the state of Washington, was created for the purpose of constructing, maintaining and operating a water and sewer system within its boundaries, which encompass an area located in unincorporated King County, the city of Issaquah and the city of Sammamish. The District has no component units.

Basis of presentation and accounting - These financial statements are prepared utilizing the full accrual basis of accounting. Effective January 1, 2010, the District adopted Governmental Accounting Standards Board Statement 62 which codified accounting and financial reporting guidance contained in Pre-November 30, 1989 Financial Accounting Standards Board (FASB) and American Institute of Certified Public Accountants (AICPA) pronouncements and eliminated the option for the District to apply Post-November 30, 1989 FASB statements and interpretations that do not conflict with statements issued by the Governmental Accounting Standards Board. All activities of the District are accounted for within a single proprietary (enterprise) fund.

Cash and cash equivalents - The District considers investments in the King County Investment Pool to be cash equivalents. These investments are stated at fair value of the Pool's underlying assets.

Accounts receivable - The District utilizes the allowance method of accounting for doubtful accounts. However, all accounts receivable are considered fully collectible since nonpayment of an account can result in a lien assessment filed against the property. Therefore, no allowance for doubtful accounts has been provided in the financial statements.

Inventory - Inventory consists of materials and supplies available for future use and is stated at the lower of cost, using the first-in, first-out (FIFO) method or market.

Capital assets - Capital assets are stated at cost when known and include the capitalized portion of District employees' wages and related overhead costs. When historical cost is not known, assets are recorded at the District's engineers estimated costs. For water and sewer systems installed by developers or customers and conveyed to the District by bill of sale, the District records the cost of the system at the contributing party's costs, contract price or appraisal value. Major expenses for capital assets, including capital leases and major repairs that increase useful lives, are capitalized. Maintenance, repairs, and minor renewals are accounted for as expenses when incurred. Provision is made for depreciation of capital assets using the straight-line method over the estimated useful lives of the assets which generally are 5 to 50 years.

SAMMAMISH PLATEAU WATER AND SEWER DISTRICT

**NOTES TO FINANCIAL STATEMENTS
(CONTINUED)**

December 31, 2012 and 2011

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

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

Total interest cost incurred for the years ended December 31, 2012 and 2011 was \$666,562 and \$766,354, respectively. Interest capitalized in December 31, 2012 and 2011 was \$65,704 and \$283,232, respectively.

Accrued compensated absences - The District accrues accumulated unpaid vacation and sick leave amounts as earned.

District employees accumulate vacation hours for subsequent use or for payment upon termination, retirement or death. The amount of vacation pay employees may accumulate is limited to 260 hours.

District employees accumulate sick leave hours, subject to certain restrictions, to be paid upon termination, retirement or death.

Long-term debt - Long-term debt is reported net of discounts, premiums, issue costs and losses on refunding.

Discounts, premiums and issue costs incurred on issuance of long-term debt are amortized by the interest method over the period the related debt is outstanding. Losses on refunding of long-term debt are amortized by the interest and straight-line methods over the lives of the bonds issued or the bonds refunded, whichever is shorter.

Net position - Net position is classified in the following three components: 1) Net investment in capital assets - This component of net position consists of capital assets, net of accumulated depreciation, and reduced by the outstanding balances of any bonds, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of net investment in capital assets. Rather, that portion of the debt is included in the same net position component as the unspent proceeds. 2) Restricted - This component of net position consists of restrictions placed on asset use by external creditors (such as through debt covenants), grantors, contributors or others, reduced by liabilities related to those assets. 3) Unrestricted net position - This component of net position consists of assets reduced by liabilities related to those assets, that do not meet the definition of "restricted" or "net investment in capital assets."

The District applies unrestricted and restricted resources to purposes for which both unrestricted and restricted net resources are available based on management's discretion.

SAMMAMISH PLATEAU WATER AND SEWER DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

December 31, 2012 and 2011

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

Revenues and expenses - Revenues and expenses are distinguished between operating and non-operating items. Operating revenues result from providing products and services in connection with the District's water and sewer systems (including street lights). Operating expenses include the costs associated with providing the District's products and services, general and administrative expenses and depreciation on capital assets. All revenues and expenses not meeting these definitions are classified as non-operating revenues and expenses.

Capital contributions - Grants, ULID assessments, and contributions in aid of construction from property owners are recorded as capital contribution revenue.

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

2. DEPOSITS AND INVESTMENTS

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

Investments - In accordance with state investment laws, the District's governing body has entered into a formal interlocal agreement with the district *ex officio* treasurer, King County, to have all its funds on deposit with the county not required for immediate expenditure to be invested in the King County Investment Pool (Pool). Investments in the Pool are stated at the fair value of the Pool's underlying assets. The stated value per share is \$1. The King County Executive Finance Committee provides oversight of the Pool.

SAMMAMISH PLATEAU WATER AND SEWER DISTRICT

**NOTES TO FINANCIAL STATEMENTS
(CONTINUED)**

December 31, 2012 and 2011

2. DEPOSITS AND INVESTMENTS (continued)

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

<u>Investment type</u>	<u>Fair value</u>	<u>Average effective duration</u>
2012:		
King County Investment Pool		
Main Pool	\$34,206,501	1.36 years
Impaired Pool	93,615	
2011:		
King County Investment Pool		
Main Pool	\$27,464,741	0.72 years
Impaired Pool	107,686	

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 was \$190,586 and \$245,981 at December 31, 2012 and 2011, respectively. The District's unrealized loss for these investments is \$96,971 and \$138,295 at December 31, 2012 and 2011, respectively.

Interest rate risk - 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 and 2011, 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 equivalent of "A-1" by two NRSROs), certificates of deposits issued by qualified public depositories, repurchase agreements, and the Local Government Investment Pool managed by the Washington State Treasurer's office.

SAMMAMISH PLATEAU WATER AND SEWER DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

December 31, 2012 and 2011

3. RESTRICTED ASSETS

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

		Current restricted		Non-current
	Cash & cash equivalents	Interest receivable	Assessments receivable	Long-term assessments receivable
December 31, 2012:				
Revenue bond funds	\$ 1,367,926	\$ 783	\$131,875	\$757,855
Revenue bond reserve funds	2,179,493	957		
Northeast Sammamish Sewer and Water District joint funds	549,161			
Construction	1,204,652			
Impaired investment pool	<u>93,615</u>	<u></u>	<u></u>	<u></u>
	<u>\$5,394,847</u>	<u>\$ 1,740</u>	<u>\$131,875</u>	<u>\$757,855</u>
December 31, 2011:				
Revenue bond funds	\$ 1,761,625	\$ 788	\$135,025	\$901,010
Revenue bond reserve funds	2,136,755	957		
Northeast Sammamish Sewer and Water District joint funds	483,689			
Construction	1,204,652			
Impaired investment pool	<u>107,686</u>	<u></u>	<u></u>	<u></u>
	<u>\$5,694,407</u>	<u>\$ 1,745</u>	<u>\$135,025</u>	<u>\$901,010</u>

The revenue bond issues require the District to establish and maintain sinking fund and reserve accounts. The sinking fund accounts are to accumulate funds for payment of bonds, principal and interest and the reserve account is to provide security for bond holders.

The required reserve at December 31, 2012 and 2011 was \$1,881,000 and \$2,073,482, respectively. Both the sinking fund and reserve accounts are fully funded.

SAMMAMISH PLATEAU WATER AND SEWER DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

December 31, 2012 and 2011

4. CAPITAL ASSETS

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

	Balance, beginning of year	Additions	Reductions	Transfers	Balance end of year
2012:					
Capital assets not being depreciated:					
Land and land rights \$	4,389,131				\$ 4,389,131
Construction in progress	<u>2,362,945</u>	<u>\$ 802,510</u>	<u>\$ (353,912)</u>	<u>\$(1,304,269)</u>	<u>1,507,274</u>
	<u>6,752,076</u>	<u>802,510</u>	<u>(353,912)</u>	<u>(1,304,269)</u>	<u>5,896,405</u>
Capital assets being depreciated:					
Water systems	119,409,475	1,169,885	(189,491)	21,546	120,411,415
Sewer systems	100,352,205	1,175,057	(42,617)		101,484,645
Office building	5,314,910				5,314,910
Equipment	5,716,936	108,053	(45,998)	627,413	6,406,404
Intangibles and other miscellaneous assets	<u>3,779,691</u>		<u>(1,076,859)</u>	<u>655,310</u>	<u>3,358,142</u>
	<u>234,573,217</u>	<u>2,452,995</u>	<u>(1,354,965)</u>	<u>1,304,269</u>	<u>236,975,516</u>
Accumulated depreciation:					
Water systems	(38,769,497)	(3,558,350)	177,580		(42,150,267)
Sewer systems	(28,393,550)	(2,429,404)	20,238		(30,802,716)
Office building	(2,021,158)	(144,960)			(2,166,118)
Equipment	(4,295,039)	(391,442)	45,998		(4,640,483)
Intangibles and other miscellaneous assets	<u>(3,522,120)</u>	<u>(144,109)</u>	<u>1,076,859</u>		<u>(2,589,370)</u>
	<u>(77,001,364)</u>	<u>(6,668,265)</u>	<u>1,320,675</u>		<u>(82,348,954)</u>
Net capital assets	<u>\$164,323,929</u>	<u>\$(3,412,760)</u>	<u>\$ (388,202)</u>	<u>\$ 0</u>	<u>\$160,522,967</u>

SAMMAMISH PLATEAU WATER AND SEWER DISTRICT

**NOTES TO FINANCIAL STATEMENTS
(CONTINUED)**

December 31, 2012 and 2011

4. CAPITAL ASSETS (continued)

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

	Balance, beginning of year	Additions	Reductions	Transfers	Balance end of year
2011:					
Capital assets not being depreciated:					
Land and land rights	\$ 4,389,131				\$ 4,389,131
Construction in progress	<u>17,445,970</u>	<u>\$2,202,408</u>	<u>\$ (337,255)</u>	<u>\$(16,948,178)</u>	<u>2,362,945</u>
	<u>21,835,101</u>	<u>2,202,408</u>	<u>(337,255)</u>	<u>(16,948,178)</u>	<u>6,752,076</u>
Capital assets being depreciated:					
Water systems	104,869,290	2,423,711	(1,196,789)	13,313,263	119,409,475
Sewer systems	93,129,184	3,798,417	(105,103)	3,529,707	100,352,205
Office building	5,314,910				5,314,910
Equipment	5,607,735	201,907	(164,143)	71,437	5,716,936
Intangibles and other miscellaneous assets	<u>3,908,614</u>		<u>(162,694)</u>	<u>33,771</u>	<u>3,779,691</u>
	<u>212,829,733</u>	<u>6,424,035</u>	<u>(1,628,729)</u>	<u>16,948,178</u>	<u>234,573,217</u>
Accumulated depreciation:					
Water systems	(36,887,885)	(2,929,897)	1,048,285		(38,769,497)
Sewer systems	(26,138,549)	(2,287,910)	32,909		(28,393,550)
Office building	(1,876,145)	(145,013)			(2,021,158)
Equipment	(4,059,195)	(399,987)	164,143		(4,295,039)
Intangibles and other miscellaneous assets	<u>(3,538,723)</u>	<u>(146,091)</u>	<u>162,694</u>		<u>(3,522,120)</u>
	<u>(72,500,497)</u>	<u>(5,908,898)</u>	<u>1,408,031</u>		<u>(77,001,364)</u>
Net capital assets	<u>\$162,164,337</u>	<u>\$2,717,545</u>	<u>\$ (557,953)</u>	<u>\$ 0</u>	<u>\$164,323,929</u>

SAMMAMISH PLATEAU WATER AND SEWER DISTRICT

**NOTES TO FINANCIAL STATEMENTS
(CONTINUED)**

December 31, 2012 and 2011

5. LONG-TERM DEBT PAYABLE FROM UNRESTRICTED ASSETS

Long-term debt outstanding at December 31, payable from unrestricted assets, secured by the revenue of the system, consisted of the following loans issued for utility construction:

	<u>2012</u>	<u>2011</u>
Public Works Trust Fund Loans:		
\$902,195 loan, payable \$48,374 annually through the year 2020, plus interest at 1.0 annual percentage rate	\$ 386,994	\$ 435,369
\$573,750 loan, payable \$30,197 annually through the year 2025, plus interest at 0.5 annual percentage rate	392,566	422,763
\$2,843,250 loan, payable \$154,682 annually through the year 2026, plus interest at 0.5 annual percentage rate	2,165,545	2,320,227
Drinking Water State Revolving Fund Loan:		
\$1,126,697 authorized, \$0 drawn to December 31, 2012. 50% of lesser of loan balance or eligible project costs forgiven at project completion, payable annually through the year 2027, with interest at 1.0 annual percentage rate	<u>2,945,105</u>	<u>3,178,359</u>
Less current maturities	<u>(233,253)</u>	<u>(233,253)</u>
	<u>\$2,711,852</u>	<u>\$2,945,106</u>

Long-term debt service requirements to maturity, payable by the District from unrestricted assets are as follows (based on draws received through December 31, 2012):

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 233,253	\$ 16,661	\$ 249,914
2014	233,253	15,252	248,505
2015	233,253	13,844	247,097
2016	233,253	12,436	245,689
2017	233,253	11,028	244,281
2018-2022	1,069,520	34,501	1,104,021
2023-2026	<u>709,320</u>	<u>8,638</u>	<u>717,958</u>
	<u>\$2,945,105</u>	<u>\$112,360</u>	<u>\$3,057,465</u>

SAMMAMISH PLATEAU WATER AND SEWER DISTRICT

**NOTES TO FINANCIAL STATEMENTS
(CONTINUED)**

December 31, 2012 and 2011

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

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

	<u>Balance, beginning of year</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance, end of year</u>	<u>Amounts due within one year</u>
<u>2012:</u>					
Public Works Trust Fund Loan	\$ 435,369		\$ 48,375	\$ 386,994	\$ 48,374
Public Works Trust Fund Loan	422,763		30,197	392,566	30,197
Public Works Trust Fund Loan	<u>2,320,227</u>		<u>154,682</u>	<u>2,165,545</u>	<u>154,682</u>
	<u>\$3,178,359</u>		<u>\$233,254</u>	<u>\$2,945,105</u>	<u>\$233,253</u>
<u>2011:</u>					
Public Works Trust Fund Loan	\$ 483,743		\$ 48,374	\$ 435,369	\$ 48,374
Public Works Trust Fund Loan	452,960		30,197	422,763	30,197
Public Works Trust Fund Loan	<u>2,474,909</u>		<u>154,682</u>	<u>2,320,227</u>	<u>154,682</u>
	<u>\$3,411,612</u>		<u>\$233,253</u>	<u>\$3,178,359</u>	<u>\$233,253</u>

6. LONG-TERM DEBT PAYABLE FROM RESTRICTED ASSETS

Long-term debt outstanding at December 31, payable from restricted assets, consisted of the following:

	<u>2012</u>	<u>2011</u>
Revenue Bonds:		
\$8,980,000 dated October 18, 2010 for refunding and utility construction, due serially through the year 2025, with interest payable semi-annually at 2.50 to 4.50 annual percentage rates	\$8,715,000	\$ 8,775,000
\$5,200,000 dated October 31, 2006 for refunding, due serially through the year 2012, with interest payable semi-annually at 4.00 annual percentage rate		1,335,000
\$7,000,000 dated September 15, 2005 for utility construction, due serially through the year 2019, with interest payable semi-annually at 4.00 annual percentage rate	6,055,000	6,205,000

SAMMAMISH PLATEAU WATER AND SEWER DISTRICT

**NOTES TO FINANCIAL STATEMENTS
(CONTINUED)**

December 31, 2012 and 2011

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

	<u>2012</u>	<u>2011</u>
\$2,830,000 dated November 15, 2004 for refunding, due serially through the year 2016, with interest payable semi-annually at 4.00 annual percentage rate	1,465,000	1,795,000
 \$10,000,000 dated March 1, 2002 for utility construction, due serially through the year 2012, with interest payable semi-annually at 4.375 annual percentage rate		<u>100,000</u>
	<u>16,235,000</u>	<u>18,210,000</u>
Less current maturities	(1,940,000)	(1,975,000)
Less unamortized discounts, premiums, issue costs and refunding losses	<u>(118,011)</u>	<u>(198,100)</u>
	<u>\$14,176,989</u>	<u>\$16,036,900</u>

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

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 1,940,000	\$ 578,225	\$ 2,518,225
2014	1,995,000	523,500	2,518,500
2015	2,060,000	458,200	2,518,200
2016	2,140,000	383,275	2,523,275
2017	2,205,000	313,175	2,518,175
2018-2022	5,625,000	426,225	6,051,225
2023-2025	<u>270,000</u>	<u>24,750</u>	<u>294,750</u>
	<u>\$16,235,000</u>	<u>\$2,707,350</u>	<u>\$18,942,350</u>

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

	<u>Balance, beginning of year</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance, end of year</u>	<u>Amounts due within one year</u>
<u>2012:</u>					
2010 Revenue bonds	\$ 8,775,000		\$ 60,000	\$ 8,715,000	\$1,525,000
2006 Revenue bonds	1,335,000		1,335,000		
2005 Revenue bonds	6,205,000		150,000	6,055,000	155,000
2004 Revenue bonds	1,795,000		330,000	1,465,000	260,000
2002 Revenue bonds	<u>100,000</u>		<u>100,000</u>		
	<u>\$18,210,000</u>		<u>\$1,975,000</u>	<u>\$16,235,000</u>	<u>\$1,940,000</u>

SAMMAMISH PLATEAU WATER AND SEWER DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

December 31, 2012 and 2011

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

	Balance, beginning of year	Additions	Reductions	Balance, end of year	Amounts due within one year
2011:					
2010 Revenue bonds	\$ 8,835,000		\$ 60,000	\$ 8,775,000	\$ 60,000
2006 Revenue bonds	2,620,000		1,285,000	1,335,000	1,335,000
2005 Revenue bonds	6,350,000		145,000	6,205,000	150,000
2004 Revenue bonds	2,115,000		320,000	1,795,000	330,000
2002 Revenue bonds	<u>200,000</u>		<u>100,000</u>	<u>100,000</u>	<u>100,000</u>
	<u>\$20,120,000</u>		<u>\$1,910,000</u>	<u>\$18,210,000</u>	<u>\$1,975,000</u>

7. PENSION PLAN

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

SAMMAMISH PLATEAU WATER AND SEWER DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

December 31, 2012 and 2011

7. PENSION PLAN (continued)

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

PERS members who joined the system by September 30, 1977 are Plan 1 members. Those who joined on or after October 1, 1977 and by either, February 28, 2002 for state and higher education employees, or August 31, 2002 for local government employees, are Plan 2 members unless they exercised an option to transfer their membership to Plan 3. PERS members joining the system on or after March 1, 2002 for state and higher education employees, or September 1, 2002 for local government employees have the irrevocable option of choosing membership in either PERS Plan 2 or PERS Plan 3. The option must be exercised within 90 days of employment. 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 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 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 percent of the average final compensation (AFC) per year of service, but the benefit may not exceed 60 percent of the AFC. The AFC is the monthly average of the 24 consecutive highest-paid service credit months.

SAMMAMISH PLATEAU WATER AND SEWER DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

December 31, 2012 and 2011

7. PENSION PLAN (continued)

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. 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.

SAMMAMISH PLATEAU WATER AND SEWER DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

December 31, 2012 and 2011

7. PENSION PLAN (continued)

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

SAMMAMISH PLATEAU WATER AND SEWER DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

December 31, 2012 and 2011

7. PENSION PLAN (continued)

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

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

SAMMAMISH PLATEAU WATER AND SEWER DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

December 31, 2012 and 2011

7. PENSION PLAN (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 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	<u>46,839</u>
	<u>261,705</u>

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.

SAMMAMISH PLATEAU WATER AND SEWER DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

December 31, 2012 and 2011

7. PENSION PLAN (continued)

Contributions - The District does not have any employees covered under Plan 1. The required contribution rates expressed as a percentage of covered payroll as of December 31, were:

	2012		2011	
	PERS Plan 2	PERS Plan 3	PERS Plan 2	PERS Plan 3
Employer*	7.21%	7.21%**	7.25%	7.25%**
Employee	4.64%	***	4.64%	***

* The employer rates include the employer administrative expense fee currently set at 0.16% as of December 31, 2012 and 2011.

** Plan 3 defined benefit portion only.

*** Variable from 5.00% minimum to 15.00% maximum based on rate selected by the PERS 3 member.

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

	Required contributions	
	PERS Plan 2	PERS Plan 3
2012	\$149,762	\$126,002
2011	\$132,592	\$107,412
2010	\$119,795	\$ 83,033

8. DEFERRED COMPENSATION PLAN

The District offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan assets are invested with the Washington State Deferred Compensation Program and the International City/County Management Association Program. The plan, available to all employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency. The District made no contributions to this plan in 2012 or 2011.

SAMMAMISH PLATEAU WATER AND SEWER DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

December 31, 2012 and 2011

9. 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 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: General Liability of \$200,000 (including General Liability, Public Officials Liability and Automobile Liability); Property Insurance of \$25,000 (except earthquake and flood. Earthquake 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. For flood, those properties that are NOT located in National Flood Insurance Program (NFIP) Flood Zones A and V are subject to a \$100,000 deductible while those properties located in NFIP Flood Zones A and V are subject to a \$250,000 deductible); Boiler & Machinery which is \$25,000; and Crime which is \$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. 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). Member deductibles (excluding earthquake and flood) are \$5,000.

SAMMAMISH PLATEAU WATER AND SEWER DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

December 31, 2012 and 2011

9. 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, 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.

10. MAJOR SUPPLIER

Treatment of all sewage collected by the District is provided by King County Wastewater Treatment Division (KCWTD/Metro).

11. LEASES

The District leases space for cell towers on certain tanks and land and certain tank capacity under noncancelable operating leases. Future rental income due to the District is as follows:

Year ending December 31:

2013	\$133,293
2014	48,949
2015	50,907
2016	<u>52,944</u>
	<u>\$286,093</u>

SAMMAMISH PLATEAU WATER AND SEWER DISTRICT

**NOTES TO FINANCIAL STATEMENTS
(CONTINUED)**

December 31, 2012 and 2011

12. COMMITMENTS

As of December 31, 2012, the District is obligated under construction contracts totaling \$211,581 of which \$18,790 has been expended.

13. SUBSEQUENT EVENTS

On April 18, 2013, the District issued \$10,435,000 of Water and Sewer Revenue and Refunding Bonds. Of the \$10,435,000 issued, \$6,870,000 of the bonds with interest rates of .30% to 4.00% were used to advance refund \$6,560,000 of outstanding 2004 and 2005 bonds with interest rates of 4.00%. The net proceeds of the refunding portion of the bonds totaling \$7,261,637 including \$99,481 representing accrued interest to the refunding date, were used to purchase U.S. Government securities and provide the beginning escrow cash balance. The cash and securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the refunded bonds. As a result, the refunded bonds will be considered to be extinguished and the liability for those bonds will not be included in future financial statements. The remaining proceeds will be used for utility construction.

Although the advance refunding resulted in an accounting loss of \$585,880 (which will be amortized over the life of the refunded bonds), the District in effect reduced its aggregate debt service payments by \$319,179 through December 1, 2019 and obtained an economic gain (difference between the present values of the old and new debt service payments) of \$309,955.

The 2013 bonds are dated April 18, 2013 and are due serially through the year 2027, with interest payable semi-annually at .30 to 4.00 annual percentage rates

As a result of the issuance of the 2013 bonds and the advance refunding, long-term debt service requirements to maturity, payable by the District from restricted assets will be as follows:

	Principal	Interest	Total
2013	\$ 2,205,000	\$ 472,532	\$ 2,677,532
2014	2,260,000	511,415	2,771,415
2015	2,325,000	442,908	2,767,908
2016	2,400,000	379,652	2,779,652
2017	2,460,000	316,875	2,776,875
2018-2022	6,805,000	664,625	7,469,625
2023-2027	<u>1,655,000</u>	<u>151,950</u>	<u>1,806,950</u>
	<u>\$20,110,000</u>	<u>\$2,939,957</u>	<u>\$23,049,957</u>



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.

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Deputy Director of Performance Audit
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