Washington State Auditor's Office

Financial Statements Audit Report

Lake Stevens Sewer District

Snohomish County

Audit Period
January 1, 2012 through December 31, 2012

Report No. 1010432

Issue Date
September 23, 2013

WASHINGTON
TROY KELLEY
STATE AUDITOR

Washington State Auditor
Troy Kelley

September 23, 2013

Board of Commissioners
Lake Stevens Sewer District
Lake Stevens, Washington

Report on Financial Statements

Please find attached our report on the Lake Stevens Sewer District's financial statements.

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

Sincerely,

Troy X. Kelley

TROY KELLEY
STATE AUDITOR

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Lake Stevens Sewer District
Snohomish County
January 1, 2012 through December 31, 2012

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

Lake Stevens Sewer District
Snohomish County
January 1, 2012 through December 31, 2012

Board of Commissioners
Lake Stevens Sewer District
Lake Stevens, 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 Lake Stevens Sewer District, Snohomish County, Washington, as of and for the years ended December 31, 2012 and 2011, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated July 26, 2013.

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

July 26, 2013

Independent Auditor's Report on Financial Statements

Lake Stevens Sewer District
Snohomish County
January 1, 2012 through December 31, 2012

Board of Commissioners
Lake Stevens Sewer District
Lake Stevens, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the Lake Stevens Sewer District, Snohomish County, Washington, as of and for the years ended December 31, 2012 and 2011, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed on page 5.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Lake Stevens Sewer District, as of December 31, 2012 and 2011, and the changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 6 through 8 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 July 26, 2013 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

July 26, 2013

Financial Section

Lake Stevens Sewer District
Snohomish County
January 1, 2012 through December 31, 2012

REQUIRED SUPPLEMENTARY INFORMATION

BASIC FINANCIAL STATEMENTS

Lake Stevens Sewer District
Management's Discussion and Analysis
For the Year Ended December 31, 2012

The following discussion and analysis of the financial performance of the Lake Stevens Sewer District (The District) provides an overall review of the District's financial activities for the year ended December 31, 2012. This discussion is designed to be read in conjunction with the financial statements and notes, which follow this section.

OVERVIEW

The District was incorporated in 1957 and operates under the laws of the State of Washington. All financial reporting is based on twelve months of operations.

In 2012, the District had a positive operating income and met all debt obligations. As of December 31, 2012, the District had a total net position of $84,309,906.

During 2012, the District placed STP#2 (Sunnyside Wastewater Treatment Facility) into service and retired STP#1, which had a net book value of approximately $10.1 million.

The construction of STP#2 increased the District's capacity to approximately 48,750 ERU's (equivalent residential units) and allows the District to operate outside the Ebey Slough flood zone. The new plant is phase 1 of 3 possible phases, which allows for growth as the community expands.

FINANCIAL STATEMENTS

This section of the annual report explains the purpose of the District's basic financial statements and the notes to these financial statements.

Basic Financial Statements

The financial statements of the District are designed to provide readers with a broad overview of the District's finances similar to a private-sector business. They have been prepared using the accrual basis of accounting in accordance with generally accepted accounting principles. Under this basis of accounting, revenues are recognized in the period they are earned and expenses are recognized when incurred, regardless of the timing of related cash flows. These statements offer short and long-term financial information about the District's activities.

The Statement of Net Position (equity) presents the District's assets and liabilities, with the difference between the two reported as Net Position (equity). The Statement of Net Position (equity) provides information about the nature and amount of investments in resources (assets), and the obligations to creditors (liabilities). Net Position (equity) increases when revenues exceed expenses. The Statement of Revenues, Expenses, and Changes in Net Position (equity) reports the revenues and expenses during the periods indicated. The Statement of Cash Flows provides information about the District's cash receipts and payments for operations, as well as funds provided and used in investing and financing activities.

Notes to the Financial Statements

The notes to the financial statements provide additional information that is essential to gain a full understanding of the figures provided in the financial statements.

FINANCIAL ANALYSIS

Condensed Financial Information - Years Ended

	Dec. 31, 2012	Dec. 31, 2011 Restated	Dec. 31, 2010 Restated
Current Assets	$ 28,732,266	$ 37,196,928	$ 62,105,642
Net Capital Assets	182,063,787	188,404,028	156,582,032
Total Assets	$ 210,796,053	$ 225,600,956	$ 218,687,674
Current Liabilities	$ 10,038,324	$ 6,475,003	$ 7,084,120
Long-Term Liabilities	116,447,823	118,350,843	111,770,820
Total Liabilities	$ 126,486,147	$ 124,825,846	$ 118,854,940
Invested in Capital Assets, Net of related debt	$ 66,139,799	$ 68,899,459	$ 43,515,287
Restricted for Debt Service & Const	23,144,406	29,624,575	56,259,231
Unrestricted	(4,974,299)	2,251,076	(109,233)
Total Net Position	$ 84,309,906	$ 100,775,110	$ 99,665,285
Utility Operating Revenue	$ 9,959,559	$ 9,067,448	$ 8,212,979
Non-operating Revenue	194,829	149,290	120,824
Total Revenue	10,154,388	9,216,738	8,333,803
Operating Expenses	8,798,974	6,041,177	5,850,442
Non-operating Expenses	18,255,137	2,738,994	1,326,591
Total Expenses	27,054,111	8,780,171	7,177,033
Excess (Deficiency)	(16,899,723)	436,567	1,156,770
Capital Contributions	434,519	673,258	4,788,717
Change in Net Position	(16,465,204)	1,109,825	5,945,487
Net Position – Beg of Year	100,775,110	99,665,285	93,719,798
Net Position – End of Year	$ 84,309,906	$ 100,775,110	$ 99,665,285
Componets of Net Position			
Capital Assets, Net of Related Debt	$ 66,139,799	$ 68,899,460	$ 41,654,750
Restricted for Debt Service & Const	23,144,406	29,624,575	56,259,231
Unrestricted	(4,974,299)	2,251,075	1,751,304
Total Net Position – End of Year	$ 84,309,906	$ 100,775,110	$ 99,665,285

Overview

For the twelve months ending December 31, 2012, the total assets of the District decreased by $14.8 million or approximately 6.5%, and total liabilities increased by approximately $1.6 million or approximately 1.3%. As a result, Net Position (equity) decreased approximately $16.5 million and the District's overall financial position did not improve. The decreases in total assets and the increases in total liabilities are primarily due to the disposal of STP#1 and accrual of future remediation costs.

Operating Revenues increased approximately 9.8% as expected due to a small increase in District customers during 2012 and the $5.00 per month, per ERU rate increase that took effect January 1, 2012. Operating Revenues are expected to increase in 2012 due to a full year with a $5.00 per month, per ERU rate increase and a small increase in District customers.

Operating Expenses increased approximately 45.6% as expected, due to the large increase in STP#2 operating and depreciation expenses. Operating expenses are expected to increase in 2013 due to a full year of expenses and depreciation for STP#2.

Change in Net Position (equity) decreased approximately $17.6 million when compared to December 31, 2011. This decrease is a result of increased STP#2 operating and depreciation expenses, loss on capital asset disposition of $10.1 million, and accrual of STP#1 remedial costs of $5.2 million.

The District has restrictions on the use of funds which are listed on the previous page.

Capital Assets

The District had a total net Capital Asset Value of $182,063,787 as of December 31, 2012. This was a decrease of approximately $6.3 million and is due predominately to the retirement of STP#1 and increased depreciation expense. Capital Assets consisted of $1,802,507 in assets not being depreciated including land, and construction in process; $202,463,612 in depreciable assets with a total accumulated depreciation of $22,202,332 for a net value of depreciable assets of $180,261,280.

Please refer to the Notes to the Financial Statements for more information.

Long-Term Debts

During the year, the District decreased its long-term debt by $3,580,580, leaving a balance of $115,923,988, including current portion of long-term debt.

Please refer to the Notes to the Financial Statements for more information.

REQUESTS FOR INFORMATION

The District's financial statements, notes and management discussion and analysis are designed to provide a general overview of the District's finances. Questions concerning any of the information presented in this report should be directed to the District at:

Lake Stevens Sewer District
1106 Vernon Rd #A
Lake Stevens, WA 98258
(425) 334-8588

MGAG No. 2176
LAKE STEVENS SEWER DISTRICT
STATEMENT OF NET POSITION
DECEMBER 31, 2012 AND 2011

	2012	2011
Assets		
Current Assets:		
Cash and cash equivalents	$ 27,621,506	$ 36,034,890
Receivables, net	544,885	549,330
Assessments Receivable	138,558	190,306
Prepayments	107,509	56,281
Unamortized Debt Discount/Expense	319,808	366,121
Total Current Assets	28,732,266	37,196,928
Noncurrent Assets:		
Capital Assets Not Being Depreciated		
Land	1,341,322	1,341,322
Construction Works in Progress	461,185	116,005,830
Capital Assets Being Depreciated		
Plant and Buildings	173,018,926	93,501,167
Machinery, Equipment and Furniture	27,584,147	1,194,947
	202,405,581	212,043,266
Less accumulated depreciation	(21,960,462)	(25,295,116)
Total Noncurrent Assets	180,445,120	186,748,150
Total Assets	$ 209,177,386	$ 223,945,078
Liabilities		
Current Liabilities:		
Accounts Payable	$ 654,865	$ 1,773,589
Other Current/Accrued Liabilities	48	16,256
Compensated Absences	428,220	418,756
Developer Extension Deposits	71,500	109,591
Unamortized Debt Premium	111,908	139,886
Current Portion of Bonds, Notes and Loans Payable	6,013,599	3,580,411
Total Current Liabilities	7,280,141	6,038,489
Noncurrent Liabilities:		
Bonds, Notes and Loans Payable, net of current portion	109,910,389	115,924,158
Interest Accrued	4,806,536	3,574,118
Accrued STP #1 Remediation Costs	5,200,000	0
Total Noncurrent Liabilities	119,916,925	119,498,276
Total Liabilities	127,197,066	125,536,765
Net Position		
Invested in Capital Assets, Net of Related Debt	64,521,132	67,243,581
Restricted for Debt Service & Construction	23,144,406	29,624,575
Unrestricted	(5,685,217)	1,540,157
Total Net Position	81,980,320	98,408,313
Total Liabilities and Net Position	$ 209,177,386	$ 223,945,078

The notes to the financial statements are an integral part of this statement

MGAG No. 2176
LAKE STEVENS SEWER DISTRICT
COMPARATIVE STATEMENTS OF REVENUE, EXPENSES & CHANGES IN NET POSITION
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

	2012	2011
Operating Revenue		
Utility Revenue	$ 9,959,559	$ 9,067,448
Total Operating Revenue	9,959,559	9,067,448
Operating Expenses:		
General Operations	4,091,671	3,220,818
Maintenance Expense	315,072	353,162
Depreciation Expense	3,922,969	2,035,953
Taxes	432,051	394,033
Total Operating Expenses	8,761,763	6,003,966
Operating Income (Loss)	1,197,796	3,063,482
Nonoperating Revenues (Expenses):		
Interest Revenue	173,063	123,935
Interest on Long-Term Debt	(2,898,831)	(3,431,577)
Amortization Debt Discount Expense	(18,336)	(18,336)
Gain (Losses) on Capital Asset Disposition	(10,137,970)	0
Accrued STP #1 Remediation Costs	(5,200,000)	0
Net Rental Revenue	21,766	25,355
Total Nonoperating Revenues (Expenses)	(18,060,308)	(3,300,623)
Income Before Capital Contributions	(16,862,512)	(237,141)
Capital Contributions:		
Developer Donated Facility	44,625	97,591
Connection Fees	389,894	575,667
Total Capital Contributions	434,519	673,258
Change in Net Position	(16,427,993)	436,117
Total Net Position, January 1	98,408,313	97,972,196
Total Net Position, December 31	$ 81,980,320	$ 98,408,313

The notes to the financial statements are an integral part of this statement

MGAG No. 2176
LAKE STEVENS SEWER DISTRICT
COMPARATIVE STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

	2012	2011
Cash Flows from Operating Activities:		
Reciepts from customers	$ 9,925,913	$ 8,807,867
Payments to suppliers	(2,690,406)	(2,301,749)
Payments to employees	(1,985,117)	(1,732,562)
Net Cash Provided by Operating Activities	5,250,390	4,773,556
Cash Flows from Capital and Related Financing Activities:		
Proceeds from long-term debt	0	9,256,418
Capital contributions - Connection fees	389,894	575,667
Purchase of capital assets	(9,053,251)	(35,642,773)
Principal paid on long-term debt	(3,580,581)	(2,818,594)
Interest paid on long-term debt	(1,666,413)	(1,380,129)
Principal received on ULID assessments	51,748	47,139
Interest received on ULID assessments	2,070	8,444
Net Cash Provided (Used) for Capital Financing Activities	(13,856,533)	(29,953,828)
Cash Flows from Investing Activities:		
Interest received on investments	170,993	115,491
Net rental income	21,766	25,355
Net Cash Provided (Used) by Investing Activities	192,759	140,846
Net Increase (Decrease) in Cash and Cash Equivalents	(8,413,384)	(25,039,426)
Cash and Equivalents at Beginning of Year	36,034,890	61,074,316
Cash and Equivalents at End of Year	$ 27,621,506	$ 36,034,890
Reconciliation of Operating Income to Net Cash provided by Operating Activities:		
Operating Income (Loss)	$ 1,197,796	$ 3,063,482
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	3,922,969	2,035,953
Changes in assets and liabilities:		
Decrease (Increase) in accounts receivable	4,445	(229,972)
Decrease (Increase) in prepayments	(51,228)	5,809
Increase (Decrease) in operating accounts payable	221,243	(107,367)
Increase (Decrease) in other current/accrued liabilities	(16,208)	1,656
Increase (Decrease) in compensated absences	9,464	33,604
Increase (Decrease) in developer deposits	(38,091)	(29,609)
Net Cash Provided by Operating Activities	$ 5,250,390	$ 4,773,556
Noncash Investing, Capital, and Financing Activities:		
Developer donated facility	$ 44,625	$ 97,591
Accrued STP #1 Remediation	(5,200,000)	0
Gain (Losses) on Capital Asset Disposition	(10,137,969)	0

The notes to the financial statements are an integral part of this statement

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Lake Stevens Sewer District 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. In June 1999, GASB approved Statement 34, *Basic Financial Statements – and Management Discussion and Analysis – for State and Local Governments.* This and consecutive statements are reflected in the accompanying financial statements including notes to financial statements. The following is a summary of the most significant policies.

a. Reporting Entity / Nature of Business

The Lake Stevens Sewer District is a municipal corporation governed by a three-member board elected by the voters located in the service area of the Lake Stevens Sewer District. The District provides a sewage system for collection, transportation and treatment of sanitary sewage for the unincorporated area around Lake Stevens, WA and for the City of Lake Stevens. As required by generally accepted accounting principles, management has considered all potential component units in defining the reporting entity. The Lake Stevens Sewer 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.

These financial statements are prepared utilizing the flow of economic resources, measurement focus, and full accrual basis of accounting where revenues are recognized when earned and expenses are recognized when incurred. Capital asset purchases are capitalized and long-term liabilities are accounted for in the appropriate funds. The District applies all statements and interpretations issued by the Financial Accounting Standards Board not in conflict with standards issued by the Governmental Standards Board. All activities of the District are accounted for within a single proprietary fund.

The District distinguishes between operating revenues and expenses from non-operating ones. Operating revenues and expenses result from providing services, 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 wastewater treatment. Operating expenses for the District include the cost of maintenance & operations, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Effective January 1, 2004, the District implemented Governmental Accounting Standard Series (GASB) Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments and related standards.

The District adopted GASB Statement No. 33 effective with the year ending December 31, 2001. GASB statement No. 33 requires that donated facility, connection fees, and other contribution in aid of construction to be recorded as revenue in the current year. Contributed capital reported in the Comparative Statements of Revenue, Expenses & Changes in Net Position amounted to $434,519 and $673,258 for the years ended December 31, 2012 and 2011, respectively.

All utility services are billed monthly and recorded as revenues.

c. Cash and Cash Equivalents

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

d. Utility Plant and Depreciation

Utility plant in service and other capital assets are recorded at cost. Donations by developers and customers are recorded at actual construction cost plus engineer estimated allied cost; and depreciated over the appropriate life of the assets.

The original cost of operating property retired, sold, or otherwise disposed of is removed from the utility plant accounts, accumulated depreciation is charged with the accumulated depreciation related to the property sold, and the net gain or loss on disposition is credited or charged to income.

Depreciation is computed on the straight-line method with useful lives of five to fifty years.

Preliminary costs incurred for proposed projects are deferred pending the construction of the facility. Costs relating to projects ultimately constructed are transferred to utility plant; charges that relate to abandoned projects are expensed.

Please see Note 4.

e. Restricted Funds

In accordance with bond resolutions (and certain related agreements) separate restricted funds are required to be established. The assets held in these funds are restricted for specific uses, including construction, debt service and other special reserve requirements. Restricted funds at December 31, 2012 and 2011 include the following:

	2012	2011
Bond/Loan Reserve Funds:	$ 5,299,050	$ 2,294,320
Construction Funds:	2,156,149	11,464,997
Debt Service Funds:	15,325,742	15,505,116
PERS Buyback Funds:	363,465	360,142
	$ 23,144,406	$ 29,624,575

f. Receivables

Uncollectible accounts are written off to expense; however, few accounts are uncollectible because of the lien and foreclosures rights provided by the Revised Codes of Washington (RCW). Chapters 56.16.100/110 provide that the payment of delinquent charges for service may be enforced by establishing a lien against the property for which the charge is delinquent. If a lien is established against the property in question, such lien would be superior to all other liens except those established for the payment of general taxes and special assessments. Foreclosure rights are by civil action in the Snohomish County Superior Court.

g. Investments

All investments of the District are in the form of time certificates of deposit, U.S. Government Securities State Treasurer's Investment Pool and County Treasurer's Investment Pool pursuant to the requirements of Chapter 39.58 RCW. Investments are stated at cost. Interest income is accrued at year-end. As a general policy, investments are held until maturity.

h. Compensated Absences

Compensated absences are absences for which employees will be paid, such as vacation pay, holiday pay, comp time, and sick leave. The District accrues unpaid compensated absences as an expense and liability when incurred. The Lake Stevens Sewer District Board of Commissioners adopted Resolution #827 on 1/28/2011, stating that upon termination, 100% of the employee's accrued sick leave, which may be accumulated up to 1200 hours, is paid out to their VEBA account, previously only 50% of the employee's accrued sick leave was paid out to their VEBA account. Vacation pay,

h. Compensated Absences (continued)

which may be accumulated up to 240 hours; comp time, which may be accumulated up to 40 hours; and holiday pay, which may be accumulated up to 8 hours; are payable upon resignation, retirement or death. The total liability for compensated absences at December 31, 2012 and 2011 was $428,220 and $418,756 respectively.

i. Unamortized Debt Expense and Premium

Costs related to the sale of debt are deferred and amortized over the life of the bond issues. A deferred cost related to debt that has been refunded is expensed in the year of refunding. Premiums received on debt issued are deferred and amortized over the life of the bond issues.

j. Construction contract and financing

On October 9, 2008 the District signed the construction contract for the facility portion of the Sunnyside Waste Water Treatment Plant in the amount of $96,710,332. In connection with this construction project, the District has obtained construction and long-term financing with the State Revolving Fund, Public Works Trust Fund and Revenue Bonds. A summary of this financing is as follows:

	Maximum Loan Amount	Advances through 12/31/2012	Available Funds at 12/31/2012
Public Works Trust Fund	$ 34,000,000	$ 32,300,000	$ 1,700,000
State of Washington Revolving Fund	45,202,429	45,202,429	-
2010A Build America Bonds	30,595,000	30,595,000	-
2010B Revenue Bonds	4,520,000	4,520,000	-
	$ 114,317,429	$ 112,617,429	$ 1,700,000

NOTE 2: DEPOSITS AND INVESTMENTS

The District's deposits and certificates of deposits are 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). The District's cash funds, cash disbursements, and investments are processed or maintained by the Snohomish County Treasurer's Department in the name of the District. Snohomish County has all District deposits and investments in local banks short-term certificates of deposit, the County Treasurer's Investment Pool, or in the State of Washington Treasurer's Investment pool.

As of December 31, 2012 and 2011 the District had the following deposits and investments:

	Balance 12/31/2012	Balance 12/31/2011
Checking and Cash Accounts	$ 1,456,899	$ 373,741
County Treasury Investment Pool	19,841,114	4,055,323
State Treasury Investment Pool	6,323,493	31,605,826
Total Deposits and Investments	$ 27,621,506	$ 36,034,890

Deposits and investments are stated at cost, which approximates fair value, on the comparative statement of net position.

NOTE 3: CONSTRUCTION IN PROGRESS

Construction in progress is composed of the following at December 31, 2012:

Project Name	Project Authorization	Expended 12/31/2012	Committed	Required Future Financing
Unclass Capital Projects	57,041	57,041	0	None
20th Street Sight Distance	10,802	2,566	8,236	None
Sunnyside Rd Mitigation	828,035	267,144	560,891	None
Biosolids Old Treatment Plant	10,000	678	9,322	None
Duplex Structure Repair	32,876	32,876	0	None
Comprehensive Plan	87,484	87,484	0	None
Capital Computer System	13,396	13,396	0	None
	$ 1,039,634	$ 461,185	$ 578,449	$ None

Construction in progress is composed of the following at December 31, 2011:

Project Name	Project Authorization	Expended 12/31/2011	Committed	Required Future Financing
Vernon Road Diversion	$ 5,503,860	$ 5,441,967	$ 61,893	$ None
Lift Station 20	4,603,628	3,985,146	618,482	None
SW Interceptor Phase I	2,355,294	2,321,535	33,759	None
20th Street Sight Distance	10,802	2,566	8,236	None
Vernon Road Diversion Ph II	988,143	925,927	62,216	None
Valterra Slide - Emergency	587,187	108,507	478,680	None
Duplex Structure Repair	38,305	13,572	24,733	None
STP #2 Design	4,758,134	3,088,273	1,669,861	None
STP #2 Construction	104,217,604	100,118,337	4,099,267	None
	$ 123,062,957	$ 116,005,830	$ 7,057,127	$ None

NOTE 4: UTILITY PLANT AND DEPRECIATION

Capital assets are defined by the District as assets with initial individual cost of more than $5,000 and an estimated useful life in excess of five years.

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.

Utility plant in service and other capital assets are recorded at cost. Donations by developers and customers are recorded at actual construction cost plus engineer estimated allied cost; and depreciated over the appropriate life of the assets.

Utility plant activity for the year ended December 31, 2012 was as follows:

	Balance 1/1/2012	Increase	Decrease	Balance 12/31/2012
Utility plant not being depreciated				
Land	$ 1,341,322	$ 0	$ 0	$ 1,341,322
Construction in progress	116,005,830	7,419,962	(122,964,607)	461,185
Total plant not being depreciated	117,347,152	7,419,962	(122,964,607)	1,802,507
Utility plant being depreciated				
Plant in service	85,714,329	96,739,266	(8,342,791)	174,110,804
Buildings	9,647,376	0	(8,878,714)	768,662
Machinery, equipment & furniture	1,194,947	26,597,850	(208,651)	27,584,146
Total plant being depreciated	96,556,652	123,337,116	(17,430,156)	202,463,612
Plant in service	(24,536,474)	(2,944,660)	7,087,308	(20,393,826)
Buildings	(152,275)	(19,217)	0	(171,492)
Machinery, equipment & furniture	(811,027)	(996,303)	170,316	(1,637,014)
Total accumulated depreciation	(25,499,776)	(3,960,180)	7,257,624	(22,202,332)
Total plant being depreciated, net	71,056,876	119,376,936	(10,172,532)	180,261,280
Total utility plant, net	$ 188,404,028	$ 126,796,898	$ (133,137,139)	$ 182,063,787

Utility plant activity for the year ended December 31, 2011 was as follows:

	Balance 1/1/2011	Increase	Decrease	Balance 12/31/2011
Utility plant not being depreciated				
Land	$ 1,341,322	$ 0	$ 0	$ 1,341,322
Construction in progress	82,163,937	37,202,696	(3,360,803)	116,005,830
Total plant not being depreciated	83,505,259	37,202,696	(3,360,803)	117,347,152
Utility plant being depreciated				
Plant in service	85,517,663	196,666	0	85,714,329
Buildings	9,664,596	0	(17,220)	9,647,376
Machinery, equipment & furniture	1,420,556	24,051	(249,660)	1,194,947
Total plant being depreciated	96,602,815	220,717	(266,880)	96,556,652
Plant in service	(22,677,738)	(1,934,680)	75,944	(24,536,474)
Buildings	(133,058)	(19,217)	0	(152,275)
Machinery, equipment & furniture	(882,695)	(177,992)	249,660	(811,027)
Total accumulated depreciation	(23,693,491)	(2,131,889)	325,604	(25,499,776)
Total plant being depreciated, net	72,909,324	(1,911,172)	58,724	71,056,876
Total utility plant, net	$ 156,414,583	$ 35,291,524	$ (3,302,079)	$ 188,404,028

In 2006 The District changed the threshold for Capital Assets on new purchases to $5,000. Capital assets are depreciated over the straight-line method over the following estimated lives:

Assets	Years
Buildings	20-50
Building Improvements	20-50
Vehicles	5-7
Equipment	5-20
Utility Plant	5-50

NOTE 5: LONG-TERM DEBT

As security for Sewer Revenue Bonds and Debt the District is required to maintain a reserve account and pledge gross revenue less operation and maintenance expenses for payment of these debts. The revenue debt reserve at December 31, 2012 and 2011 was $5,299,050 and $2,294,320, respectively.

Construction loan (PWTF & SRF) agreements require that borrowed funds be used for the construction of designated construction projects.

The VBC / Office Building mortgage is secured by the administrative building used by the District.

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

General obligaiton debt currently outstanding are as follows:

Description / Purpose	Maturity Range	Interest Rate	Original Amount	12/31/2012 Balance	Current Portion
2008 City GO Bonds	2008-2022	3% - 4%	$ 1,508,553	$ 1,100,560	$ 94,794
VBC / Office Bldg	2002-2021	4.50%	700,000	388,552	45,366
			2,208,553	1,489,112	140,160

Revenue debt currently outstanding are as follows:

Description	Maturity Range	Interest Rate	Original Amount	12/31/2012 Balance	Current Portion
2010A Bonds / STP2	2011-2039	4.2 % - 7.0%	30,595,000	30,595,000	0
2010B Bonds / STP2	2011-2016	2% - 3%	4,520,000	3,480,000	840,000
PWTF Loan / Lift Station 12	1996-2015	1.00%	1,080,000	183,722	61,241
PWTF Loan / STP1 Design	1999-2018	1.00%	236,250	102,399	17,067
PWTF Loan / STP1 Const	2001-2020	1.00%	3,288,600	1,280,484	160,061
PWTF Loan / City 2002 Cap Imp	2003-2022	0.50%	1,608,255	856,912	85,691
PWTF Loan / Lundeen Bypass	2003-2022	0.50%	4,083,400	2,169,306	216,931
PWTF Loan / STP2 Design	2006-2025	0.50%	1,000,000	684,211	52,632
PWTF Loan / STP2 Design	2006-2025	0.50%	1,000,000	693,713	53,363
PWTF Loan / STP2 Design	2006-2025	2.00%	1,000,000	684,211	52,632
PWTF Loan / STP2 Design	2009-2028	0.50%	1,000,000	842,105	52,632
PWTF Loan / STP2 Const	2007-2026	0.50%	7,000,000	5,383,553	384,539
PWTF Loan / STP2 Const	2008-2027	0.50%	7,000,000	5,575,077	371,672
PWTF Loan / STP2 Const	2009-2028	0.50%	10,000,000	8,350,877	521,930
PWTF Loan / STP2 Const	2009-2028	0.50%	10,000,000	8,350,877	521,930
SRF Loan / STP2 Const	2013-2032	3.10%	13,969,445	13,969,445	320,673
SRF Loan / STP2 Const	2013-2032	2.70%	25,970,567	25,970,567	688,226
SRF Loan / STP2 Const	2013-2032	2.80%	5,262,417	5,262,417	134,789
			$ 128,613,934	$ 114,434,876	$ 4,536,005
			$ 130,822,487	$ 115,923,988	$ 4,676,165

The annual debt service requirements for general obligation and revenue debts at 12/31/12, are as follows:

Year Ending	General Obligation Debt		Revenue Debt		Total Debt	
December 31,	Principle	Interest	Principle	Interest	Principle	Interest
2013	140,160	58,892	4,536,005	4,199,750	4,676,165	4,258,642
2014	142,417	53,775	5,245,275	3,474,104	5,387,692	3,527,879
2015	144,749	48,273	5,323,019	3,385,242	5,467,768	3,433,515
2016	152,174	42,547	5,341,042	3,289,836	5,493,216	3,332,383
2017	159,697	36,404	5,341,869	3,192,728	5,501,566	3,229,132
2018-2022	750,081	83,313	27,626,342	14,245,957	28,376,423	14,329,270
2023-2027	0	0	27,522,072	10,822,797	27,522,072	10,822,797
2028-2032	0	0	20,919,086	6,774,993	20,919,086	6,774,993
2033-2037	0	0	8,580,000	3,238,260	8,580,000	3,238,260
2038-2042	0	0	4,000,000	420,974	4,000,000	420,974
Totals	$ 1,489,278	$ 323,204	$ 114,434,710	$ 53,044,641	$ 115,923,988	$ 53,367,845

The annual debt service requirements for general obligation and revenue debts at 12/31/11, are as follows:

Year Ending	General Obligation Debt		Revenue Debt		Total Debt	
December 31,	Principle	Interest	Principle	Interest	Principle	Interest
2012	$ 128,263	$ 63,467	$ 3,452,318	$ 2,294,652	$ 3,580,581	$ 2,358,119
2013	140,160	58,892	4,536,005	4,199,750	4,676,165	4,258,642
2014	142,417	53,775	5,245,275	3,474,104	5,387,692	3,527,879
2015	144,749	48,273	5,323,019	3,385,242	5,467,768	3,433,515
2016	152,174	42,547	5,341,042	3,289,836	5,493,216	3,332,383
2017-2021	779,778	114,516	27,354,245	14,841,055	28,134,023	14,955,571
2022-2026	130,000	5,200	27,797,164	11,561,468	27,927,164	11,566,668
2027-2031	0	0	23,238,800	7,631,734	23,238,800	7,631,734
2032-2036	0	0	9,729,160	3,831,691	9,729,160	3,831,691
2037-2041	0	0	5,870,000	829,761	5,870,000	829,761
	$ 1,617,541	$ 386,670	$ 117,887,028	$ 55,339,293	$ 119,504,569	$ 55,725,963

NOTE 6: PENSION PLAN

On October 9, 2003, the District's Board of Commissioners passed a resolution authorizing and approving participation in the Washington Public Employees Retirement System (PERS). Membership in PERS commenced on January 1, 2004.

Substantially all Lake Stevens Sewer 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 No. 27, *Accounting for Pensions by State and Local Government Employers* and No. 50, *Pension Disclosures, an Amendment of GASB Statements No. 25 and No. 27.*

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

<u>Plan Description</u>

The Legislature established PERS in 1947. Membership in the system includes: elected officials; state employees; employees of the Supreme, Appeals, and Superior courts; employees of legislative committees; community and technical colleges, college and university employees not participating in higher education retirement programs; employees of district and municipal courts; and employees of local governments. Approximately 50 percent of PERS salaries are accounted for by state employment. PERS retirement benefit provisions are established in Chapters 41.34 and 41.40 RCW and may be amended only by the State Legislature.

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

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

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

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

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

PERS Plan 1 members are eligible for retirement after 30 years of service, or at the age of 60 with five years of service, or at the age of 55 with 25 years of service. The monthly benefit is 2 percent of the average final compensation (AFC) per year of service, but the benefit may not exceed 60 percent of the AFC. The AFC is the monthly average of the 24 consecutive highest-paid service credit months.

The monthly benefit is subject to a minimum for retirees who have 25 years of service and have been retired 20 years, or who have 20 years of service and have been retired 25 years. If a survivor option is chosen, the benefit is reduced. Plan 1 members retiring from inactive status prior to the age of 65 may also receive actuarially reduced benefits. Plan 1 members may elect to receive an optional COLA that provides an automatic annual adjustment based on the Consumer Price Index. The adjustment is capped at 3 percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

PERS Plan 1 provides duty and non-duty disability benefits. Duty disability retirement benefits for disablement prior to the age of 60 consist of a temporary life annuity. The benefit amount is $350 a month, or two-thirds of the monthly AFC, whichever is less. The benefit is reduced by any workers' compensation benefit and is payable as long as the member remains disabled or until the member attains the age of 60, at which time the benefit is converted to the member's service retirement amount. A member with five years of covered employment is eligible for non-duty disability retirement. Prior to the age of 55, the benefit amount is 2 percent of the AFC for each year of service reduced by 2 percent for each year that the member's age is less than 55. The total benefit is limited to 60 percent of the AFC and is actuarially reduced to reflect the choice of a survivor option. Plan 1 members may elect to receive an optional COLA amount (based on the Consumer Price Index), capped at 3 percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

PERS Plan 1 members can receive credit for military service while actively serving in the military if such credit makes them eligible to retire. Members can also purchase up to 24 months of service credit lost because of an on-the-job injury.

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

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

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

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

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

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

PERS Plan 3 has a dual benefit structure. Employer contributions finance a defined benefit component and member contributions finance a defined contribution component. As established by Chapter 41.34 RCW, employee contribution rates to the defined contribution component range from 5 percent to 15 percent of salaries, based on member choice. There are currently no requirements for employer contributions to the defined contribution component of PERS Plan 3.

PERS Plan 3 defined contribution retirement benefits are dependent upon the results of investment activities. Members may elect to self-direct the investment of their contributions. Any expenses incurred in conjunction with self-directed investments are paid by members. Absent a member's self-direction, PERS Plan 3 investments are made in the same portfolio as that of the PERS 2/3 defined benefit plan.

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

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

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

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

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

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

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

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

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

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

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

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

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

From January 1, 2007 through December 31, 2007, judicial members of PERS were given the choice to elect participation in the Judicial Benefit Multiplier (JBM) Program enacted in 2006. Justices and judges in PERS Plan 1 and Plan 2 were able to make an irrevocable election to pay increased contributions that would fund a retirement benefit with a 3.5 percent multiplier. The benefit would be capped at 75 percent of AFC. Judges in PERS Plan 3 could elect a 1.6 percent of pay per year of service benefit, capped at 37.5 percent of AFC.

Members who chose to participate would: accrue service credit at the higher multiplier beginning with the date of their election; be subject to the benefit cap of 75 percent of AFC; stop contributing to the Judicial Retirement Account (JRA); pay higher contributions; and be given the option to increase the multiplier on past judicial service. Members who did not choose to participate would: continue to accrue service credit at the regular multiplier; not be subject to a benefit cap; continue to participate in JRA, if applicable; continue to pay contributions at the regular PERS rate; and never be a participant in the JBM Program.

Newly elected or appointed justices and judges who chose to become PERS members on or after January 1, 2007, or who had not previously opted into PERS membership, were required to participate in the JBM Program. Members required into the JBM program would: return to prior PERS Plan if membership had previously been established; be mandated into Plan 2 and not have a Plan 3 transfer choice, if a new PERS member; accrue the higher multiplier for all judicial service; not contribute to JRA; and not have the option to increase the multiplier for past judicial service.

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

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

Funding Policy

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

As a result of the implementation of the Judicial Benefit Multiplier Program in January 2007, a second tier of employer and employee rates was developed to fund, along with investment earnings, the increased retirement benefits of those justices and judges that participate in the program.

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

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

Members Not Participating in JBM:

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

* The employer rates include the employer administrative expense fee currently set at 0.16%.
** The employer rate for state elected officials is 10.74% for Plan 1 and 7.21% for Plan 2 and Plan 3.
*** Plan 3 defined benefit portion only.
**** The employee rate for state elected officials is 7.50% for Plan 1 and 4.64% for Plan 2.
***** Variable from 5.0% minimum to 15.0% maximum based on rate selected by the PERS 3 member.

Members Participating in JBM:

	PERS Plan 1	**PERS Plan 2**	**PERS Plan 3**
Employer-State Agency*	9.71%	9.71%	9.71%**
Employer-Local Government*	7.21%	7.21%	7.21%**
Employee-State Agency	9.76%	9.10%	7.50%***
Employee-Local Government	12.26%	11.60%	7.50%***

* The employer rates include the employer administrative expense fee currently set at 0.16%.
** Plan 3 defined benefit portion only.
***Minimum rate.

Both Lake Stevens Sewer District and the employees made the required contributions. The Lake Stevens Sewer District's required contributions for the years ended December 31, 2012 and 2011 were as follows:

	PERS Plan 1	PERS Plan 2	PERS Plan 3	PERS Total
2012	$ 0	$ 133,082	$ 4,327	$ 137,409
2011	$ 0	$ 100,110	$ 3,201	$ 103,311

NOTE 7: RISK MANAGEMENT

The Lake Stevens Sewer District is a member of Enduris. Chapter 48.62 RCW provides the exclusive source of local government entity authority to individually or jointly self-insure risks, jointly purchase insurance or reinsurance, and to contract for risk management, claims, and administrative services. Enduris was formed July 10, 1987 pursuant to the provisions of Chapter 48.62 RCW, Chapter 200-100 WAC, and Chapter 39.34 RCW. Two (2) counties and two (2) cities in the State of Washington joined together by signing an Interlocal Governmental Agreement to fund their self-insured losses and jointly purchase insurance and administrative services. As of August 31, 2012, there are 477 Enduris members representing a broad array of special purpose districts throughout the state.

Enduris members share in the self-insured retention, jointly purchase excess and/or reinsurance coverage and provide risk management services and other related administrative services. Enduris provides "per occurrence" based policies for all lines of liability coverage including Public Official's Liability. The Property coverage is written on an "all risk", blanket basis using current Statement of Values. The Property coverage includes but is not limited to mobile equipment, electronic data processing equipment, business interruption, course of construction and additions, property in transit, fine arts, and automobile physical damage to insured vehicles. Boiler and machinery coverage is included on a blanket limit of $100 million for all members. Enduris offers employee dishonesty coverage up to a liability limit of $1,000,000.

Members make an annual contribution to fund Enduris. Enduris acquires reinsurance from unrelated insurance companies on a "per occurrence" basis:

$1,000,000 deductible on liability loss - the member is responsible for the first $1,000 of the deductible amount of each claim, while Enduris is responsible for the remaining $999,000 on liability loss; $250,000 deductible on property loss - the member is responsible for the first $1,000 of the deductible amount of each claim, while Enduris is responsible for the remaining $249,000 on property loss. Enduris is responsible for the $4,000 deductible on boiler and machinery loss.

Insurance carriers cover all losses over the deductibles as shown to the policy maximum limits. Since Enduris is a cooperative program, there is a joint liability among the participating members.

The contract requires members to continue membership for a period of not less than one (1) year and must give notice 60 days before terminating participation. The Master Agreement (Intergovernmental Contract) is automatically renewed after the initial one (1) full fiscal year commitment. Even after termination, a member is still responsible for contribution to Enduris for any unresolved, unreported and in-process claims for the period they were a signatory to the Master Agreement.

Enduris is fully funded by its member participants. Claims are filed by members with Enduris and are administered in house.

A Board of Directors consisting of seven (7) board members governs Enduris. Its members elect the Board and the positions are filled on a rotating basis. The Board meets quarterly and is responsible for conducting the business affairs of Enduris.

NOTE 8: CITY OF LAKE STEVENS AGREEMENT

The City of Lake Stevens and the Lake Stevens Sewer District entered into a Unified Sewer Services and Annexation Agreement on the 23rd day of May, 2005 that was subsequently implemented January 1, 2006. This agreement called for a transfer of the City System to the District after which the District shall own, operate and maintain the entire wastewater collection conveyance, treatment and discharge system in the UGA (the Urban Growth Area). The agreement also provides for the ultimate transfer of the Unified Sewer System from the District to the City.

As part of this agreement, the District agreed to transfer to the City all funds necessary for the Public Work Trust Fund Loan No. PW-02-691-029 and the City Sewer utility's share of the 1997 General Obligation Bonds. The City has refunded these bonds with the City 2008 GO Bonds.

The agreement also calls for certain payments from the District for a Franchise Fee and a Utility Agreement Fee for the City liabilities or costs associated with the implementation and maintenance of the Agreement.

The effect of the transfer of assets and obligations are as follows:

City - Utility Plant in Service	$	12,192,905
City - Sewer Equipment		139,000
Less Accumulated Depreciation		(2,885,908)
Cash from City Sewer Reserve Funds		808,218
Assumption of City PWTF Debt 05-691-029		(1,456,750)
Assumption of City 1997 GO Bonds		(1,545,000)
	$	7,252,465

Also, as part of this agreement, the City has acquired three Public Work Trust Fund Loans, totaling $18,000,000 for the design and construction of the new Treatment Plant. The District agreed to transfer to the City all funds necessary for the payment of these loans.

NOTE 9: RECLASSIFIED ACCOUNTS

Classification of accounts on the originally issued December 31, 2011 Statement of Net Position have been changed to correspond to the December 31, 2012 presentation.

NOTE 10: RESTATED FINANCIAL STATEMENTS

During 2012 the District discovered that a developer contributed asset in the amount of $1,860,538 was not recorded in 2006 when the asset was placed in service. In addition, the District discovered that an interest payable accrual was overstated by $710,919. These financial statements have been restated to correct for these changes.

A summary of the changes are as follows:

Net Position as of December 31, 2010, as previously reported	$	97,972,196
Developer Contributed Asset		1,860,538
Accumulated Depreciation		(167,449)
Net Position as of December 31, 2010, as restated		99,665,285
Change in Depreciation		(37,211)
Change in Interest Accrued		710,919
Original Net Income		436,117
Net Position as of December 31, 2011, as restated	$	100,775,110

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.

Our mission is to work with our audit clients and citizens as an advocate for government accountability. As an elected agency, the State Auditor's Office has the independence necessary to objectively perform audits and investigations. Our audits are designed to comply with professional standards as well as to satisfy the requirements of federal, state, and local laws.

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

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

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

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

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