



Washington State Auditor's Office

Troy Kelley

Integrity • Respect • Independence

Financial Statements Audit Report

Cedar River Water and Sewer District

King County

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

Published February 17, 2015

Report No. 1013620





Washington State Auditor
Troy Kelley

February 17, 2015

Board of Commissioners
Cedar River Water and Sewer District
Maple Valley, Washington

Report on Financial Statements

Please find attached our report on the Cedar River Water and Sewer District'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

TABLE OF CONTENTS

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	4
Independent Auditor's Report On Financial Statements	6
Financial Section.....	9
About The State Auditor's Office.....	39

**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**

**Cedar River Water and Sewer District
King County
January 1, 2013 through December 31, 2013**

Board of Commissioners
Cedar River Water and Sewer District
Maple Valley, 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 Cedar River Water and Sewer District, 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 February 3, 2015. As discussed in Note 1 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.

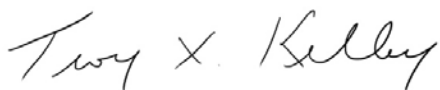
COMPLIANCE AND OTHER MATTERS

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 KELLEY
STATE AUDITOR
OLYMPIA, WA

February 3, 2015

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Cedar River Water and Sewer District King County January 1, 2013 through December 31, 2013

Board of Commissioners
Cedar River Water and Sewer District
Maple Valley, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the Cedar River Water and Sewer District, 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 the Cedar River Water and Sewer District, 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 1 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

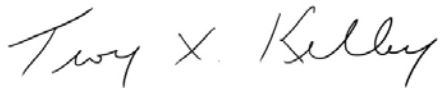
Required Supplementary Information

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 February 3, 2015 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
OLYMPIA, WA

February 3, 2015

FINANCIAL SECTION

**Cedar River Water and Sewer District
King County
January 1, 2013 through December 31, 2013**

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2013 and 2012

BASIC FINANCIAL STATEMENTS

Statement of Net Position – 2013 and 2012

Statement of Revenues, Expenses and Changes in Net Position – 2013 and 2012

Statement of Cash Flows – 2013 and 2012

Notes to Financial Statements – 2013 and 2012

**CEDAR RIVER WATER AND SEWER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2013 AND 2012**

INTRODUCTION

Cedar River Water and Sewer District was organized in 1960 and provides water and sewer services to customers residing within the District service area. Our mission is to provide our customers safe, reliable and efficient water and sewer service.

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, 2013 and 2012 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 presents total assets and deferred outflows of resources and total liabilities and deferred inflows of resources with the difference between the two totals reported as net position. It provides information about the nature and amounts of investments in resources (assets), consumption of resources that are applicable to future periods (deferred outflows), obligations to District creditors (liabilities) and the acquisition of resources that are applicable to a future reporting period (deferred inflows). It provides a basis for evaluating the capital structure of the District and assessing its liquidity and financial flexibility. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial condition of the District is improving or deteriorating.

The statement of revenues, expenses and changes in fund net position presents the results of the District's 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.

**CEDAR RIVER WATER AND SEWER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2013 AND 2012**

CONDENSED STATEMENTS OF NET POSITION AT DECEMBER 31

	2013	Restated * 2012	Restated * 2011
Capital assets	\$ 56,419,648	\$ 57,676,241	\$ 54,919,785
Other assets	10,169,589	8,479,704	9,311,394
Total assets	<u>\$ 66,589,237</u>	<u>\$ 66,155,945</u>	<u>\$ 64,231,179</u>
Deferred outflows of resources	\$ 63,962	\$ 84,233	\$ 106,923
Long-term liabilities	\$ 7,926,935	\$ 8,864,929	\$ 9,791,605
Other liabilities	1,862,608	1,886,885	1,794,745
Total liabilities	<u>\$ 9,789,543</u>	<u>\$ 10,751,814</u>	<u>\$ 11,586,350</u>
Deferred inflows of resources	\$ -	\$ -	\$ -
Net investment in capital assets	\$ 47,988,431	\$ 48,465,340	\$ 46,920,654
Restricted amounts	1,060,498	1,102,198	1,137,872
Unrestricted amounts	7,814,727	5,920,826	4,693,226
Total net position	<u>\$ 56,863,656</u>	<u>\$ 55,488,364</u>	<u>\$ 52,751,752</u>

*CONDENSED STATEMENTS OF REVENUES, EXPENSES
AND CHANGES IN FUND NET POSITION FOR THE YEAR ENDED DECEMBER 31*

	2013	Restated * 2012	Restated * 2011
Water service revenue	\$ 4,818,908	\$ 4,661,254	\$ 4,147,516
Sewer service revenue	3,837,440	3,605,418	3,520,939
Street light revenue	167,010	161,646	160,134
Other revenues	189,740	169,175	155,866
Total operating revenues	<u>9,013,098</u>	<u>8,597,493</u>	<u>7,984,455</u>
Water and sewer operating expenses	5,183,590	4,746,863	4,547,277
General and administrative	2,137,481	1,933,285	1,845,330
Depreciation	1,756,371	1,711,306	1,681,154
Total operating expenses	<u>9,077,442</u>	<u>8,391,454</u>	<u>8,073,761</u>
Operating income (loss)	(64,344)	206,039	(89,306)
Non-operating revenue:			
Interest	48,477	113,978	75,980
Gain on disposal of assets	-	2,192,713	-
Non-operating expenses:			
Interest and amortization	(273,337)	(266,043)	(297,962)
Loss on disposal of assets	-	-	(1,068)
Income (loss) before capital contributions	(289,204)	2,246,687	(312,356)
Capital contributions	1,664,496	489,925	134,400
Increase (decrease) in net position, as restated	<u>\$ 1,375,292</u>	<u>\$ 2,736,612</u>	<u>\$ (177,956)</u>

* Restatement due to implementation of GASB Statement No. 65. Refer to note 1 of the notes to the financial statements for additional information.

**CEDAR RIVER WATER AND SEWER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2013 AND 2012**

FINANCIAL POSITION

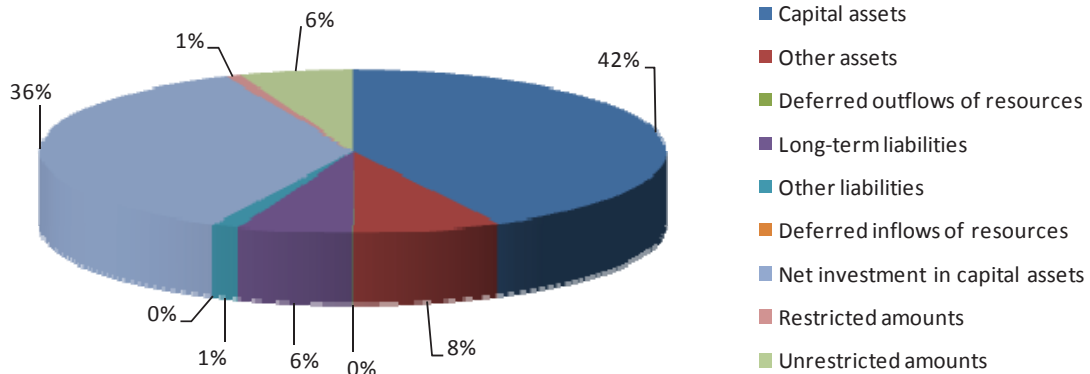
The District's overall financial position continues to be strong with sufficient liquidity and debt capacity to finance future capital improvements if necessary.

The District is financed primarily by equity and sufficient liquid assets are available to fund liabilities and construction. Capital assets decreased in 2013 due to depreciation in excess of construction activity and donated systems and increased in 2012 due to growth in the customer base and system improvements.

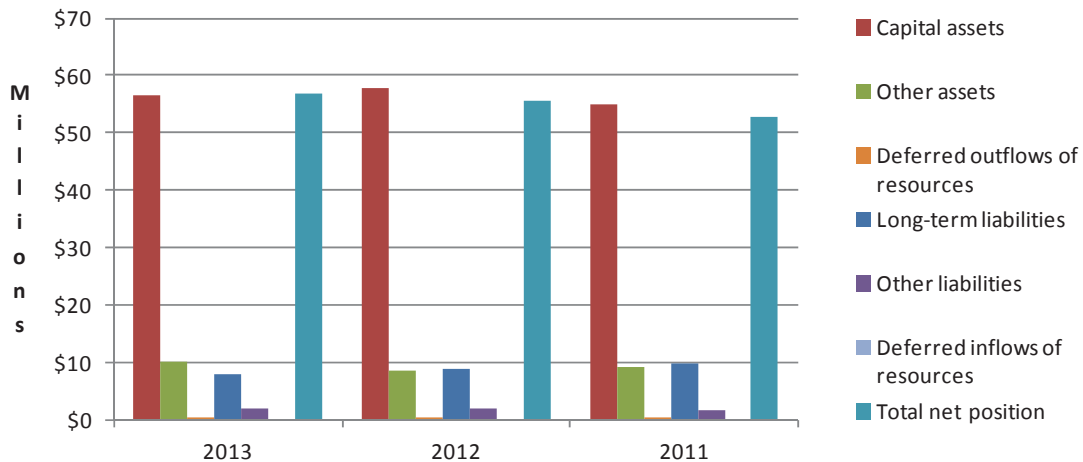
The District is located in King County, Washington.

The following charts indicate the components of financial position:

2013 STATEMENT OF NET POSITION



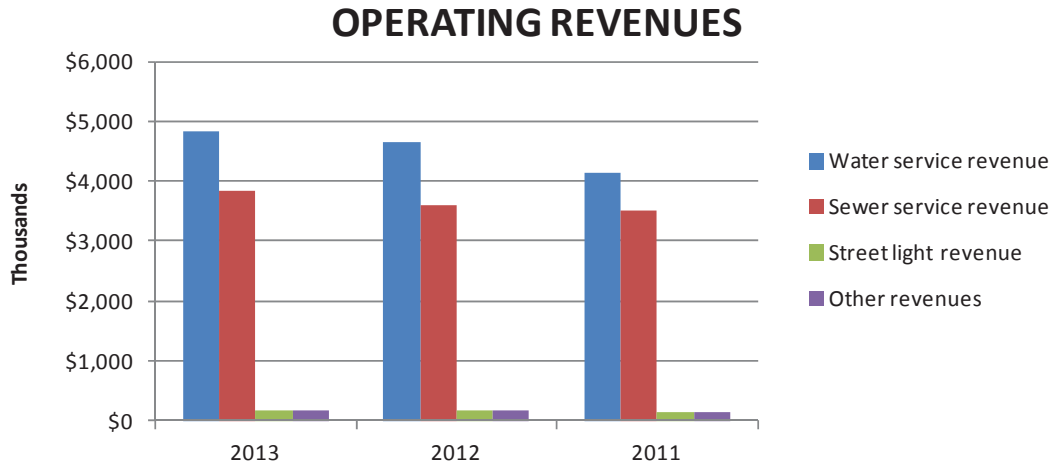
COMPARATIVE STATEMENT OF NET POSITION



**CEDAR RIVER WATER AND SEWER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2013 AND 2012**

RESULTS OF OPERATIONS

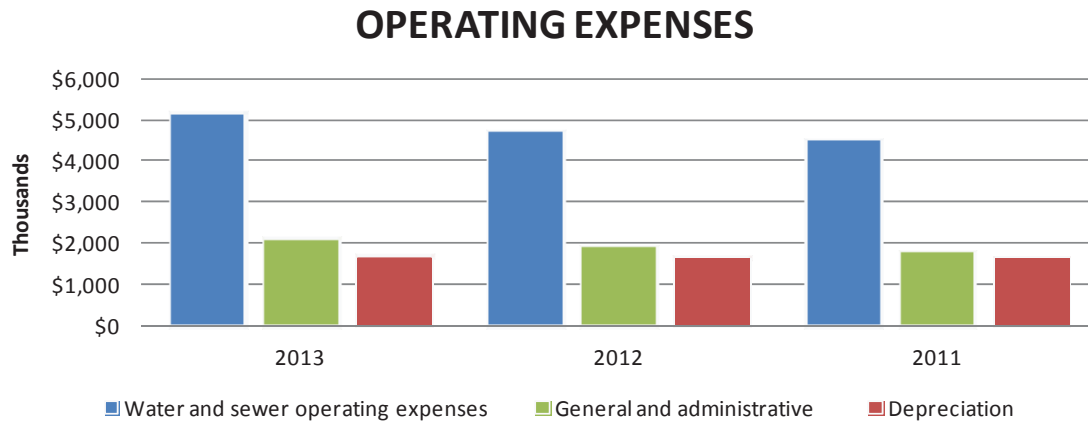
Operating revenues are received from four sources: water service, sewer service, street lights and other. The following chart indicates operating revenue over the last three years:



Water rates increased in 2013 and 2012. Water usage, and corresponding revenues, can vary significantly due to weather conditions. The increase in water revenue in 2013 and 2012 was due to the rate increases and an increase in water consumption due to the dry weather conditions in those summers. The increase in sewer revenue in 2013 and 2012 was due to the increase in the customer base and an increase in sewer rates. The District raised its water and sewer rates due to the continued increase in wholesale water and sewage treatment cost, inflationary increases in other expenses and to fund capital improvement projects. Water rate increases of approximately 1.98% and 10.58% were effective January 1, 2013 and 2012, respectively. Sewer rate increases of approximately 7.53% and 1.70% were effective January 1, 2013 and 2012, respectively.

**CEDAR RIVER WATER AND SEWER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2013 AND 2012**

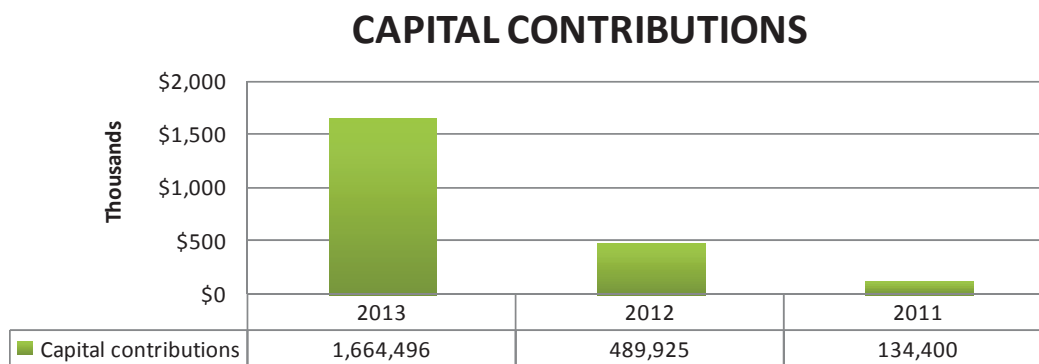
The following chart indicates operating expenses over the last three years:



The increase in operating expenses in 2013 was due to increased water consumption as explained above regarding water revenue and a 10.22% rate increase for sewage treatment. The increase in operating expenses in 2012 was primarily due to increased water consumption as explained above regarding water revenue. The District operated at a loss in 2013 and 2011 and at a profit in 2012. The operating loss in 2013 and 2011 was mainly due to the District not providing for the full amount of depreciation in its rates. The operating profit in 2012 was due to the increased water sales.

The District collects capital contributions from new customers. 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 \$87,100, \$135,400, and \$15,425 for the years ended December 31, 2013, 2012 and 2011, respectively. District growth is based on construction activity which improved in 2013 and 2012 due to the improvement in the overall economy. District growth was slow in 2011 due to the general economic recession affecting the country.

**CEDAR RIVER WATER AND SEWER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2013 AND 2012**

CAPITAL ASSETS AND LONG-TERM DEBT

Capital assets decreased in 2013 due to depreciation in excess of construction activity and donated systems and increased in 2012 due to growth in the customer base and system improvements. Significant capital asset additions during 2013 and 2012 included the following:

<u>2013</u>		<u>2012</u>	
Water system:		Water system:	
Donated systems	\$87,100	Donated systems	\$135,400
VA Water Extension	127,535	VA Water Extension	801,960
Covington 196 th Water Main Joint Agreement	68,023		
Equipment and other:		Sewer system:	
Incode Software Implementation	71,053	Fairwood Replacement Facilities	3,173,222
		Fairwood Sewer Rehabilitation Phase 1	956,346
		Fairwood Sewer Rehabilitation Phase 2	55,411
		Fairwood Sewer Rehab Overlay	130,472

Debt balances decreased in 2013 and 2012 due to principal payments made by the District.

See notes 5, 6 and 7 in the financial statements for detail activity in capital assets and long-term debt.

As of December 31, 2013, the District has \$7,297,551 of cash and cash equivalents, excluding the amounts restricted for bond principal and interest payments and reserve requirements and impaired investments.

ADDITIONAL COMMENTS

The District is dependent on other governments for wholesale water and the treatment of sewage collected by the District. The cost for this product and service charged to the District continues to increase. The District intends to adjust rates to compensate for increases in its direct costs.

**CEDAR RIVER WATER AND SEWER DISTRICT
STATEMENT OF NET POSITION
DECEMBER 31, 2013 AND 2012**

ASSETS	2013	Restated 2012
<i>Current assets:</i>		
Unrestricted:		
Cash and cash equivalents	\$ 6,954,802	\$ 4,988,862
Accounts receivable - users	283,923	407,806
Accounts receivable - miscellaneous	17,730	11,440
Unbilled utility service receivable	836,139	791,585
Interest receivable	3,476	2,884
Developer extension receivables	9,944	9,737
Inventory	146,957	155,542
Prepaid expenses	67,844	64,614
Lien notes receivable - current portion	3,235	3,235
General facility charges receivable - current portion	31,463	30,563
	<u>8,355,513</u>	<u>6,466,268</u>
Restricted:		
Cash and cash equivalents	1,356,578	1,497,946
Interest receivable	495	710
Assessments receivable - current portion	16,950	34,773
	<u>1,374,023</u>	<u>1,533,429</u>
 Total current assets	 <u>9,729,536</u>	 <u>7,999,697</u>
<i>Noncurrent assets:</i>		
Unrestricted:		
Lien notes receivable, less current portion	22,513	24,560
General facility charges receivable, less current portion	281,141	316,056
Preliminary surveys and investigations	56,246	56,246
Prepaid bond insurance	12,353	13,598
	<u>372,253</u>	<u>410,460</u>
Restricted:		
Assessments receivable, less current portion	67,800	69,547
 Capital assets not being depreciated:		
Land and land rights	1,240,753	1,240,753
Construction in progress	192,663	956,387
Capital assets being depreciated:		
Plant in service	82,296,240	81,032,738
Less accumulated depreciation	(27,310,008)	(25,553,637)
Net capital assets	<u>56,419,648</u>	<u>57,676,241</u>
 Total non-current assets	 <u>56,859,701</u>	 <u>58,156,248</u>
 Total assets	 <u>66,589,237</u>	 <u>66,155,945</u>
 DEFERRED OUTFLOWS OF RESOURCES		
Deferred loss on refunding of debt	63,962	84,233
Total deferred outflows of resources	<u>63,962</u>	<u>84,233</u>
 TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	 <u><u>\$ 66,653,199</u></u>	 <u><u>\$ 66,240,178</u></u>

See accompanying notes to the financial statements

**CEDAR RIVER WATER AND SEWER DISTRICT
STATEMENT OF NET POSITION
(CONTINUED)
DECEMBER 31, 2013 AND 2012**

LIABILITIES	2013	Restated 2012
<i>Current liabilities:</i>		
Payable from unrestricted assets:		
Accounts payable	\$ 479,361	\$ 649,781
Accrued compensated absences	226,639	237,271
Developer extensions payable	187,537	47,172
Accrued interest	7,149	8,080
Long-term debt - current maturities	249,297	249,297
	<u>1,149,983</u>	<u>1,191,601</u>
 Payable from restricted assets:		
Retainage payable	32,110	27,965
Accrued interest	38,442	40,526
Long-term debt - current maturities	642,073	626,793
	<u>712,625</u>	<u>695,284</u>
 Total current liabilities	<u>1,862,608</u>	<u>1,886,885</u>
 <i>Noncurrent liabilities:</i>		
Long-term debt payable from unrestricted assets, net of current maturities	<u>1,669,625</u>	<u>1,918,922</u>
Long-term debt payable from restricted assets, net of current maturities	<u>6,257,310</u>	<u>6,946,007</u>
 Total non-current liabilities	<u>7,926,935</u>	<u>8,864,929</u>
 Total liabilities	<u>9,789,543</u>	<u>10,751,814</u>
 DEFERRED INFLOWS OF RESOURCES	<u>-</u>	<u>-</u>
 Total liabilities and deferred inflows of resources	<u>9,789,543</u>	<u>10,751,814</u>
 NET POSITION		
Net investment in capital assets	47,988,431	48,465,340
Restricted for debt service	1,045,748	1,087,927
Restricted for impaired investments	14,750	14,271
Unrestricted	7,814,727	5,920,826
Total net position	<u>56,863,656</u>	<u>55,488,364</u>
 TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES AND NET POSITION	<u><u>\$ 66,653,199</u></u>	<u><u>\$ 66,240,178</u></u>

See accompanying notes to the financial statements

CEDAR RIVER WATER AND SEWER DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
YEARS ENDED DECEMBER 31, 2013 AND 2012

	2013	Restated 2012
<i>Operating revenue:</i>		
Service charges:		
Water service	\$ 4,818,908	\$ 4,661,254
Sewer service	3,837,440	3,605,418
Street lights	167,010	161,646
Total service charges	8,823,358	8,428,318
Permit income	1,100	11,370
Late charges	119,486	118,445
Miscellaneous revenue	69,154	39,360
	<u>9,013,098</u>	<u>8,597,493</u>
<i>Operating expenses:</i>		
Supply	4,306,087	3,890,975
Distribution and maintenance	877,503	855,888
General and administrative	2,137,481	1,933,285
Depreciation	1,756,371	1,711,306
	<u>9,077,442</u>	<u>8,391,454</u>
<i>Operating income (loss)</i>	<u>(64,344)</u>	<u>206,039</u>
<i>Non-operating revenue:</i>		
Investment income, net of service fees	21,060	84,226
Interest on assessments	9,076	9,662
Interest on general facility charges	17,286	19,004
Interest on lien notes	1,055	1,086
Gain on disposal and abandonment of assets	-	2,192,713
	<u>48,477</u>	<u>2,306,691</u>
<i>Non-operating expenses:</i>		
Interest on long-term debt, net of amount capitalized	298,445	292,693
Amortization of bond insurance, (premiums) and loss on refunding	<u>(25,108)</u>	<u>(26,650)</u>
	<u>273,337</u>	<u>266,043</u>
Income (loss) before capital contributions	(289,204)	2,246,687
Capital contributions	1,664,496	489,925
Change in net position	<u>1,375,292</u>	<u>2,736,612</u>
Net position, January 1, as previously reported	55,488,364	52,814,908
Restatement - change in accounting principle	-	(63,156)
Net position, January 1, as restated	<u>55,488,364</u>	<u>52,751,752</u>
Net position, December 31	<u><u>\$ 56,863,656</u></u>	<u><u>\$ 55,488,364</u></u>

See accompanying notes to the financial statements

**CEDAR RIVER WATER AND SEWER DISTRICT
STATEMENT OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2013 AND 2012**

	2013	Restated 2012
<i>Cash flows from operating activities:</i>		
Cash received from customers	\$ 9,086,137	\$ 8,478,907
Cash paid to suppliers	(5,656,589)	(4,722,303)
Cash paid to and for employees and commissioners	(1,842,628)	(1,733,766)
Net cash paid for developer extensions	142,876	(10,244)
Net cash provided by operating activities	<u>1,729,796</u>	<u>2,012,594</u>
<i>Cash flows from capital financing activities:</i>		
Capital contributions	1,577,396	354,525
Collections on ULID assessments receivable	19,570	23,279
Collections on lien notes	2,047	859
Collections on general facility charge notes	34,015	36,554
Interest received on assessments, lien notes and generally facility charges receivable	27,474	29,146
Expenditures for plant in service, construction and preliminary surveys and investigations	(408,802)	(2,309,812)
Payment of long-term debt	(876,090)	(845,821)
Interest paid on long-term debt, net of amount capitalized	(301,460)	(295,627)
Net cash provided by (used in) financing activities	<u>74,150</u>	<u>(3,006,897)</u>
<i>Cash flows from investing activities:</i>		
Interest received on investments	20,626	84,730
Net cash provided by investing activities	<u>20,626</u>	<u>84,730</u>
Net increase (decrease) in cash and cash equivalents	1,824,572	(909,573)
Cash and cash equivalents, beginning of year	<u>6,486,808</u>	<u>7,396,381</u>
Cash and cash equivalents, end of year	<u><u>\$ 8,311,380</u></u>	<u><u>\$ 6,486,808</u></u>
Cash and cash equivalents balance is comprised of the following at December 31:		
Cash and cash equivalents - current assets	\$ 6,954,802	\$ 4,988,862
Cash and cash equivalents - restricted current assets	<u>1,356,578</u>	<u>1,497,946</u>
	<u><u>\$ 8,311,380</u></u>	<u><u>\$ 6,486,808</u></u>

See accompanying notes to the financial statements

CEDAR RIVER WATER AND SEWER DISTRICT
STATEMENT OF CASH FLOWS
(CONTINUED)
YEARS ENDED DECEMBER 31, 2013 AND 2012

	<u>2013</u>	<u>Restated 2012</u>
<i>Reconciliation of operating income (loss) to net cash provided by operating activities:</i>		
Operating income (loss)	\$ (64,344)	\$ 206,039
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation	1,756,371	1,711,306
(Increase) decrease in assets:		
Accounts receivable	73,039	(118,586)
Developer extension receivables	(207)	(2,565)
Prepaid expenses	(3,230)	(9,766)
Inventory	8,585	(8,802)
Increase (decrease) in liabilities:		
Accounts payable	(170,151)	239,995
Developer extensions payable	140,365	(9,017)
Accrued compensated absences	(10,632)	3,990
Net cash provided by operating activities	<u>\$ 1,729,796</u>	<u>\$ 2,012,594</u>
<i>Supplemental schedule of significant noncash investing and financing activities:</i>		
Utility plant donations received	\$ 87,100	\$ 135,400
Utility plant received in exchange for transfer and abandonment of utility plant	\$ -	\$ 3,173,222
Utility plant transferred or abandoned on exchange (net)	\$ -	\$ 980,509

See accompanying notes to the financial statements

**CEDAR RIVER WATER AND SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012**

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

Description of business, nature of operations and reporting entity - Cedar River 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 water and sewer systems within its boundaries, which include east Renton and Maple Valley. The District has no component units.

Basis of presentation and accounting - These financial statements are prepared utilizing the full accrual basis of accounting. All activities of the District are accounted for within a single proprietary (enterprise) fund.

Change in accounting principle - The District implemented Governmental Accounting Standards Board Statement No. 65, *Items Previously Reported as Assets and Liabilities* (GASB 65). This statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes certain items that were previously reported as assets and liabilities as expenses in the period incurred. The cumulative impact of implementation of GASB 65 resulted in a \$63,156 reduction of net position as of January 1, 2012 as a result of recording as expenses in the proper period items previously recorded as unamortized bond issue costs. The 2012 financial statements have been restated to reclassify prepaid bond insurance as a non-current unrestricted asset, reclassify a deferred loss on refunding of debt as a deferred outflow of resources and reduce amortization expense in the amount of \$9,915.

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

Accounts receivable - The District utilizes the allowance method of accounting for doubtful accounts. Generally, 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 and include the capitalized portion of District employees' wages and related overhead 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 estimated cost plus an allocation of District overhead costs. 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. When capital assets are retired or otherwise disposed of, the cost and accumulated depreciation are removed from the accounts and any resulting gain or loss is recognized in income for the period. 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.

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, 2013 and 2012 was \$319,059 and \$342,620, respectively. Interest capitalized to Construction Work in Progress for the years ended December 31, 2013 and 2012 was \$20,614 and \$49,927.

**CEDAR RIVER WATER AND SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012
(CONTINUED)**

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

Deferred outflows/inflows of resources - Deferred outflows of resources represent a consumption of net position that applies to future periods and will not be recognized as an outflow of resources (expense) until that time. The District has a deferred loss on refunding of debt resulting from a difference in the carrying value of refunded debt and its reacquisition price. Losses on refunding of debt are amortized by the interest method over the life of the refunded or refunding debt, whichever is shorter.

Deferred inflows of resources represent an acquisition of net position that applies to future periods and will not be recognized as an inflow of resources (revenue) until that time. The District does not have any items that qualify for reporting in this category.

Accrued compensated absences - District employees accumulate vacation hours subject to certain limitations for subsequent use or for payment upon termination, retirement or death. Sick leave benefits earned are accumulated by District employees as follows: annually, half of the previous years unused sick leave is paid out to employees and the remaining half of the previous years unused sick leave is converted to long term sick leave and accumulated without limit for subsequent use or for payment upon termination, retirement or death. The District accrues accumulated unpaid vacation and sick leave benefit amounts as earned.

Long-term debt - Long-term debt is reported net of premiums and discounts. Premiums and discounts on long-term debt are amortized by the interest method over the period the related debt is outstanding.

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 capital-related deferred outflows of resources reduced by the outstanding balances of any capital-related borrowings and deferred inflows of resources. 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 assets and deferred outflows of resources restricted by external creditors (such as through debt covenants), grantors, contributors or others reduced by related liabilities and deferred inflows of resources. 3) Unrestricted net position - This component of net position consists of all net position that does 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.

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. 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.

**CEDAR RIVER WATER AND SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012
(CONTINUED)**

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

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.

Reclassifications - Certain reclassifications have been made to prior year amounts to conform to the current year presentation.

2. DEPOSITS AND INVESTMENTS

Deposits - The District's deposits 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).

Investments - In accordance with State law, 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 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.

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

<u>Investment type</u>	<u>Fair value</u>	<u>Average effective duration</u>
2013:		
King County Investment Pool:		
Main Pool	\$8,284,449	1.23 years
Impaired Pool	14,750	
2012:		
King County Investment Pool:		
Main Pool	\$6,442,490	1.36 years
Impaired Pool	14,271	

**CEDAR RIVER WATER AND SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012
(CONTINUED)**

2. DEPOSITS AND INVESTMENTS (continued)

Impaired investments - As of December 31, 2013 and 2012, all impaired commercial paper investments had 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 \$24,924 and \$29,050 at December 31, 2013 and 2012, respectively. The District's unrealized loss for these investments is \$10,174 and \$14,779 at December 31, 2013 and 2012, 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, 2013 and 2012, the District's investment in the Pool was not rated by a nationally recognized statistical rating organization (NRSRO). In compliance with state statutes, Pool policies authorize investments in U.S. treasury securities, U.S. agency securities and mortgage-backed securities, municipal securities (rated at least "A" by two NRSROs), commercial paper (rated at least equivalent of "A-1" 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.

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 other requirements. Restricted assets are as follows:

	Revenue bond fund	Construction fund	Impaired investment pool	Total
December 31, 2013:				
Current restricted assets:				
Cash and cash equivalents	\$ 999,079	\$ 342,749	\$ 14,750	\$1,356,578
Interest receivable	361	134		495
Assessments receivable	<u>16,950</u>			<u>16,950</u>
	1,016,390	<u>342,883</u>	14,750	1,374,023
Noncurrent restricted assets:				
Assessments receivable	<u>67,800</u>			<u>67,800</u>
Total restricted assets	<u>\$1,084,190</u>	<u>\$ 342,883</u>	<u>\$ 14,750</u>	<u>\$1,441,823</u>

**CEDAR RIVER WATER AND SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012
(CONTINUED)**

3. RESTRICTED ASSETS (continued)

	<u>Revenue bond fund</u>	<u>Construction fund</u>	<u>Impaired investment pool</u>	<u>Total</u>
December 31, 2012:				
Current restricted assets:				
Cash and cash equivalents	\$1,023,686	\$ 459,989	\$ 14,271	\$1,497,946
Interest receivable	447	263		710
Assessments receivable	<u>34,773</u>			<u>34,773</u>
	1,058,906	<u>460,252</u>	<u>14,271</u>	<u>1,533,429</u>
Noncurrent restricted assets:				
Assessments receivable	<u>69,547</u>			<u>69,547</u>
Total restricted assets	<u>\$1,128,453</u>	<u>\$ 460,252</u>	<u>\$ 14,271</u>	<u>\$1,602,976</u>

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

The amount to be reserved is generally the maximum total amount required for debt service in any calendar year, except a term bond maturity year. The required reserve account at December 31, 2013 and 2012 was \$898,461 and \$920,187, respectively, for all issues. As of December 31, 2013 and 2012 both the sinking fund and reserve accounts were fully funded.

4. LIEN NOTES RECEIVABLE AND GENERAL FACILITY CHARGES RECEIVABLE

The District's lien notes receivable represent installment contracts for payment of charges in lieu of assessment by customers and developers.

General facilities charge receivable (GFC's) represents GFC assessments being collected over time through surcharges to the property owners.

**CEDAR RIVER WATER AND SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012
(CONTINUED)**

5. CAPITAL ASSETS

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

	<u>Balance, beginning of year</u>	<u>Additions</u>	<u>Reductions</u>	<u>Transfers</u>	<u>Balance, end of year</u>
2013:					
Capital assets not being depreciated:					
Land, land rights and other	\$ 1,240,753				\$ 1,240,753
Construction in progress	<u>956,387</u>	<u>\$ 297,241</u>		<u>\$ (1,060,965)</u>	<u>192,663</u>
	<u>2,197,140</u>	<u>297,241</u>		<u>(1,060,965)</u>	<u>1,433,416</u>
Capital assets being depreciated:					
Water systems	50,472,434	144,411		1,060,965	51,677,810
Sewer systems	19,280,211	846			19,281,057
Office building	8,621,166				8,621,166
Equipment and other	<u>2,658,927</u>	<u>57,280</u>			<u>2,716,207</u>
	<u>81,032,738</u>	<u>202,537</u>		<u>1,060,965</u>	<u>82,296,240</u>
Accumulated depreciation:					
Water systems	(15,692,705)	(1,044,948)			(16,737,653)
Sewer systems	(5,496,601)	(386,875)			(5,883,476)
Office building	(1,939,610)	(261,247)			(2,200,857)
Equipment and other	<u>(2,424,721)</u>	<u>(63,301)</u>			<u>(2,488,022)</u>
	<u>(25,553,637)</u>	<u>(1,756,371)</u>			<u>(27,310,008)</u>
Net capital assets	<u>\$57,676,241</u>	<u>\$ (1,256,593)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$56,419,648</u>

**CEDAR RIVER WATER AND SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012
(CONTINUED)**

5. CAPITAL ASSETS (continued)

	<u>Balance, beginning of year</u>	<u>Additions</u>	<u>Reductions</u>	<u>Transfers</u>	<u>Balance, end of year</u>
2012:					
Capital assets not being depreciated:					
Land, land rights and other	\$ 1,238,095			\$ 2,658	\$ 1,240,753
Construction in progress	<u>1,062,519</u>	<u>\$ 2,042,508</u>	<u>\$ (1,701)</u>	<u>(2,146,939)</u>	<u>956,387</u>
	<u>2,300,614</u>	<u>2,042,508</u>	<u>(1,701)</u>	<u>(2,144,281)</u>	<u>2,197,140</u>
Capital assets being depreciated:					
Water systems	50,410,634	194,632	(251,662)	118,830	50,472,434
Sewer systems	15,652,212	3,175,732	(1,573,184)	2,025,451	19,280,211
Office building	8,621,166				8,621,166
Equipment and other	<u>2,621,827</u>	<u>37,100</u>	<u></u>	<u></u>	<u>2,658,927</u>
	<u>77,305,839</u>	<u>3,407,464</u>	<u>(1,824,846)</u>	<u>2,144,281</u>	<u>81,032,738</u>
Accumulated depreciation:					
Water systems	(14,798,641)	(1,032,818)	138,754		(15,692,705)
Sewer systems	(5,850,633)	(351,551)	705,583		(5,496,601)
Office building	(1,678,361)	(261,249)			(1,939,610)
Equipment and other	<u>(2,359,033)</u>	<u>(65,688)</u>	<u></u>	<u></u>	<u>(2,424,721)</u>
	<u>(24,686,668)</u>	<u>(1,711,306)</u>	<u>844,337</u>	<u></u>	<u>(25,553,637)</u>
Net capital assets	<u>\$ 54,919,785</u>	<u>\$ 3,738,666</u>	<u>\$ (982,210)</u>	<u>\$ -</u>	<u>\$57,676,241</u>

**CEDAR RIVER WATER AND SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012
(CONTINUED)**

6. LONG-TERM DEBT PAYABLE FROM UNRESTRICTED ASSETS

Long-term debt outstanding at December 31, payable from unrestricted assets, consisted of the following Public Works Trust Fund loans issued for utility construction:

	<u>2013</u>	<u>2012</u>
1996 \$1,443,745 loan, secured by the revenue of the water system, payable \$75,460 annually through the year 2016, plus interest at 1.0 annual percentage rate	\$ 226,381	\$ 301,841
2001 \$1,756,455 loan, secured by the revenue of the water system, payable \$85,923 annually through the year 2021, plus interest at .5 annual percentage rate	687,380	773,303
2004 \$1,428,921 loan, secured by the revenue of the water system, payable \$78,388 annually through the year 2024, plus interest at .5 annual percentage rate	862,266	940,654
2008 \$181,000 loan, secured by the revenue of the sewer system, payable \$9,526 annually through the year 2028, plus interest at 3.0 annual percentage rate	<u>142,895</u>	<u>152,421</u>
	1,918,922	2,168,219
Less current maturities	<u>(249,297)</u>	<u>(249,297)</u>
	<u><u>\$1,669,625</u></u>	<u><u>\$1,918,922</u></u>

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

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 249,297	\$ 14,299	\$ 263,596
2015	249,297	12,437	261,734
2016	249,297	10,575	259,872
2017	173,837	8,713	182,550
2018	173,837	7,606	181,443
2019-2023	697,338	21,848	719,186
2024-2028	<u>126,019</u>	<u>4,679</u>	<u>130,698</u>
	<u><u>\$1,918,922</u></u>	<u><u>\$ 80,157</u></u>	<u><u>\$1,999,079</u></u>

**CEDAR RIVER WATER AND SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012
(CONTINUED)**

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

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

	Balance, beginning of year	<u>Additions</u>	<u>Reductions</u>	Balance, end of year	Amounts due within one year
<u>2013:</u>					
1996 Public Works Trust Fund Loan	\$ 301,841		\$ 75,460	\$ 226,381	\$ 75,460
2001 Public Works Trust Fund Loan	773,303		85,923	687,380	85,923
2004 Public Works Trust Fund Loan	940,654		78,388	862,266	78,388
2008 Public Works Trust Fund Loan	<u>152,421</u>		<u>9,526</u>	<u>142,895</u>	<u>9,526</u>
	<u>\$ 2,168,219</u>		<u>\$ 249,297</u>	<u>\$ 1,918,922</u>	<u>\$ 249,297</u>
<u>2012:</u>					
1996 Public Works Trust Fund Loan	\$ 377,302		\$ 75,461	\$ 301,841	\$ 75,460
2001 Public Works Trust Fund Loan	859,224		85,921	773,303	85,923
2004 Public Works Trust Fund Loan	1,019,042		78,388	940,654	78,388
2008 Public Works Trust Fund Loan	<u>161,948</u>		<u>9,527</u>	<u>152,421</u>	<u>9,526</u>
	<u>\$ 2,417,516</u>		<u>\$ 249,297</u>	<u>\$ 2,168,219</u>	<u>\$ 249,297</u>

**CEDAR RIVER WATER AND SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012
(CONTINUED)**

7. LONG-TERM DEBT PAYABLE FROM RESTRICTED ASSETS

Long-term debt outstanding at December 31, payable from restricted assets, consisted of the following revenue bonds, secured by the revenue of the water and sewer systems:

	<u>2013</u>	<u>2012</u>
\$4,950,000 issued May 15, 2005 for utility construction and refunding, due serially through the year 2023, with interest payable semi-annually at 4.25 to 5.0 annual percentage rates	\$ 2,675,000	\$ 3,035,000
\$510,500 issued February 23, 2006 for utility construction, payable \$26,837 annually through the year 2046 including interest at 4.125 annual percentage rate	479,122	485,915
\$4,345,000 issued August 17, 2010 for utility construction, due serially through the year 2024, with interest payable semi-annually at 2.50 to 5.0 annual percentage rates	<u>3,505,000</u>	<u>3,765,000</u>
	6,659,122	7,285,915
Less current maturities	(642,073)	(626,793)
Unamortized bond premiums	<u>240,261</u>	<u>286,885</u>
	<u>\$6,257,310</u>	<u>\$6,946,007</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>
2014	\$ 642,073	\$ 283,433	\$ 925,506
2015	662,365	258,141	920,506
2016	682,669	230,587	913,256
2017	702,985	205,239	908,224
2018	723,315	176,535	899,850
2019-2023	2,462,009	499,813	2,961,822
2024-2028	447,539	96,147	543,686
2029-2033	70,426	63,759	134,185
2034-2038	86,200	47,985	134,185
2039-2043	105,508	28,678	134,186
2044-2046	<u>74,033</u>	<u>6,178</u>	<u>80,211</u>
	<u>\$ 6,659,122</u>	<u>\$1,896,495</u>	<u>\$8,555,617</u>

**CEDAR RIVER WATER AND SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012
(CONTINUED)**

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

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

	Balance, beginning of year	Additions	Reductions	Balance, end of year	Amounts due within one year
<u>2013:</u>					
2005 Revenue Bonds	\$3,035,000		\$ 360,000	\$2,675,000	\$ 365,000
2006 Revenue Bonds	485,915		6,793	479,122	7,073
2010 Revenue Bonds	3,765,000		260,000	3,505,000	270,000
	<u>\$7,285,915</u>		<u>\$ 626,793</u>	<u>\$6,659,122</u>	<u>\$ 642,073</u>
<u>2012:</u>					
2005 Revenue Bonds	\$3,370,000		\$ 335,000	\$3,035,000	\$ 360,000
2006 Revenue Bonds	492,439		6,524	485,915	6,793
2010 Revenue Bonds	4,020,000		255,000	3,765,000	260,000
	<u>\$7,882,439</u>		<u>\$ 596,524</u>	<u>\$7,285,915</u>	<u>\$ 626,793</u>

8. 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 27, *Accounting for Pensions by State and Local Government Employers* and 50, *Pension Disclosures, an Amendment of GASB Statements 25 and 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; 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.

**CEDAR RIVER WATER AND SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012
(CONTINUED)**

8. PENSION PLAN (continued)

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

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

PERS Plan 1 and Plan 2 retirement benefits are financed from a combination of investment earnings and employer and employee contributions. Employee contributions to the PERS Plan 1 and Plan 2 defined benefit plans accrue interest at a rate specified by the Director of DRS. During DRS' Fiscal Year 2013, the rate was five and one-half percent compounded quarterly. Members in PERS Plan 1 and Plan 2 can elect to withdraw total employee contributions and interest thereon, in lieu of any retirement benefit, upon separation from PERS-covered employment.

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

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

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

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

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

**CEDAR RIVER WATER AND SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012
(CONTINUED)**

8. PENSION PLAN (continued)

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.

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.

**CEDAR RIVER WATER AND SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012
(CONTINUED)**

8. PENSION PLAN (continued)

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.
- If they have 30 service credit years and are at least 55 years old, and were hired before May 1, 2013, they have a 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.

**CEDAR RIVER WATER AND SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012
(CONTINUED)**

8. PENSION PLAN (continued)

PERS Plan 3 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 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 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 non-vested	<u>44,273</u>
	<u>263,347</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.

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

**CEDAR RIVER WATER AND SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012
(CONTINUED)**

8. 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:

	2013		2012	
	PERS Plan 2	PERS Plan 3	PERS Plan 2	PERS Plan 3
Employer*	9.21%	9.21%**	7.21%	7.21%**
Employee	4.92%	***	4.64%	***

* The employer rates include the employer administrative expense fee set at 0.18% and 0.16% as of December 31, 2013 and 2012, respectively.

** 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
2013	\$40,710	\$54,252
2012	\$31,245	\$54,455
2011	\$22,807	\$49,298

9. 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. 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 the plan in 2013 or 2012.

10. RISK MANAGEMENT

Cedar River Water and Sewer District is a member of the Water and Sewer Risk Management Pool (Pool). Chapter 48.62 RCW authorizes the governing body of any one or more governmental entities to form together into or join a pool or organization for the joint purchasing of insurance, and/or joint self-insuring, and/or joint hiring or contracting for risk management services to the same extent that they may individually purchase insurance, self-insurance, or hire or contract for risk management services. An agreement to form a pooling arrangement was made pursuant to the provisions of Chapter 39.34 RCW, the Interlocal Cooperation Act. The Pool was formed in November 1987 when water and sewer districts in the State of Washington joined together by signing an Interlocal Governmental Agreement to pool their self-insured losses and jointly purchase insurance and administrative services. The Pool currently has 70 members. The Pool's fiscal year is November 1st through October 31st.

**CEDAR RIVER WATER AND SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012
(CONTINUED)**

10. RISK MANAGEMENT (continued)

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

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

TYPE OF COVERAGE	MEMBER DEDUCTIBLE	SELF-INSURED RETENTION	EXCESS LIMITS
Property Loss:			
Buildings and Contents	\$1,000	\$25,000	\$1,000,000,000
Flood	See (A) below	\$25,000	\$50,000,000
Earthquake	See (B) below	\$25,000	\$75,000,000
Terrorism	\$1,000	\$25,000	\$100,000,000
Boiler & Machinery	\$1,000	\$25,000 - \$350,000	\$100,000,000
Auto - Physical Damage	\$25,000	\$200,000	\$10,000,000
Liability:			
Comprehensive General Liability	\$1,000 (C)	\$200,000	\$10,000,000
Auto Liability	\$1,000	\$200,000	\$10,000,000
Public Officials Errors and Omissions	\$1,000	\$200,000	\$10,000,000
Employment Practices/Benefits	\$1,000	\$200,000	\$10,000,000
Crime	\$1,000	\$25,000	\$2,000,000
Terrorism	\$1,000	\$200,000	\$100,000,000
Identity Fraud	\$0	\$25,000	\$0

- A. \$100,000 member deductibles, per occurrence, in Flood zones except Zones A&V; \$250,000 member deductible per occurrence, in Flood Zones A&V.
- B. Member deductible for earthquakes is 5% subject to \$100,000 minimum Earthquake Shock. If the stated deductible is a flat dollar amount, the deductible will apply on a per occurrence basis, unless otherwise stated. If the stated deductible is on a percentage basis, the deductible will apply per occurrence on a per unit basis, as defined in the policy form, subject to the stated minimum.
- C. Cyber liability has a 10% coinsurance for Public Relations Consultancy and Credit File Monitoring. Cyber liability retention is \$50,000 per occurrence for each insured/member with TIV up to \$500,000,000 at the time of loss. \$100,000 per occurrence for each insured/member with TIV greater than \$500,000,000 at the time of loss. 8 hour waiting period for first party claims.

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

**CEDAR RIVER WATER AND SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012
(CONTINUED)**

10. 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, 2014, written notice must be in the Pool possession by April 30, 2014). The Interlocal Governmental Agreement is renewed automatically each year. Even after termination of relationship with the Pool, a member is still responsible for contributions to the Pool for any unresolved, unreported, and in process claims, for the period that the District was a signatory to the Interlocal Governmental Agreement.

The Pool is fully funded by its member participants. Claims are filed by members with the Pool who determines coverage and performs claims adjustment in consultation with Arcadia Claims Services.

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

11. MAJOR SUPPLIERS

All sewage treatment and water purchased by the District is provided by King County Wastewater Treatment Division (KCWTD/Metro) and the City of Seattle, respectively.

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.

Contact information for the State Auditor's Office	
Deputy Director for Communications	Thomas Shapley Thomas.Shapley@sao.wa.gov (360) 902-0367
Public Records requests	(360) 725-5617
Main telephone	(360) 902-0370
Toll-free Citizen Hotline	(866) 902-3900
Website	www.sao.wa.gov