



Washington State Auditor's Office

Government that works for citizens

Financial Statements Audit Report **King County Water District No. 125**

For the period January 1, 2015 through December 31, 2015

Published November 17, 2016

Report No. 1017971





Washington State Auditor's Office

November 17, 2016

Board of Commissioners
King County Water District No. 125
Seattle, Washington

Report on Financial Statements

Please find attached our report on King County Water District No. 125's financial statements.

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

Sincerely,

TROY KELLEY
STATE AUDITOR
OLYMPIA, WA

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**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

**King County Water District No. 125
January 1, 2015 through December 31, 2015**

Board of Commissioners
King County Water District No. 125
Seattle, Washington

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of King County Water District No. 125, King County, Washington, as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated November 9, 2016. As discussed in Note 11 to the financial statements, during the year ended December 31, 2015, the District implemented Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit 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

November 9, 2016

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

King County Water District No. 125 January 1, 2015 through December 31, 2015

Board of Commissioners
King County Water District No. 125
Seattle, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of King County Water District No. 125, King County, Washington, as of and for the year ended December 31, 2015, 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances,

but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of King County Water District No. 125, as of December 31, 2015, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Matters of Emphasis

As discussed in Note 11 to the financial statements, in 2015, the District adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*. Our opinion is not modified with respect to this matter.

Other Matters

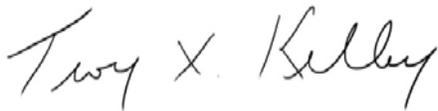
Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 10 through 15 and pension plan information on pages 40 through 42 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 November 9, 2016 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

November 9, 2016

FINANCIAL SECTION

King County Water District No. 125 January 1, 2015 through December 31, 2015

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2015

BASIC FINANCIAL STATEMENTS

Statement of Net Position – 2015

Statement of Revenues, Expenses and Changes in Fund Net Position – 2015

Statement of Cash Flows – 2015

Notes to Financial Statements – 2015

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Proportionate Share of the Net Pension Liability – 2015

Schedule of Employer Contributions – 2015

Notes to Required Supplementary Information – 2015

Water District No. 125 of King County
Management's Discussion and Analysis
Year Ended December 31, 2015

Introduction

Water District No. 125 of King County (the District) is a municipal corporation governed by an elected, three member board. The District's primary activity is to provide water service to residential and commercial customers within the District's boundaries.

Brief Discussion of the Basic Financial Statements

The District's financial statements include a Statement of Net Position, a Statement of Revenues, Expenses & Changes in Fund Net Position, a Statement of Cash Flows, and Notes to the Financial Statements. The financial statements are prepared using the accrual basis of accounting and conform to generally accepted accounting principles as applicable to proprietary funds of governments. The intent of the management's discussion and analysis is to provide highlights of the District's financial activities for the year ended December 31, 2015. Readers are encouraged to read this section in conjunction with the accompanying financial statements.

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

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

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

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

Water District No. 125 of King County
Management's Discussion and Analysis
Year Ended December 31, 2015

Condensed Comparative Statement of Net Position

The following condensed statement of net position presents the assets and deferred outflow of resources of the District and shows the mix of liabilities and deferred inflow of resources and net position used to acquire these assets and deferred outflow of resources:

	<u>2015</u>	<u>2014</u>
<u>Assets</u>		
Current Assets	\$ 2,256,827	\$ 2,129,312
Noncurrent Assets:		
Capital Assets - Net	<u>10,303,311</u>	<u>10,204,224</u>
Total Assets	<u>12,560,138</u>	<u>12,333,536</u>

Deferred Outflow of Resources

Total Deferred Outflows	\$ 57,629	\$ -
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Condensed Comparative Statement of Net Position (Continued)

	<u>2015</u>	<u>2014</u>
<u>Liabilities</u>		
Current Liabilities	\$ 267,476	\$ 301,799
Noncurrent Liabilities:		
Long-Term Debt	871,123	959,650
Other	<u>600,047</u>	<u>103,752</u>
Total Liabilities	<u>1,738,646</u>	<u>1,365,201</u>

Deferred Inflow of Resources

Total Deferred Inflows	83,376	-
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Net Position

Net Investment in Capital Assets	9,342,663	9,155,047
Unrestricted	<u>1,453,082</u>	<u>1,813,288</u>
Total Net Position	<u>\$ 10,795,745</u>	<u>\$ 10,968,335</u>

Water District No. 125 of King County
Management's Discussion and Analysis
Year Ended December 31, 2015

Analysis of the Condensed Comparative Statement of Net Position

Assets

Current assets consist of cash and cash equivalents held in the maintenance fund, which is unrestricted and can be used for day-to-day operations. The balance in the maintenance fund increased in 2015 due an increase in cash contributions in aid of construction. Current assets also include customer accounts receivable, accrued utility revenue, inventories and prepayments. Prepayments increased by \$24,912 due to timing of payments made on behalf of developers and inventories increased by \$11,809 due to new regulations and anticipated increased demand for certain parts. Customer accounts receivable and accrued revenue did not materially change from 2014.

Noncurrent assets consist of net capital assets, which includes land, construction in progress, utility plant, equipment and intangible assets, less accumulated depreciation. Net capital assets increased by \$99,087 in 2015 due to capital additions partially offset by depreciation.

Deferred Outflow of Resources

Deferred outflow of resources consists of pension deferred outflows of \$57,629. The increase in deferred outflows is due to accounting for the deferred pension outflow began in 2015 with the implementation of GASB 68.

Liabilities

Current liabilities include accounts payable, the current portion of long-term debt, accrued expenses, accrued interest payable on debt and deposits. Current liabilities decreased by \$34,323 in 2015, primarily due to a decrease in accounts payable caused by timing of payments.

Analysis of the Condensed Comparative Statement of Net Position (Continued)

Noncurrent liabilities include the long-term portion of Public Works Trust Fund loans, the net pension liability and compensated absences. Noncurrent liabilities increased by \$407,768 in 2015, primarily due to the District's adoption of GASB 68 resulting in the recognition of the pension liability of \$496,668. This increase was partially offset by principal payments on Public Works Trust Fund loans. Compensated absences did not materially change in 2015.

Deferred Inflow of Resources

Deferred inflow of resources consists of pension deferred inflows of \$83,376. The increase in deferred inflows is due to the change in accounting principles from the District's adoption of GASB 68.

Net Position

Net position consists of total assets and deferred outflows minus total liabilities and deferred inflows. The District's net position decreased by \$172,590 in 2015. Removing the effect of the adoption of GASB 68, the District's net position increased by \$377,925 in 2015. Over time, increases or decreases in the District's net position are an indicator of the District's overall financial growth. An increase in net position is a positive sign of the District's financial strength.

Water District No. 125 of King County
Management's Discussion and Analysis
Year Ended December 31, 2015

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

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

	<u>2015</u>	<u>2014</u>
<u>Revenues</u>		
Water Operating Revenues	\$ 3,161,386	\$ 3,049,448
Nonoperating Revenues	<u>8,140</u>	<u>10,130</u>
Total Revenues	<u>3,169,526</u>	<u>3,059,578</u>
<u>Expenses</u>		
Operating Expenses	2,629,355	2,542,261
Depreciation & Amortization	402,642	392,238
Nonoperating Expenses	<u>13,900</u>	<u>15,002</u>
Total Expenses	<u>3,045,897</u>	<u>2,949,501</u>
Change in Net Position before Capital Contributions	123,629	110,077
Capital Contributions	<u>254,296</u>	<u>33,281</u>
Change in Net Position	377,925	143,358
<u>Total Net Position, January 1</u>	<u>10,968,335</u>	<u>10,824,977</u>
Change in Accounting Principle – GASB 68	(550,515)	-
<u>Total Net Position, December 31</u>	<u>\$ 10,795,745</u>	<u>\$ 10,968,335</u>

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

Revenues

Water operating revenues increased by \$111,938 in 2015, due to a rate increase enacted in during the year and increased consumption by District customers during the year. Nonoperating revenues which consist of interest income from investments decreased by \$1,990 due to a decrease in interest earned on investments.

Expenses

Operating expenses increased by \$87,094 in 2015 due to increased transmission and water costs. Transmission costs increased by \$45,024 primarily due to increases in reservoir maintenance costs and increases in material and supply costs. Water costs increased by \$41,701 in 2015 primarily due to increased consumption by District customers.

Water District No. 125 of King County
Management's Discussion and Analysis
Year Ended December 31, 2015

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

Nonoperating expenses consist of interest expense on long-term debt. Nonoperating expenses decreased by \$1,102 due to reduction of principal on long-term debt.

Capital Contributions

Capital contributions increased by \$221,015 in 2015, due to increased construction activity within the District's boundaries.

Change in Net Position

Net position decreased by \$172,590 in 2015 primarily due to the adoption of GASB 68. After removing the effect of the change in accounting principle, net position increased by \$377,925 in 2015, reflecting the fact that total revenues and capital contributions exceeded total expenses.

Analysis of Overall Financial Condition

The District's overall financial condition improved in 2015, with an increase in net position, adequate liquid assets and continued positive operating cash flow.

To ensure that the District's financial condition remains strong, 3% rate increases are planned for 2016 and 2017.

Capital Assets

Capital assets consist of land, construction in progress, utility plant and equipment, less accumulated depreciation. The total increase in the District's investment in capital assets for the current year was \$501,729. The principal project included in 2015 capital spending was a main replacement project. Included in the 2015 change in net capital assets were donated systems (infrastructure donated by developers) of \$98,900. Over the next five years it is anticipated that capital spending will be around \$450,000 per year. The areas of major emphasis in the capital budget include various main replacement and improvement projects. See Note 3.

Capital assets activity for the years ended December 31, 2015 & 2014 were as follows:

	<u>Balance</u> <u>12/31/15</u>	<u>Balance</u> <u>12/31/14</u>	<u>Change</u>
Land	\$ 550,680	\$ 550,680	\$ -
Construction in Progress	21,503	95,213	(73,710)
Plant	14,192,147	13,665,455	526,692
Equipment	618,380	582,012	36,368
Intangibles	956,551	944,172	12,379
Accumulated Depreciation	<u>(6,035,950)</u>	<u>(5,633,308)</u>	<u>(402,642)</u>
Total Capital Assets, Net	<u>\$ 10,303,311</u>	<u>\$ 10,204,224</u>	<u>\$ 99,087</u>

Water District No. 125 of King County
Management's Discussion and Analysis
Year Ended December 31, 2015

Long-Term Debt

At December 31, 2015, the District had total Public Works Trust Fund loans outstanding of \$959,650. The total long-term debt of the District decreased by \$88,527 during 2015 due to principal payments made on Public Works Trust Fund Loans. See Note 5.

The District does not plan on issuing new debt in 2016 or 2017.

Additional Comments

As the customer base in the District is not experiencing significant growth, future revenue growth will likely be driven by rate increases. The District expects their operating expenses to continue to grow in line with revenues.

Water District No. 125 of King County
Statement of Net Position
December 31, 2015

ASSETS

Current Assets

Maintenance Fund:	
Cash & Cash Equivalents	\$ 1,631,819
Accrued Interest Receivable	781
Receivables: (Net)	
Customer Accounts Receivable	265,150
Accrued Utility Revenue	221,328
Inventories	78,945
Prepayments	<u>58,804</u>
Total Current Assets	<u>2,256,827</u>

Noncurrent Assets

Capital Assets Not Being Depreciated:	
Land	550,680
Construction in Progress	21,503
Capital Assets Net of Accumulated Depreciation:	
Plant	8,861,950
Equipment	351,377
Intangibles	<u>517,801</u>
Total Capital Assets	<u>10,303,311</u>
Total Noncurrent Assets	<u>10,303,311</u>
Total Assets	<u>12,560,138</u>

DEFERRED OUTFLOW OF RESOURCES

Deferred Outflow – Pension	<u>57,629</u>
Total Deferred Outflow of Resources	<u>\$ 57,629</u>

See accompanying notes

Water District No. 125 of King County
Statement of Net Position
December 31, 2015

LIABILITIES

Current Liabilities

Accounts Payable - Maintenance	\$ 130,073
Public Works Trust Fund Loans (Current Portion)	88,527
Interest Payable - PWTF Loans	6,675
Accrued Wages	2,626
Accrued Taxes	16,148
Other Payables	22,427
Meter Deposits	<u>1,000</u>
Total Current Liabilities	<u>267,476</u>

Noncurrent Liabilities

Public Works Trust Fund Loans (Less Current Portion)	871,123
Net Pension Liability – GASB 68	496,668
Compensated Absences	<u>103,379</u>
Total Noncurrent Liabilities	<u>1,471,170</u>
Total Liabilities	<u>1,738,646</u>

DEFERRED INFLOW OF RESOURCES

Deferred Inflow – Pension	<u>83,376</u>
Total Deferred Inflow of Resources	<u>83,376</u>

NET POSITION

Net Investment in Capital Assets	9,342,663
Unrestricted	<u>1,453,082</u>
Total Net Position	<u>\$ 10,795,745</u>

See accompanying notes

Water District No. 125 of King County
Statement of Revenues, Expenses and Changes in Fund Net Position
Year Ended December 31, 2015

<u>Operating Revenues</u>	
Water Sales	\$ 3,089,793
Penalties and Miscellaneous	<u>71,593</u>
Total Operating Revenues	<u>3,161,386</u>
 <u>Operating Expenses</u>	
Water Costs	1,174,251
Transmission and Distribution	505,395
Customer Accounts	144,370
Administrative and General	786,514
Street Lighting Cost	18,825
Depreciation	372,862
Amortization	<u>29,780</u>
Total Operating Expenses	<u>3,031,997</u>
Operating Income (Loss)	129,389
 <u>Nonoperating Revenues (Expenses)</u>	
Investment Income	8,140
Interest Expense	<u>(13,900)</u>
Total Nonoperating Revenues (Expenses)	<u>(5,760)</u>
Income (Loss) Before Contributions	123,629
Capital Contributions	<u>254,296</u>
Change in Net Position	377,925
<u>Total Net Position - January 1</u>	10,968,335
Change in Accounting Principle – GASB 68	<u>(550,515)</u>
<u>Total Net Position - December 31</u>	<u>\$ 10,795,745</u>

See accompanying notes

Water District No. 125 of King County
Statement of Cash Flows
Year Ended December 31, 2015

Cash Flows From Operating Activities

Cash Received from Customers	\$ 3,157,013
Cash Paid to Suppliers	(2,118,928)
Cash Paid to Employees	<u>(614,543)</u>
Net Cash Provided by Operating Activities	<u>423,542</u>

Cash Flows From Capital & Related

Financing Activities

Acquisition & Construction of Capital Assets	(402,830)
Cash Contributions in Aid of Construction	160,545
Principal Payments on Public Works Trust Fund Loans	(88,527)
Interest Paid on Public Works Trust Fund Loans	<u>(14,451)</u>
Net Cash Provided (Used) by Capital & Related Financing Activities	<u>(345,263)</u>

Cash Flows From Investing Activities

Interest Received on Investments	<u>7,933</u>
Net Cash Provided by Investing Activities	<u>7,933</u>

Net Increase (Decrease) in Cash & Cash Equivalents 86,212

Cash and Cash Equivalents - January 1 1,545,607

Cash and Cash Equivalents - December 31 \$ 1,631,819

Noncash Investing, Capital & Financing Activities

Contribution of Capital Assets from Developers \$ 98,900

See accompanying notes

Water District No. 125 of King County
Statement of Cash Flows
Year Ended December 31, 2015

Reconciliation of Operating Income (Loss)
to Net Cash Provided by Operating Activities

Operating Income (Loss) \$ 129,389

Adjustments to Reconcile Operating Income (Loss)
to Net Cash Provided by Operating Activities

Depreciation 372,862
Amortization 29,780

Change in Assets, Deferred Outflows of Resources,
Liabilities & Deferred Inflows of Resources

(Increase) Decrease in Customer Accounts Receivable	10,210
(Increase) Decrease in Accrued Utility Revenue	(14,583)
(Increase) Decrease in Inventories	(11,809)
(Increase) Decrease in Prepayments	(24,912)
(Increase) Decrease in Deferred Outflow of Resources – Pension	(31,913)
Increase (Decrease) in Accounts Payable - Maintenance	(38,335)
Increase (Decrease) in Accrued Wages	(878)
Increase (Decrease) in Accrued Taxes	299
Increase (Decrease) in Net Pension Liability	97,479
Increase (Decrease) in Compensated Absences	(373)
Increase (Decrease) in Deferred Inflow of Resources – Pension	<u>(93,674)</u>
Total Adjustments	<u>294,153</u>
Net Cash Provided by Operating Activities	<u>\$ 423,542</u>

See accompanying notes

Water District No. 125 of King County
Notes to Financial Statements
Year Ended December 31, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Water District No. 125 conform to generally accepted accounting principles (GAAP) as applicable to proprietary funds of governments. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the most significant accounting policies of the District:

a. Reporting Entity

Water District No. 125 is a municipal corporation governed by an elected, three member board. The District's primary activity is to provide water service to residential and commercial customers within the District's boundaries. All water sold by the District is purchased from the City of Seattle, Washington and other water districts. As required by generally accepted accounting principles, management has considered all potential component units in defining the reporting entity. The District has no component units.

b. Basis of Accounting and Presentation

The accounting records of the District are maintained in accordance with methods prescribed by the State Auditor under the authority of Chapter 43.09 RCW. The District uses the uniform system of accounts for water utilities as prescribed by the National Association of Regulatory Utility Commissioners.

The District uses the full-accrual basis of accounting where revenues are recognized when earned and expenses are recognized when incurred. Unbilled utility service receivables are recorded at year end. Capital asset costs are capitalized.

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

c. Cash and Cash Equivalents

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

d. Capital Assets

Utility plant in service is recorded at cost. Donations by developers are recorded at the developers' cost. Depreciation is calculated on the straight-line method.

Water District No. 125 of King County
Notes to Financial Statements
Year Ended December 31, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

d. Capital Assets (Continued)

Upon retirement of an asset, the cost of the asset and the related accumulated depreciation are removed from the property accounts and the gain or loss is reflected in the statement of revenues, expenses and changes in fund net position.

Estimated useful lives are as follows:

Plant	10 to 40 years
Equipment	5 to 40 years
Intangibles	10 to 46 years

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

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

See Note 3.

e. Receivables

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

f. Inventories

Inventory of materials is recorded at cost on the first-in/first-out basis, and a physical inventory is taken at the end of each calendar year.

g. Investments

Investments are recorded at fair value. See Note 2.

h. Compensated Absences

Compensated absences are absences for which employees will be paid, such as vacation and sick leave. The District records unpaid leave for compensated absences as an expense and liability when incurred. See Note 5.

Water District No. 125 of King County
Notes to Financial Statements
Year Ended December 31, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

i. Pensions

For purposes of measuring the net pension liability, deferred outflow of resources and deferred inflow of resources related to pensions, and pension expense, information about the fiduciary net position of all state sponsored pension plans and additions to/deductions from those plans' fiduciary net position have been determined on the same basis as they are reported by the Washington State Department of Retirement Systems. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

j. Subsequent Events

Management has evaluated subsequent events through May 24, 2016, the date the financial statements were available to be issued.

NOTE 2 - DEPOSITS AND INVESTMENTS

The District's cash and investment balances at December 31, 2015 are listed below.

	<u>2015</u>
Petty Cash	\$ 650
Bank Deposit Accounts	18,585
Investment in King County Investment Pool	<u>1,612,584</u>
Total Cash & Investments	<u>\$ 1,631,819</u>

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

In accordance with state investment laws, the District's governing body has entered into a formal interlocal agreement with the District's *ex officio* treasurer, King County, to have all its funds not required for immediate expenditure to be invested in the King County Investment Pool (Pool).

As of December 31, 2015, the District had the following investments:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Effective Duration</u>
King County Investment Pool	\$ 1,612,584	0.93 Years

Water District No. 125 of King County
Notes to Financial Statements
Year Ended December 31, 2015

NOTE 2 - DEPOSITS AND INVESTMENTS (Continued)

Impaired Investments. As of December 31, 2015, all impaired commercial paper investments have completed enforcement events. The King County impaired investment pool (Impaired Pool) held one commercial paper asset where the Impaired Pool accepted an exchange offer and is receiving the cash flows from the investment's underlying securities. The impaired pool also held the residual investments in two commercial paper assets that were part of completed enforcement events, where the Impaired Pool accepted the cash out option. The District's share of the impaired investment pool principal is \$1,193 and the District's fair value of these investments is \$749.

Interest Rate Risk. As of December 31, 2015, the Pool's average duration was 0.93 years. As a means of limiting its exposure to rising interest rates, securities purchased in the Pool must have a final maturity, or weighted average life, no longer than five years. While the Pool's market value is calculated on a monthly basis, unrealized gains and losses are not distributed to participants. The Pool distributes earnings monthly using an amortized cost methodology.

Credit Risk. As of December 31, 2015, the District's investment in the Pool was not rated by a nationally recognized statistical rating organization (NRSRO). In compliance with state statutes, Pool policies authorize investments in U.S. Treasury securities, U.S. agency securities and mortgage-backed securities, municipal securities (rated at least "A" by two NRSROs), commercial paper (rated at least the equivalent of "A-1" by two NRSROs), certificates of deposits issued by qualified public depositories, repurchase agreements, and the Local Government Investment Pool managed by the Washington State Treasurer's office.

Water District No. 125 of King County
Notes to Financial Statements
Year Ended December 31, 2015

NOTE 3 - CAPITAL ASSETS

Capital assets activity for the year ended December 31, 2015 was as follows:

	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>
Capital assets not being depreciated:				
Land	\$ 550,680	\$ -	\$ -	\$ 550,680
Construction in Progress	<u>95,213</u>	<u>339,887</u>	<u>(413,597)</u>	<u>21,503</u>
<u>Total capital assets not being depreciated</u>	<u>645,893</u>	<u>339,887</u>	<u>(413,597)</u>	<u>572,183</u>
Capital assets being depreciated:				
Plant	13,665,455	526,692	-	14,192,147
Equipment	582,012	36,368	-	618,380
Intangibles	<u>944,172</u>	<u>12,379</u>	<u>-</u>	<u>956,551</u>
<u>Total capital assets being depreciated</u>	<u>15,191,639</u>	<u>575,439</u>	<u>-</u>	<u>15,767,078</u>
Less Accumulated Depreciation	<u>5,633,308</u>	<u>402,642</u>	<u>-</u>	<u>6,035,950</u>
<u>Total capital assets being depreciated, net</u>	<u>9,558,331</u>	<u>172,797</u>	<u>-</u>	<u>9,731,128</u>
 <u>TOTAL CAPITAL ASSETS, NET</u>	 <u>\$ 10,204,224</u>	 <u>\$ 512,684</u>	 <u>\$ (413,597)</u>	 <u>\$ 10,303,311</u>

The District capitalizes the interest cost during the construction period of its utility plant if the construction period exceeds one year. In 2015, the total interest cost was \$13,900 of which no amounts were capitalized as construction period interest. The District also capitalizes employee wage and benefit costs in connection with construction of utility plant. No wages or benefits were capitalized in 2015.

The practice of the District is to use a capitalization threshold of \$1,000.

Water District No. 125 of King County
Notes to Financial Statements
Year Ended December 31, 2015

NOTE 4 - CONSTRUCTION IN PROGRESS

Construction in progress represents expenses to date on projects whose authorizations total \$221,503. Of the committed balance of \$200,000, the District will not be required to incur any future financing.

	<u>Project Authorization</u>	<u>Expended to 12/31/15</u>	<u>Committed</u>	<u>Anticipated Future Financing</u>
Tukwila 42 nd Ave S	\$ 221,503	\$ 21,503	\$ 200,000	\$ -
Totals	<u>\$ 221,503</u>	<u>\$ 21,503</u>	<u>\$ 200,000</u>	<u>\$ -</u>

NOTE 5 - LONG-TERM DEBT AND LIABILITIES

Public Works Trust Fund Loans

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

	<u>2015</u>
2004 loan - payable at \$4,566 annually through the year 2024, plus interest at ½% per annum Original debt: \$101,150 for Zone 2 Source and Water main Improvement Project.	\$ 41,095
2005 loan - payable at \$57,645 annually through the year 2025, plus interest at ½% per annum Original debt: \$1,088,850 for Zone 2 Source and Water main Improvement Project	576,450
2008 loan - payable at \$26,316 annually through the year 2028, plus interest at 3% per annum Original debt: \$500,000 for Water Supply Replacement Project.	<u>342,105</u>
	<u>\$ 959,650</u>

The annual requirements to amortize all Public Works Trust Fund loans outstanding as of December 31, 2015, including interest, are as follows:

Water District No. 125 of King County
Notes to Financial Statements
Year Ended December 31, 2015

NOTE 5 - LONG-TERM DEBT AND LIABILITIES (Continued)

Public Works Trust Fund Loans (Continued)

<u>Year Ended December 31</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 88,527	\$ 13,351	\$ 101,878
2017	88,527	12,250	100,777
2018	88,527	11,150	99,677
2019	88,527	10,049	98,576
2020	88,527	8,949	97,476
2021 - 2025	438,068	28,236	466,304
2026 - 2028	<u>78,947</u>	<u>4,737</u>	<u>83,684</u>
	<u>\$ 959,650</u>	<u>\$ 88,722</u>	<u>\$1,048,372</u>

Changes in Long-Term Liabilities

During the year ended December 31, 2015, the following changes occurred in long-term liabilities:

	<u>Balance</u> <u>1/1/15</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>12/31/15</u>	<u>Due in</u> <u>One Year</u>
Public Works Trust Fund Loans	\$1,048,177	\$ -	\$ (88,527)	\$ 959,650	\$ 88,527
Net Pension Liability	399,189	97,479	-	496,668	-
Compensated Absences	<u>103,752</u>	<u>-</u>	<u>(373)</u>	<u>103,379</u>	<u>-</u>
Totals	<u>\$1,551,118</u>	<u>\$ 97,479</u>	<u>\$ (88,900)</u>	<u>\$1,559,697</u>	<u>\$ 88,527</u>

Water District No. 125 of King County
Notes to Financial Statements
Year Ended December 31, 2015

NOTE 6 - PENSION PLAN

The following table represents the aggregate pension amounts for all plans subject to the requirements of the GASB Statement 68, *Accounting and Financial Reporting for Pensions* for the year 2015:

Aggregate Pension Amounts - All Plans	
Pension liabilities	\$496,668
Pension assets	\$-
Deferred outflows of resources	\$57,629
Deferred inflows of resources	\$83,376
Pension expense/expenditures	(\$28,108)

State Sponsored Pension Plans

Substantially all District full-time and qualifying part-time employees participate in one of the following statewide retirement systems administered by the Washington State Department of Retirement Systems, under cost-sharing, multiple-employer public employee defined benefit and defined contribution retirement plans.

The state Legislature establishes, and amends, laws pertaining to the creation and administration of all public retirement systems.

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 98540-8380

Or the DRS CAFR may be downloaded from the DRS website at www.drs.wa.gov.

Water District No. 125 of King County
Notes to Financial Statements
Year Ended December 31, 2015

NOTE 6 - PENSION PLAN (Continued)

Public Employees' Retirement System (PERS)

PERS members include elected officials; state employees; employees of the Supreme, Appeals and Superior Courts; employees of the legislature; employees of district and municipal courts; employees of local governments; and higher education employees not participating in higher education retirement programs. PERS is comprised of three separate pension plans for membership purposes. PERS plans 1 and 2 are defined benefit plans, and PERS plan 3 is a defined benefit plan with a defined contribution component.

PERS Plan 1 provides retirement, disability and death benefits. Retirement benefits are determined as two percent of the member's average final compensation (AFC) times the member's years of service. The AFC is the average of the member's 24 highest consecutive service months. Members are eligible for retirement from active status at any age with at least 30 years of service, at age 55 with at least 25 years of service, or at age 60 with at least five years of service. Members retiring from active status prior to the age of 65 may receive actuarially reduced benefits. Retirement benefits are actuarially reduced to reflect the choice of a survivor benefit. Other benefits include duty and non-duty disability payments, an optional cost-of-living adjustment (COLA), and a one-time duty-related death benefit, if found eligible by the Department of Labor and Industries. PERS 1 members were vested after the completion of five years of eligible service. The plan was closed to new entrants on September 30, 1977.

Contributions

The PERS Plan 1 member contribution rate is established by State statute at 6 percent. The employer contribution rate is developed by the Office of the State Actuary and includes an administrative expense component that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates. The PERS Plan 1 required contribution rates (expressed as a percentage of covered payroll) for 2015 were as follows:

PERS Plan 1		
Actual Contribution Rates:	Employer	Employee
January through June 2015	9.21%	6.00%
July through December 2015	11.18%	6.00%

Water District No. 125 of King County
Notes to Financial Statements
Year Ended December 31, 2015

NOTE 6 - PENSION PLAN (Continued)

The District's actual contributions to the plan were \$25,831 for the year ended December 31, 2015.

PERS Plan 2/3 provides retirement, disability and death benefits. Retirement benefits are determined as two percent of the member's average final compensation (AFC) times the member's years of service for Plan 2 and 1 percent of AFC for Plan 3. The AFC is the average of the member's 60 highest-paid consecutive service months. There is no cap on years of service credit. Members are eligible for retirement with a full benefit at 65 with at least five years of service credit. Retirement before age 65 is considered an early retirement. PERS Plan 2/3 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 benefit that is reduced by a factor that varies according to age for each year before age 65. PERS Plan 2/3 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 three 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 2/3 members hired on or after May 1, 2013 have the option to retire early by accepting a reduction of five 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 credit. PERS Plan 2/3 retirement benefits are also actuarially reduced to reflect the choice of a survivor benefit. Other PERS Plan 2/3 benefits include duty and non-duty disability payments, a cost-of-living allowance (based on the CPI), capped at three percent annually and a one-time duty related death benefit, if found eligible by the Department of Labor and Industries. PERS 2 members are vested after completing five years of eligible service. 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 12 months of that service are earned after age 44.

PERS Plan 3 defined contribution benefits are totally dependent on employee contributions and investment earnings on those contributions. PERS Plan 3 members choose their contribution rate upon joining membership and have a chance to change rates upon changing employers. As established by statute, Plan 3 required defined contribution rates are set at a minimum of 5 percent and escalate to 15 percent with a choice of six options. Employers do not contribute to the defined contribution benefits. PERS Plan 3 members are immediately vested in the defined contribution portion of their plan.

Water District No. 125 of King County
Notes to Financial Statements
Year Ended December 31, 2015

NOTE 6 - PENSION PLAN (Continued)

Contributions

The PERS Plan 2/3 employer and employee contribution rates are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. The Plan 2/3 employer rates include a component to address the PERS Plan 1 UAAL and an administrative expense that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 2 employer and employee contribution rates and Plan 3 contribution rates. The PERS Plan 2/3 required contribution rates (expressed as a percentage of covered payroll) for 2015 were as follows:

PERS Plan 2/3		
Actual Contribution Rates:	Employer 2/3	Employee 2
January through June 2015	9.21%	4.92%
July through December 2015	11.18%	6.12%
Employee PERS Plan 3		varies

The District's actual contributions to the plan were \$33,165 for the year ended December 31, 2015.

Actuarial Assumptions

The total pension liability (TPL) for each of the DRS plans was determined using the most recent actuarial valuation completed in 2015 with a valuation date of June 30, 2014. The actuarial assumptions used in the valuation were based on the results of the Office of the State Actuary's (OSA) 2007-2012 Experience Study.

Additional assumptions for subsequent events and law changes are current as of the 2014 actuarial valuation report. The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2015. Plan liabilities were rolled forward from June 30, 2014, to June 30, 2015, reflecting each plan's normal cost (using the entry-age cost method), assumed interest and actual benefit payments.

- **Inflation:** 3% total economic inflation; 3.75% salary inflation
- **Salary increases:** In addition to the base 3.75% salary inflation assumption, salaries are also expected to grow by promotions and longevity.
- **Investment rate of return:** 7.5%

Water District No. 125 of King County
Notes to Financial Statements
Year Ended December 31, 2015

NOTE 6 - PENSION PLAN (Continued)

Mortality rates were based on the RP-2000 report's Combined Healthy Table and Combined Disabled Table, published by the Society of Actuaries. The OSA applied offsets to the base table and recognized future improvements in mortality by projecting the mortality rates using 100 percent Scale BB. Mortality rates are applied on a generational basis; meaning, each member is assumed to receive additional mortality improvements in each future year throughout his or her lifetime.

There were minor changes in methods and assumptions since the last valuation.

- The OSA updated demographic assumptions, consistent with the changes from the 2007-2012 Experience Study Report, used when valuing the PERS 1 Basic Minimum COLA.
- The OSA corrected how valuation software calculates a member's entry age under the entry age normal actuarial cost method. Previously, the funding age was rounded, resulting in an entry age one year higher in some cases.
- For purposes of calculating the Plan 2/3 Entry Age Normal Cost contribution rates, the OSA now uses the current blend of Plan 2 and Plan 3 salaries rather than using a long-term membership assumption of two-thirds Plan 2 members and one-third Plan 3 members.
- The OSA changed the way it applies salary limits, as described in the 2007-2012 Experience Study Report.

Discount Rate

The discount rate used to measure the total pension liability for all DRS plans was 7.5 percent.

To determine that rate, an asset sufficiency test included an assumed 7.7 percent long-term discount rate to determine funding liabilities for calculating future contribution rate requirements. Consistent with the long-term expected rate of return, a 7.5 percent future investment rate of return on invested assets was assumed for the test. Contributions from plan members and employers are assumed to continue being made at contractually required rates (including PERS 2/3 employers, whose rates include a component for the PERS 1 plan liabilities). Based on these assumptions, the pension plans' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return of 7.5 percent was used to determine the total liability.

Water District No. 125 of King County
Notes to Financial Statements
Year Ended December 31, 2015

NOTE 6 - PENSION PLAN (Continued)

Long-Term Expected Rate of Return

The long-term expected rate of return on the DRS pension plan investments of 7.5 percent was determined using a building-block-method. The Washington State Investment Board (WSIB) used a best estimate of expected future rates of return (expected returns, net of pension plan investment expense, including inflation) to develop each major asset class. Those expected returns make up one component of WSIB's capital market assumptions. The WSIB uses the capital market assumptions and their target asset allocation to simulate future investment returns at various future times. The long-term expected rate of return of 7.5 percent approximately equals the median of the simulated investment returns over a 50-year time horizon.

Estimated Rates of Return by Asset Class

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2015, are summarized in the table below. The inflation component used to create the table is 2.2 percent and represents the WSIB's most recent long-term estimate of broad economic inflation.

Asset Class	Target Allocation	% Long-Term Expected Real Rate of Return Arithmetic
Fixed Income	20%	1.70%
Tangible Assets	5%	4.40%
Real Estate	15%	5.80%
Global Equity	37%	6.60%
Private Equity	23%	9.60%
	100%	

Sensitivity of NPL

The table below presents the District's proportionate share of the net pension liability calculated using the discount rate of 7.5 percent, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.5 percent) or 1-percentage point higher (8.5 percent) than the current rate.

Water District No. 125 of King County
Notes to Financial Statements
Year Ended December 31, 2015

NOTE 6 - PENSION PLAN (Continued)

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
PERS 1	\$321,236	\$263,848	\$214,500
PERS 2/3	\$680,779	\$232,820	\$(110,165)

Pension Plan Fiduciary Net Position

Detailed information about the State's pension plans' fiduciary net position is available in the separately issued DRS financial report.

Pension Liabilities (Assets), Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2015, the District reported a total pension liability of \$496,668 for its proportionate share of the net pension liabilities as follows:

	Liability (or Asset)
PERS 1	\$263,848
PERS 2/3	\$232,820

At June 30, the District's proportionate share of the collective net pension liabilities was as follows:

	Proportionate Share 6/30/14	Proportionate Share 6/30/15	Change in Proportion
PERS 1	.005225%	.005044%	(.000181%)
PERS 2/3	.006727%	.006516%	(.000211%)

Employer contribution transmittals received and processed by the DRS for the fiscal year ended June 30 are used as the basis for determining each employer's proportionate share of the collective pension amounts reported by the DRS in the *Schedules of Employer and Nonemployer Allocations*.

The collective net pension liability (asset) was measured as of June 30, 2015, and the actuarial valuation date on which the total pension liability (asset) is based was as of June 30, 2014, with update procedures used to roll forward the total pension liability to the measurement date.

Water District No. 125 of King County
Notes to Financial Statements
Year Ended December 31, 2015

NOTE 6 - PENSION PLAN (Continued)

Pension Expense

For the year ended December 31, 2015, the District recognized pension expense as follows:

	Pension Expense
PERS 1	(\$20,491)
PERS 2/3	(\$7,617)

Deferred Outflows of Resources and Deferred Inflows of Resources

At December 31, 2015, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

PERS 1, 2, & 3	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$24,749	\$-
Net difference between projected and actual investment earnings on pension plan investments	\$-	\$76,587
Changes of assumptions	\$375	\$-
Changes in proportion and differences between contributions and proportionate share of contributions	\$-	\$6,789
Contributions subsequent to the measurement date	\$32,505	\$-
TOTAL	\$57,629	\$83,376

Deferred outflows of resources related to pensions resulting from the District's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2016. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31:	PERS 1, 2, & 3
2016	\$1,997
2017	\$1,997
2018	\$1,997
2019	\$798
2020	\$-
Thereafter	\$-

Water District No. 125 of King County
Notes to Financial Statements
Year Ended December 31, 2015

NOTE 7 - RISK MANAGEMENT

The District is 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 66 members. The Pool's fiscal year is November 1st through October 31st.

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

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

TYPE OF COVERAGE	MEMBER DEDUCTIBLE	SELF-INSURED RETENTION	EXCESS LIMITS
Property Loss:			
Buildings and Contents	\$1,000 - \$25,000 and See (C) below	\$25,000	\$1,000,000,000
Flood	See (A) below	See (A) below	\$50,000,000
Earthquake	See (B) below	See (B) below	\$75,000,000 ((\$25,000,000 dedicated to Alderwood and \$50,000,000 shared by all members)
Terrorism	\$1,000 - \$25,000	\$25,000 Primary layer	\$100,000,000 Primary layer
Boiler & Machinery	\$1,000 - \$350,000 depending on object	\$25,000 - \$350,000 depending on object	\$100,000,000
Auto - Physical Damage	\$1,000 - \$25,000	\$25,000	\$10,000,000

Water District No. 125 of King County
Notes to Financial Statements
Year Ended December 31, 2015

NOTE 7 - RISK MANAGEMENT (Continued)

TYPE OF COVERAGE	MEMBER DEDUCTIBLE	SELF-INSURED RETENTION	EXCESS LIMITS
Liability:			
Commercial General Liability	\$1,000 - \$25,000	\$200,000	\$10,000,000
Auto Liability	\$1,000 - \$25,000	\$200,000	\$10,000,000
Public Officials Errors and Omissions	\$1,000 - \$25,000	\$200,000	\$10,000,000
Employment Practices	\$1,000 - \$25,000	\$200,000	\$10,000,000
Other:			
Public Officials Bonds	Various	N/A	Various
Crime	\$1,000 - \$25,000	\$25,000	\$2,000,000
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 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. Member deductible for Cyber liability is \$100,000 and where applicable the dollar amount of the business interruption loss during the policy's required 8 hour waiting period.			

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 except where noted as follows. 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). Each member is also responsible for the full deductible applicable to the Cyber Liability, and that part of a Boiler & Machinery deductible which exceeds \$25,000.

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, 2016, written notice must be in the Pool possession by April 30, 2016). 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.

Water District No. 125 of King County
Notes to Financial Statements
Year Ended December 31, 2015

NOTE 7 - RISK MANAGEMENT (Continued)

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.

For years ending December 31, 2013, 2014, and 2015 the District had no claims in excess of their insurance coverage.

NOTE 8 - JOINT FACILITIES

- a. Water District No. 125 is a 25% participant in a joint reservoir operated by Skyway Water and Sewer District. The District paid 25% of the cost of construction and, thereby, acquired a lease of 25% of the reservoir capacity for 50 years beginning November 1, 1996. The cost of acquiring this leasehold interest is being amortized over 46 years beginning November 1, 2001. The District shares the costs of operating and maintaining the reservoir. Its share of these costs was \$0 for 2015 as the District is billed biannually. Information about all aspects of this contract is available in the District office.
- b. Water District No. 125 is a participant in a joint reservoir operated by Water District No. 20. On April 11, 2002 the District executed a new agreement which expires December 31, 2022. Under the agreement, the District purchases a portion of its water from Water District No. 20 and shares in the costs of operating and maintaining the reservoir. Its share of these costs was approximately \$55,944 for 2015. Information about all aspects of this contract is available in the District office.

NOTE 9 - COMMITMENTS AND CONTINGENT LIABILITIES

- a. Water Supply Contract
On March 28, 2002, the District entered into a full requirements water supply contract with the City of Seattle. The contract runs through December 31, 2061. The city agrees to supply 100% of the District's water requirements and the District agrees to purchase 100% of its wholesale water from the city, with the exception of water purchased from other Districts under existing intertie agreements.

New rates and facilities charges, determined by Seattle, become effective annually. Information about these charges and other aspects of the contract is available in the District office.

Water District No. 125 of King County
Notes to Financial Statements
Year Ended December 31, 2015

NOTE 9 - COMMITMENTS AND CONTINGENT LIABILITIES (Continued)

b. Water Delivery and Sub-Metering Agreement

On April 16, 2004, effective January 1, 2004, the District entered into a Water Delivery and Sub-Metering Agreement between itself and the City of Seattle, Skyway Water and Sewer District and the Cascade Water Alliance, which amends the water supply contract mentioned in Note 9(a), above. This agreement provides for the District to receive Seattle water through an interconnection with Skyway. Seattle will bill the District for this water and Skyway will bill the District for the capital costs and operation & maintenance costs associated with the flow and metering of the water.

This agreement expires December 31, 2053 but can be terminated by any party with one year's written notice to the other parties.

A copy of the contract is available in the District office.

c. Joint Administration Building

On August 14, 2005, the District entered into an agreement with Valley View Sewer District for the construction and operation of a joint administration building on property owned by Water District No. 125. The district's share of operating and maintenance expenses were \$17,717 in 2015. The building was completed and occupied in 2007. The Districts are tenants in common, each having a 50% interest in the shared parcel and are operating under a condominium agreement.

Details of the agreements are available in the District office.

NOTE 10 - USE OF ESTIMATES

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

NOTE 11 - CHANGES IN ACCOUNTING PRINCIPLES

The District's Statement of Net Position reflects a change in accounting principles of \$550,515 resulting from the implementation of GASB 68.

Water District No. 125 of King County
Schedule of Proportionate Share of the Net Pension Liability
Required Supplementary Information
PERS Pension Plan
As of June 30, 2015
Last 10 Fiscal Years
Schedule III

PERS #1		2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
District's proportion of the net pension liability (asset)	%	0.0050%									
District's proportionate share of the net pension liability	\$	263,848									
District's covered employee payroll	\$	-									
District's proportionate share of the net pension liability as a percentage of covered employee payroll	%	-									
Plan fiduciary net position as a percentage of the total pension liability	%	59.10%									
PERS #2/3		2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
District's proportion of the net pension liability (asset)	%	0.0065%									
District's proportionate share of the net pension liability	\$	232,820									
District's covered employee payroll	\$	578,153									
District's proportionate share of the net pension liability as a percentage of covered employee payroll	%	40.2696%									
Plan fiduciary net position as a percentage of the total pension liability	%	89.20%									

Water District No. 125 of King County
 Schedule of Employer Contributions
 Required Supplementary Information
 PERS Pension Plan
 As of June 30, 2015
 Last 10 Fiscal Years
 Schedule IV

PERS #1	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Statutorily or contractually required contributions	\$ 23,183									
Contributions in relation to the statutorily or contractually required contributions	\$ (23,183)									
Contribution deficiency (excess)	\$ -									
Covered employer payroll	\$ -									
Contributions as a percentage of covered employee payroll	%	-								
PERS #2/3	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Statutorily or contractually required contributions	\$ 29,025									
Contributions in relation to the statutorily or contractually required contributions	\$ (29,025)									
Contribution deficiency (excess)	\$ -									
Covered employer payroll	\$ 578,153									
Contributions as a percentage of covered employee payroll	%	5.0203%								

Water District No. 125 of King County
Notes to Required Supplementary Information
PERS Pension Plan
As of June 30, 2015
Schedule V

NOTE 1 – CHANGES OF BENEFIT TERMS

There were no changes in benefit terms for the pension plans.

NOTE 2 – CHANGES OF ASSUMPTIONS

Amounts reported in 2015 reflect an adjustment of the expectation of life after disability to more closely reflect actual experience. For the amounts reported in 2007 and later, the expectation of retired life mortality was based on the Office of State Actuary (OSA) 2007-2012 Experience Study Report.

ABOUT THE STATE AUDITOR'S OFFICE

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

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

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

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

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

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

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

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