Washington State Auditor's Office
Troy Kelley
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Financial Statements Audit Report

King County Water District No. 49

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

Published January 8, 2015

Report No. 1013424

Washington State Auditor
Troy Kelley

January 8, 2015

Board of Commissioners
King County Water District No. 49
Seattle, Washington

Report on Financial Statements

Please find attached our report on King County Water District No. 49's financial statements.

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

Sincerely,

TROY KELLEY
STATE AUDITOR
OLYMPIA, WA

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King County Water District No. 49
January 1, 2013 through December 31, 2013

Board of Commissioners
King County Water District No. 49
Seattle, 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. 49, King County, Washington, as of and for the years ended December 31, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated December 31, 2014. As discussed in Note 11 to the financial statements, during the year ended December 31, 2013, the District implemented Governmental Accounting Standards Board Statement No. 65, *Items Previously Reported as Assets and Liabilities*.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

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

COMPLIANCE AND OTHER MATTERS

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

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

PURPOSE OF THIS REPORT

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

Troy X. Kelley

TROY KELLEY
STATE AUDITOR
OLYMPIA, WA

December 31, 2014

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

King County Water District No. 49
January 1, 2013 through December 31, 2013

Board of Commissioners
King County Water District No. 49
Seattle, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of King County Water District No. 49, King County, Washington, as of and for the years ended December 31, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed on page 9.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of King County Water District No. 49, as of December 31, 2013 and 2012, and the changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Matters of Emphasis

As discussed in Note 11 to the financial statements, in 2013, the District adopted new accounting guidance, Governmental Accounting Standards Board *Statement No. 65, Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 10 through 15 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 December 31, 2014 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Troy X. Kelley

TROY KELLEY
STATE AUDITOR
OLYMPIA, WA

December 31, 2014

FINANCIAL SECTION

King County Water District No. 49
January 1, 2013 through December 31, 2013

REQUIRED SUPPLEMENTARY INFORMATION

BASIC FINANCIAL STATEMENTS

Brief Discussion of the Basic Financial Statements

The District's financial statements include a Statement of Net Position; a Statement of Revenues, Expenses & Changes in Fund Net Position; a Statement of Cash Flows; and Notes to the Financial Statements. The financial statements are prepared using the accrual basis of accounting and conform to generally accepted accounting principles as applicable to proprietary funds of governments. The intent of the management's discussion and analysis is to provide highlights of the District's financial activities for the years ended December 31, 2013 and 2012. Readers are encouraged to read this section in conjunction with the accompanying financial statements.

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

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

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

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

Condensed Comparative Statement of Net Position

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

	2013	Restated 2012	2011
Assets			
Current Assets	$ 2,655,919	$ 2,867,866	$ 2,775,916
Noncurrent Assets:			
Capital Assets - Net	11,300,334	11,012,623	10,941,821
Other	35,336	37,696	65,885
Total Assets	$ 13,991,589	$ 13,918,185	$ 13,783,622

Liabilities			
Current Liabilities	$ 360,642	$ 430,791	$ 465,953
Noncurrent Liabilities:			
Long-Term Debt	1,965,233	2,215,231	2,455,652
Other	83,068	116,839	95,905
Total Liabilities	$ 2,408,943	$ 2,762,861	$ 3,017,510
Net Position			
Net Investment in Capital Assets	$ 9,307,569	$ 8,823,797	$ 8,681,213
Unrestricted	2,275,077	2,331,527	2,084,899
Total Net Position	$ 11,582,646	$ 11,155,324	10,766,112

Analysis of the Condensed Comparative Statement of Net Position

Assets

Current Assets consist of cash and cash equivalents held in maintenance fund and capital improvement fund, which are unrestricted. Current assets also include customer accounts receivable, accrued utility revenue, inventories, and prepaid expenses. In 2013, current asset decreased by $211,947, due to a decrease in maintenance fund and capital improvement fund balances. This decrease is partially offset by an increase in inventory. In 2012, current asset increased by $91,950, due to an increase in customer accounts receivable, accrued utility revenue, and capital improvement fund. This increase is partially offset by a decrease in the maintenance fund balance. The fluctuations in these accounts are normal in the District's operations.

Noncurrent Assets contain net capital assets, which include land, construction work in progress, utility plant, equipment, and intangible assets less accumulated depreciation and amortization. Capital assets before depreciation increased by $791,666 in 2013, which reflects the District's investment in plant and equipment for the year. In 2012, the increase was $525,616 for the same reason.

Liabilities

Current Liabilities include accounts payable, accrued interest payable on debt, and the current portion of long-term debt. In 2013, current liabilities decreased by $70,149, mostly as a result of a decrease in accounts payable. In 2012, current liabilities decreased by $35,162, again mostly as a result of a decrease in accounts payable. Changes in accounts payable are normal in daily operations.

Noncurrent Liabilities contain compensated absences, the long-term portion of bonds outstanding, purveyor balance liability, and Public Works Trust Fund loans. Noncurrent liabilities decreased by $283,769 in 2013 and by $219,487 in 2012, mostly due to required principal payments made on the Public Works Trust Fund loans, bonds, and the purveyor balance liability.

Net Position

Net position consists of total assets less total liabilities. Net position increased by $427,322 in 2013 and increased by $389,212 in 2012. Over time, increases or decreases in the District's net position are an indicator of the District's overall financial strength. An increase in net position is a positive sign of the District's financial strength.

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

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

	2013	Restated 2012	2011
Revenues			
Water Sales	$ 3,465,896	$ 3,439,910	$ 2,900,790
Other Operating Revenue	55,687	74,885	73,472
Nonoperating Revenues	1,642	22,035	13,840
Total Revenues	$ 3,523,225	$ 3,536,830	$ 2,988,102
Expenses			
Operating Expenses	$ 2,528,049	$ 2,626,149	$ 2,335,915
Depreciation and Amortization	527,358	509,342	495,695
Nonoperating Expenses	86,970	92,940	85,343
Total Expenses	$ 3,142,377	$ 3,228,431	$ 2,916,953
Change in Net Position before Capital Contributions	$ 380,848	$ 308,399	$ 71,149
Capital Contributions	46,474	108,545	244,598
Change in Net Position	$ 427,322	$ 416,944	$ 315,747
Total Net Position, January 1	$ 11,155,324	$ 10,766,112	$ 10,961,084
Change in Application of Accounting Principal	-	(27,732)	-
Prior Period Adjustment	-	-	(510,719)
Adjusted Total Net Position, January 1	$ 11,155,324	$ 10,738,380	$ 10,450,365
Total Net Position, December 31	$ 11,582,646	$ 11,155,324	$ 10,766,112

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

Revenues

Water sales increased by $25,986 in 2013 and by $539,120 in 2012. The small increase in 2013 was due to normal fluctuations. The increase in 2012 was due to a rate increase of approximately 20%, effective January 1, 2012 and an increase in consumption.

Other operating revenue consists of street lighting revenue, which decreased by $19,198 in 2013 and increased by $1,413 in 2012. The District received approximately $30,000 from City of Seattle in 2013 because the District was overcharged for street lights in prior years. As a result, the District has lowered the amount charged to street light customers, and the lower rate will continue until the credit is depleted.

Nonoperating revenues consist of interest income from investments, which decreased by $20,393 in 2013 and increased by $8,195 in 2012. King County Investment Pool had a negative fair market value adjustment in 2013 and a positive adjustment in 2012, which caused most of the decrease and increase in interest income in 2013 and 2012, respectively.

Expenses

Operating expenses decreased by $80,084 in 2013 and increased by $303,881 in 2012. In 2013, transmissions & distribution expenses went down by $58,003. Street lighting cost also went down by $44,854. Depreciation and amortization went up by $18,016. These changes account for most of the operating expense decrease in 2013. In 2012, water cost went up by $120,054 due to a Seattle Public Utilities water rate increase. Transmissions & distribution expenses also went up by $86,214 due to additional repair and maintenance expenses. Administrative & general expenses went up $57,575 due to additional support expenses relating to a new billing system. Depreciation and amortization also went up by $13,647. These increases account for most of the operating expense increase in 2012.

Nonoperating expenses consist of interest expense, amortization of debt discount, and gains or losses on asset disposition. There was no significant change in 2013 or 2012.

Capital Contributions

Capital contributions decreased by $62,071 in 2013. This change consisted of a decrease of $31,221 in customer connection charges and a decrease of $30,850 in bills of sale for systems donated to the District. Capital contributions decreased by $136,053 in 2012. This change consisted of a decrease of $24,402 in customer connection charges and a decrease of $111,651 in bills of sale for systems donated to the District. Capital contributions can vary greatly year to year depending on the economy and the timing of projects donated.

Change in Net Position

Net position increased by $427,322 in 2013 and increased by $389,212 in 2012, reflecting the fact that revenue exceeded expenses in both 2013 and 2012.

Analysis of Overall Financial Condition

The District's overall financial condition improved in 2013 and 2012, with an increase in net position, adequate liquid assets, and positive operating cash flow.

Capital Assets

Capital assets consist of land, construction in progress, utility plant and equipment. Net capital assets increased by $287,711 in 2013 and increased by $70,802 in 2012. The principal projects included in 2013 capital asset increases were the 13th Ave main replacements and 8th Pl SW main replacements; in 2012, the principal projects were the Harris billing system, Sylvester Bridge project, and 8th Pl SW main replacements. Donated systems (infrastructure donated by developers) in the amount of $44,299 and $75,149 are included in the 2013 and 2012 increase in net capital assets, respectively. Over the next five years it is anticipated that capital spending will be in the range of $2,500,000. The areas of major emphasis in the capital budget include water main & hydrant replacements. Capital assets activity for the year ended December 31, 2013 was as follows:

	Balance 12/31/13	Balance 12/31/12	Change
Land	$ 69,049	$ 69,049	$ -
Construction in Progress	301,324	598,496	(297,172)
Utility Plant	17,625,127	16,618,027	1,007,100
Equipment	602,917	521,179	81,738
Intangibles	363,244	363,244	-
Accumulated Depreciation	(7,661,327)	(7,157,372)	(503,955)
Total Capital Assets, Net	$ 11,300,334	$ 11,012,623	$ 287,711

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

	Balance 12/31/12	Balance 12/31/11	Change
Land	$ 69,049	$ 69,049	$ -
Construction in Progress	598,496	144,458	454,038
Utility Plant	16,618,027	16,516,529	101,498
Equipment	521,179	551,099	(29,920)
Intangibles	363,244	363,244	-
Accumulated Depreciation	(7,157,372)	(6,702,558)	(454,814)
Total Capital Assets, Net	$ 11,012,623	$ 10,941,821	$ 70,802

See Note 3 for more information regarding capital assets.

Long-Term Debt

At December 31, 2013, the District had total Public Works Trust Fund loans outstanding of $586,629, total revenue bonds outstanding of $1,420,000, and total purveyor balance liability outstanding of $208,602. At December 31, 2012, the District had total Public Works Trust Fund loans outstanding of $654,681, total revenue bonds outstanding of $1,495,000, and total purveyor balance liability outstanding of $305,971. The total long-term debt of the District decreased by $249,998 during 2013 and decreased by $240,421 during 2012. These decreases in 2013 and 2012 are due to principal payments made on the Public Works Trust Fund loans, bonds, and purveyor balance liability.

See Note 6 for more information regarding long-term debt.

Water District No. 49 of King County
Statement of Net Position
December 31, 2013 and 2012

	2013	Restated 2012
ASSETS		
Current Assets		
Cash & Cash Equivalents	$ 2,006,146	$ 2,242,354
Accrued Interest Receivable	894	1,081
Receivables:		
Customer Accounts Receivable	124,358	135,680
Accrued Utility Revenue	412,485	405,045
Receivable - Developers & Others	767	225
Inventories	74,262	50,639
Prepaid Expenses & Deposits	37,007	32,842
Total Current Assets	$ 2,655,919	$ 2,867,866
Noncurrent Assets		
Unamortized Bond Insurance	$ 13,864	$ 15,767
Unamortized Contract Costs	21,472	21,929
Capital Assets Not Being Depreciated:		
Land	69,049	69,049
Construction in Progress	301,324	598,496
Capital Assets Being Depreciated:		
Plant	17,625,127	16,618,027
Machinery and Equipment	602,917	521,179
Intangibles	363,244	363,244
Less Accumulated Depreciation	(7,661,327)	(7,157,372)
Total Capital Assets	$ 11,300,334	$ 11,012,623
Total Noncurrent Assets	$ 11,335,670	$ 11,050,319
Total Assets	$ 13,991,589	$ 13,918,185

See accompanying notes and accountant's report.

Water District No. 49 of King County
Statement of Net Position
December 31, 2013 and 2012

	2013	Restated 2012
LIABILITIES		
Current Liabilities		
Accounts Payable	$ 89,411	$ 167,819
Public Works Trust Fund Loans (Current Portion)	68,052	68,052
Interest Payable - PWTF Loans	6,903	7,574
Purveyor Balance Liability (Current Portion)	101,946	97,369
Payable from Restricted Assets:		
Revenue Bonds (Current Portion)	80,000	75,000
Bond Interest Payable	14,330	14,977
Total Current Liabilities	$ 360,642	$ 430,791
Noncurrent Liabilities		
Public Works Trust Fund Loans (Less Current Portion)	$ 518,577	$ 586,629
Compensated Absences	83,068	116,839
Purveyor Balance Liability (Less Current Portion)	106,656	208,602
Payable from Restricted Assets:		
Revenue Bonds Outstanding (Less Current Portion)	1,340,000	1,420,000
Total Noncurrent Liabilities	$ 2,048,301	$ 2,332,070
Total Liabilities	$ 2,408,943	$ 2,762,861
NET POSITION		
Net Investment in Capital Assets	$ 9,307,569	$ 8,823,797
Unrestricted	2,275,077	2,331,527
Total Net Position	$ 11,582,646	$ 11,155,324

See accompanying notes and accountant’s report.

Water District No. 49 of King County
Statement of Revenues, Expenses and Changes in Fund Net Position
Years Ended December 31, 2013 and 2012

	2013	Restated 2012
Operating Revenues		
Water Sales	$ 3,395,861	$ 3,385,724
Penalties and Miscellaneous	70,035	54,186
Street Lighting	55,687	74,885
Total Operating Revenues	$ 3,521,583	$ 3,514,795
Operating Expenses		
Water Cost	$ 1,065,855	$ 1,059,042
Reservoir	10,247	33,154
Customer Accounts	44,775	34,370
Transmission and Distribution	384,244	442,247
Administrative and General	995,337	984,891
Street Lighting Cost	27,591	72,445
Depreciation and Amortization	527,358	509,342
Total Operating Expenses	$ 3,055,407	$ 3,135,491
Operating Income (Loss)	$ 466,176	$ 379,304
Nonoperating Revenues (Expenses)		
Interest Income	$ 1,642	$ 22,035
Interest Expense	(86,824)	(95,073)
Gain (Loss) on Capital Asset Dispositions	(146)	2,133
Total Nonoperating Revenues (Expenses)	$ (85,328)	$ (70,905)
Income (Loss) Before Contributions	$ 380,848	$ 308,399
Capital Contributions	46,474	108,545
Change in Net Position	$ 427,322	$ 416,944
Total Net Position, January 1	$ 11,155,324	$ 10,766,112
Change in Application of Accounting Principle	-	(27,732)
Adjusted Net Position, January 1	$ 11,155,324	$ 10,738,380
Total Net Position, December 31	$ 11,582,646	$ 11,155,324

See accompanying notes and accountant's report.

Water District No. 49 of King County
Statement of Cash Flows
Years Ended December 31, 2013 and 2012

	2013	Restated 2012
Cash Flows From Operating Activities		
Receipts from Customers	$ 3,524,923	$ 3,420,268
Payments to Suppliers	(1,725,633)	(1,807,092)
Payments to Employees	(982,480)	(947,175)
Net Cash Provided by Operating Activities	$ 816,810	$ 666,001
Cash Flows from Non-Capital Financing Activities		
Interest Paid on Purveyor Balance Account	$ (14,381)	$ (18,752)
Net Cash Provided (Used) by Non-Capital Financing Activities	$ (14,381)	$ (18,752)
Cash Flows From Capital & Related Financing Activities		
Acquisition & Construction of Capital Assets	$ (825,828)	$ (466,532)
Proceeds from Sale of Capital Assets	-	2,208
Contributions in Aid of Construction	2,175	33,396
Principal Payments on Revenue Bonds	(75,000)	(70,000)
Principal Payments on Public Works Trust Fund Loans	(68,052)	(68,052)
Interest Paid	(73,761)	(77,587)
Net Cash (Used) by Capital & Related Financing Activities	$ (1,040,466)	$ (646,567)
Cash Flows From Investing Activities		
Interest Received on Investments	$ 1,829	$ 21,983
Net Cash Provided by Investing Activities	$ 1,829	$ 21,983
Net (Decrease) in Cash & Cash Equivalents	$ (236,208)	$ 22,665
Cash & Cash Equivalents - January 1	2,242,354	2,219,689
Cash & Cash Equivalents - December 31	$ 2,006,146	$ 2,242,354
Noncash Investing, Capital & Financing Activities		
Contributions of Capital Assets from Developers	$ 44,299	$ 75,149
Noncash Loss on Plant Removals	$ 146	$ 75

See accompanying notes and accountant's report.

Water District No. 49 of King County
Statement of Cash Flows
Years Ended December 31, 2013 and 2012

	2013	Restated 2012
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating Income (Loss)	$ 466,176	$ 379,304
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities		
Depreciation & Amortization	$ 527,358	$ 509,342
Bond Insurance Amortization	1,903	-
Changes in Assets & Liabilities		
(Increase) Decrease in Accounts Receivable	11,322	(33,424)
(Increase) Decrease in Accrued Utility Revenue	(7,440)	(61,636)
(Increase) Decrease in Other Accounts Receivable	(542)	533
(Increase) Decrease in Inventories	(23,623)	34,000
(Increase) Decrease in Prepayments	(4,165)	(8,706)
(Increase) Decrease in Unamortized Contract Cost	457	457
Increase (Decrease) in Accounts Payable	(23,496)	(81,805)
Increase (Decrease) in Compensated Absences	(33,771)	20,934
Increase (Decrease) in Purveyor Balance Liability	(97,369)	(92,998)
Total Adjustments	$ 350,634	$ 286,697
Net Cash Provided by Operating Activities	$ 816,810	$ 666,001

See accompanying notes and accountant’s report.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Water District No. 49 conform to generally accepted accounting principles (GAAP) as applicable to proprietary funds of governments. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The District's primary activity is to provide water service to residential and commercial customers within the District's boundaries, which encompass parts of Burien, SeaTac and Normandy Park, Washington. All water sold by the District is purchased from the City of Seattle, Washington under a purveyor's contract. The following is a summary of the most significant accounting policies of the District:

a. Reporting Entity

Water District No. 49 is a municipal corporation governed by an elected three-member board. As required by generally accepted accounting principles, management has considered all potential component units in defining the reporting entity. The District has no component units.

b. Basis of Accounting and Presentation

The accounting records of the District are maintained in accordance with methods prescribed by the State Auditor under the authority of Chapter 43.09 RCW. The District uses the Uniform System of Accounts for Water Utilities as prescribed by National Association of Regulatory Utility Commissioners.

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

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

c. Cash and Cash Equivalents

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

d. Capital Assets

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

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

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

See Note 3.

e. Receivables

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

f. Inventories

Inventory of materials is recorded at cost using the first in first out method. A physical inventory is taken at the end of each calendar year.

g. Investments

Investments are recorded at market value. See Note 2.

h. Compensated Absences

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

i. Unamortized Bond Insurance

Bond insurance is deferred and amortized over the lives of the various bond issues.

j. Subsequent Events

Management has evaluated subsequent events through May 28, 2014, the date that the financial statements were available to be issued.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

k. Reclassifications
Certain reclassifications have been made to prior year balances to provide a presentation consistent with the current year.

NOTE 2 - DEPOSITS & INVESTMENTS

The District's cash and investment balances at December 31, 2013 and 2012 are listed below.

	2013	2012
Change Fund	$ 625	$ 625
Bank Deposit Accounts	5,000	5,000
Investment in King County Investment Pool	2,000,521	2,236,729
Total Cash & Investments	$ 2,006,146	$ 2,242,354

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

In accordance with state investment laws, 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, 2013, the District had the following investments:

Investment Type	Fair Value	Effective Duration
King County Investment Pool	$ 2,000,521	1.23 Years

Impaired Investments. As of December 31, 2013, all impaired commercial paper investments have completed enforcement events. The King County impaired investment pool (Impaired Pool) held one commercial paper asset where the Impaired Pool accepted an exchange offer and is receiving the cash flows from the investment's underlying securities. The Impaired Pool also held the residual investments in four commercial paper assets that were part of completed enforcement events, where the Impaired Pool accepted the cash-out option. The District's share of the impaired investment pool principal is $4,258 and the District's fair value of these investments is $2,532.

Interest Rate Risk. As of December 31 2013, the Pool's average duration was 1.23 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.

NOTE 2 - DEPOSITS & INVESTMENTS (Continued)

Credit Risk. As of December 31, 2013, 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 depositories, repurchase agreements, and the Local Government Investment Pool managed by the Washington State Treasurer's office.

NOTE 3 - CAPITAL ASSETS

Capital assets activity for the year ended December 31, 2013 was as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not being depreciated:				
Land	$ 69,049	$ -	$ -	$ 69,049
Construction in Progress	598,496	663,891	(961,063)	301,324
Total capital assets not being depreciated	667,545	663,891	(961,063)	370,373
Capital assets being depreciated:				
Plant	16,618,027	1,029,898	(22,798)	17,625,127
Machinery & Equipment	521,179	82,489	(751)	602,917
Intangibles	363,244	-	-	363,244
Total capital assets being depreciated	17,502,450	1,112,387	(23,549)	18,591,288
Less accumulated depreciation for:				
Plant	6,528,843	445,388	(22,798)	6,951,433
Machinery & Equipment	351,784	64,747	(605)	415,926
Intangibles	276,745	17,223	-	293,968
Total accumulated depreciation	7,157,372	527,358	(23,403)	7,661,327
Total capital assets being depreciated, net	10,345,078	585,029	(146)	10,929,961
TOTAL CAPITAL ASSETS, NET	$ 11,012,623	$ 1,248,920	$ (961,209)	$ 11,300,334

NOTE 3 - CAPITAL ASSETS (Continued)

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

		Beginning		Ending
	Balance	Increase	Decrease	Balance
Capital assets not being depreciated:				
Land	$ 69,049	$ -	$ -	$ 69,049
Construction in Progress	144,458	454,038	-	598,496
Total capital assets not being depreciated	213,507	454,038	-	667,545
Capital assets being depreciated:				
Plant	16,516,529	104,121	(2,623)	16,618,027
Machinery & Equipment	551,099	22,059	(51,979)	521,179
Intangibles	363,244	-	-	363,244
Total capital assets being depreciated	17,430,872	126,180	(54,602)	17,502,450
Less accumulated depreciation for:				
Plant	6,093,388	438,078	(2,623)	6,528,843
Machinery & Equipment	350,851	52,838	(51,905)	351,784
Intangibles	258,319	18,426	-	276,745
Total accumulated depreciation	6,702,558	509,342	(54,528)	7,157,372
Total capital assets being depreciated, net	10,728,314	(383,162)	(74)	10,345,078
TOTAL CAPITAL ASSETS, NET	$10,941,821	$ 70,876	$ (74)	$ 11,012,623

NOTE 4 - CONSTRUCTION WORK-IN-PROGRESS

Construction work-in-progress represents expenses to date on projects whose authorizations total $1,058,000.

Construction work-in-progress is composed of the following at December 31, 2013:

Main Replacement Projects	Project Authorization	Expended to 12/31/13	Committed	Required Future Financing
Mapsheet 2F	$708,000	$13,051	$694,949	$ -
13th Ave SW/SW 168th	350,000	288,273	61,727	-
Total Capital Projects In Process	$1,058,000	$301,324	$756,676	$ -

NOTE 5 - LEASE COMMITMENTS

Operating Leases

Water District No. 49 is committed under various leases for office equipment. These leases are considered operating leases for accounting purposes. Lease expenses for the year ended December 31, 2013 amounted to $13,958. Lease expenses for the year ended December 31, 2012 amounted to $16,742. Future minimum rental commitments for these leases are as follows:

Fiscal Year Ending December 31:	
2014	$ 9,955
2015	8,342
2016	2,397
Total	$ 20,694

NOTE 6 - LONG-TERM DEBT

a. Public Works Trust Fund Loans

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

NOTE 6 - LONG-TERM DEBT (Continued)

	12/31/13	12/31/12
2000 loan - payable at $46,000 annually through the year 2020, plus interest at 1% per annum Original loan amount: $1,261,170	$ 321,997	$ 367,997
2005 loan - payable at $22,053 annually through the year 2025, plus interest at 4% per annum Original loan amount: $419,000	264,632	286,684
	$ 586,629	$ 654,681

The debt is to be repaid only from utility revenues and general obligation revenues.

Annual payments of principal and interest on these loans are scheduled as follows:

	Principal	Interest	Total
2014	$ 68,052	$ 13,805	$ 81,857
2015	68,052	12,463	80,515
2016	68,052	11,121	79,173
2017	68,053	9,779	77,832
2018	68,053	8,437	76,490
2019-2023	202,262	23,433	225,695
2024-2025	44,105	2,646	46,751
Totals	$ 586,629	$ 81,684	$ 668,313

b. Revenue Bonds

A summary of bonds outstanding at December 31, 2013 and 2012 is as follows:

	12/31/13	12/31/12
2007 Water Revenue Bonds, 3.4% - 4.25%, maturing serially through 2027, insured by a third-party insurer.	$ 1,420,000	$ 1,495,000

The District issued $1,565,000 of Water Revenue Bonds dated December 12, 2007 to be used to replace water mains and improve other water system facilities and equipment, and carry out other comprehensive plan improvements and replacements, and pay the costs of issuance of the Bonds.

The Bonds are secured by a pledge of the Net Revenue of the System. The Parity Bonds constitute a lien and charge upon the Net Revenue of the System prior and superior to any other charges whatsoever. The Bonds are further secured by a claim on any ULID assessments levied in any future utility local improvement district if the bonds secured by these future assessments are issued as Parity Bonds.

NOTE 6 - LONG-TERM DEBT (Continued)

The annual requirements to amortize revenue bonds outstanding as of December 31, 2013, including interest, are as follows:

	Principal	Interest	Total
2014	$ 80,000	$ 55,900	$ 135,900
2015	80,000	53,020	133,020
2016	85,000	49,966	134,966
2017	85,000	46,736	131,736
2018	90,000	43,300	133,300
2019-2023	510,000	157,763	667,763
2024-2027	490,000	42,712	532,712
Totals	$ 1,420,000	$ 449,397	$ 1,869,397

c. Purveyor Balance Liability

The District purchases all of its water from the City of Seattle (City). All water purchases prior to 2011 were made under a 1982 Water Purveyor Contract, in which all districts party to the contract agreed to share 70% of the proceed or deficit in the City's Purveyor Balance Account (PBA). The PBA tracks the balance of payments and costs under the 1982 contract. A deficit represents costs that have yet to be paid.

In the year ended December 31, 2011, the District and the City settled the PBA, with the District agreeing to pay the $510,719 over 5 years, at a variable interest rate based on the City's actual cost of debt, which was 4.7% in 2013 and 2012.

The balance of the purveyor balance liability is as follows:

	12/31/13	12/31/12
Purveyor balance liability - payable through the year 2015, with variable interest rate	$ 208,602	$ 305,971
	$ 208,602	$ 305,971

Assuming the current 4.7% interest rate, the remaining annual payments are shown as follows:

	Principal	Interest	Total
2014	$ 101,946	$ 9,804	$ 111,750
2015	106,656	5,013	111,669
Totals	$ 208,602	$ 14,817	$ 223,419

NOTE 6 - LONG-TERM DEBT (Continued)

d. Changes in Long-Term Debt

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

	Balance 1/1/13	Additions	Reductions	Balance 12/31/13	Due Within One Year
Public Works Trust Fund Loans	$ 654,681	$ -	$ (68,052)	$ 586,629	$ 68,052
Purveyor Balance Liability	305,971	-	(97,369)	208,602	101,946
Revenue Bonds Payable	1,495,000	-	(75,000)	1,420,000	80,000
Compensated Absences	116,839	-	(33,771)	83,068	-
Total Long-Term Debt	$ 2,572,491	$ -	$ (274,192)	$ 2,298,299	$ 249,998

There are a number of limitations and restrictions contained in the various bond indentures. The District is in compliance with all significant limitations and restrictions.

NOTE 7 - PENSION PLAN

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

NOTE 7 - PENSION PLAN

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

Plan Description

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

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

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

PERS is comprised of and reported as three separate plans for accounting purposes: Plan 1, Plan 2/3, and Plan 3. Plan 1 accounts for the defined benefits of Plan 1 members. Plan 2/3 accounts for the defined benefits of plan 2 members and the defined benefit portion of benefits for Plan 3 members. Plan 3 accounts for the defined contribution portion of benefits for Plan 3 members. Although members can only be a member of either Plan 2 or Plan 3, the defined benefit portions of Plan 2 and Plan 3 are accounted for in the same pension trust fund. All assets of this Plan 2/3 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 2013, the rate was five and one-half percent compounded quarterly. Members in PERS Plan 1 and Plan 2 can elect to withdraw total employee contributions and interest thereon, in lieu or any retirement benefit, upon separation from PERS-covered employment.

NOTE 7 - PENSION PLAN (Continued)

PERS Plan 1 members are vested after the completion of five years of eligible service.

PERS Plan 1 members are eligible for retirement from active status at any age with at least 30 years of service, at age 55 with 25 years of service, or at age 60 with 5 years of service. Plan 1 members retiring from inactive status prior to the age of 65 may receive actuarially reduced benefits.

The monthly benefit is 2 percent of the average final compensation (AFC) per year of service, but the benefit may not exceed 60 percent of the AFC. The AFC is the monthly average of the 24 consecutive highest-paid service credit months.

PERS Plan 1 retirement benefits are actuarially reduced to reflect the choice, if made, of a survivor option.

Plan 1 members may elect to receive an optional COLA that provides an automatic annual adjustment based on the Consumer Price Index. The adjustment is capped at 3 percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

PERS Plan 1 provides duty and non-duty disability benefits. Duty disability retirement benefits for disablement prior to the age of 60 consist of a temporary life annuity. The benefit amount is $350 a month, or two-thirds of the monthly AFC, whichever is less. The benefit is reduced by any workers' compensation benefit and is payable as long as the member remains disabled or until the member attains the age of 60, at which time the benefit is converted to the member's service retirement amount.

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

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

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

NOTE 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, if hired prior to May 1, 2013:

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

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

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

PERS Plan 3 has a dual benefit structure. Employer contributions finance a defined benefit component and member contributions finance a defined contribution component. As established by Chapter 41.34 RCW, employee contribution rates to the defined contribution component range from 5 percent to 15 percent of salaries, based on member choice. Members who do not choose a contribution rate default to a 5 percent rate. There are currently no requirements for employer contributions to the defined contribution component of PERS Plan 3.

PERS Plan 3 defined contribution retirement benefits are dependent upon the results of investment activities. Members may elect to self-direct the investment of their contributions. Any expenses incurred in conjunction with self-directed investments are paid by members. Absent a member's self-direction, PERS Plan 3 contributions are invested in the Retirement Strategy Fund that assumes the member will retire at age 65.

For DRS' fiscal year 2013, PERS Plan 3 employee contributions were $99.0 million, and plan refunds paid out were $69.4 million.

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

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

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

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

NOTE 7 - PENSION PLAN (Continued)

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

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

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

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

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

There are 1,176 participating employers in PERS. Membership in PERS consisted of the following as of the latest actuarial valuation date for the plans as of June 30, 2012:

Retirees and Beneficiaries Receiving Benefits	82,242
Terminated Plan Members Entitled To But Not Yet Receiving Benefits	30,515
Active Plan Members Vested	106,317
Active Plan Members Nonvested	44,273
Total	**263,347**

NOTE 7 - PENSION PLAN (Continued)

Funding Policy

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

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

The required contribution rates expressed as a percentage of current-year covered payroll, as of December 31, 2013 were as follows:

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

*The employer rates include the employer administrative expense fee currently set at 0.18%.
**The employer rate for state elected officials is 13.73% for Plan 1 and 9.21% for Plan 2 and Plan 3.
***Plan 3 defined benefit portion only.
****The employee rate for state elected officials is 7.5% for Plan 1 and 4.92% for Plan 2.
*****Variable from 5.0% minimum to 15.0% maximum based on rate selected by the PERS 3 member.

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

	PERS Plan 1	**PERS Plan 2**	**PERS Plan 3**
2013	$ -	$ 48,971	$ -
2012	$ -	$ 43,681	$ -
2011	$ -	$ 35,177	$ -

NOTE 8 - RISK MANAGEMENT

The District is subject to various risks including, but not limited to, damage to personal and real property, general liability, automobile liability, employment liability, theft, public officials errors and omissions and natural disasters.

The District protects itself against these risks by the purchase of commercial insurance. The policies are subject to various limits and various deductibles.

Detailed information about coverages, premiums and deductibles is available at the District's office.

NOTE 9 - USE OF ESTIMATES

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

NOTE 10 - CONTINGENT LIABILITIES

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

NOTE 11 - ACCOUNTING AND REPORTING CHANGES

The District implemented GASB 65, *Items Previously Reported as Assets and Liabilities.* This standard states in part, "Debt issuance costs, except any portion related to prepaid insurance costs, should be recognized as an expense in the period incurred. Prepaid insurance costs should be reported as an asset and recognized as an expense in systematic and rational manner over the duration of the related debt."

This statement also states in part, "Accounting changes adopted to conform to the provisions of this statement should be applied retroactively by restating financial statements, if practical, for all periods presented." The District presents Comparative Financial Statements and appropriately applied the adjustments to the 2012 Financial Statements.

Implementation of the standard requires the District to restate the 2012 Financial statements by reclassifying our 2007 applicable unamortized bond issuance costs from an asset account to change in application of accounting principle in the amount of $27,732 and a reduction of $4,897 in 2012 amortization expense.

ABOUT THE STATE AUDITOR'S OFFICE

The State Auditor's Office is established in the state's Constitution and is part of the executive branch of state government. The State Auditor is elected by the citizens of Washington and serves four-year terms.

We work with our audit clients and citizens to achieve our vision of government that works for citizens, by helping governments work better, cost less, deliver higher value, and earn greater public trust.

In fulfilling our mission to hold state and local governments accountable for the use of public resources, we also hold ourselves accountable by continually improving our audit quality and operational efficiency and developing highly engaged and committed employees.

As an elected agency, the State Auditor's Office has the independence necessary to objectively perform audits and investigations. Our audits are designed to comply with professional standards as well as to satisfy the requirements of federal, state, and local laws.

Our audits look at financial information and compliance with state, federal and local laws on the part of all local governments, including schools, and all state agencies, including institutions of higher education. In addition, we conduct performance audits of state agencies and local governments as well as fraud, state whistleblower and citizen hotline investigations.

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

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

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