



Washington State Auditor's Office

Government that works for citizens

Financial Statements Audit Report

Soos Creek Water and Sewer District

King County

For the period January 1, 2014 through December 31, 2015

Published November 28, 2016

Report No. 1018000





Washington State Auditor's Office

November 28, 2016

Board of Commissioners
Soos Creek Water and Sewer District
Renton, Washington

Report on Financial Statements

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

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

Sincerely,

TROY KELLEY
STATE AUDITOR
OLYMPIA, WA

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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**

**Soos Creek Water and Sewer District
King County
January 1, 2014 through December 31, 2015**

Board of Commissioners
Soos Creek Water and Sewer District
Renton, 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 Soos Creek Water and Sewer District, King County, Washington, as of and for the years ended December 31, 2015 and 2014, 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 2, 2016. As discussed in Note 16 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* and Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*.

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

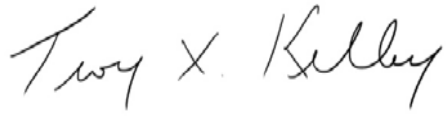
As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of the District's compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and 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.

A handwritten signature in black ink that reads "Troy X. Kelley". The signature is written in a cursive, flowing style.

TROY KELLEY
STATE AUDITOR
OLYMPIA, WA

November 2, 2016

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Soos Creek Water and Sewer District King County January 1, 2014 through December 31, 2015

Board of Commissioners
Soos Creek Water and Sewer District
Renton, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the Soos Creek Water and Sewer District, King County, Washington, as of and for the years ended December 31, 2015 and 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed on page 10.

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 Soos Creek Water and Sewer District, as of December 31, 2015 and 2014, and the changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Matters of Emphasis

As discussed in Note 16 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* and Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*. 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 11 through 15 and pension plan information on pages 46 through 47 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 2, 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 2, 2016

FINANCIAL SECTION

**Soos Creek Water and Sewer District
King County
January 1, 2014 through December 31, 2015**

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2015 and 2014

BASIC FINANCIAL STATEMENTS

Statement of Net Position – 2015 and 2014

Statement of Revenues, Expenses and Changes in Net Position – 2015 and 2014

Statement of Cash Flows – 2015 and 2014

Notes to Financial Statements – 2015 and 2014

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Proportionate Share of the Net Pension Liability – PERS 1 and PERS 2/3 –
2015

Schedule of Employer Contributions – PERS 1 and PERS 2/3 – 2015

SOOS CREEK WATER AND SEWER DISTRICT

MANAGEMENT DISCUSSION AND ANALYSIS

December 31, 2015 and 2014

INTRODUCTION

The following Management Discussion and Analysis is an introduction to the Soos Creek Water and Sewer District (the District) financial statements and the notes to the financial statements. The District is a Special Purpose District organized under the laws of the State of Washington, Revised Code of Washington, Title 57, to provide water and sewer services to specific areas in southeast King County, Washington. The District is not a segment or component of any other local government. The District reports its activities as an enterprise fund, which presents financial statements in a style similar to a private-sector business. The District is not legally required to formally adopt a budget; however, the District does so as a tool for monitoring and controlling revenues and expenses.

The Statement of Net Position presents information on all the District's assets and liabilities, with the difference between the two reported as Net Position. Over time, changes in Net Position can serve as an indicator of whether the financial position of the District is improving or deteriorating.

The Statement of Revenues, Expenses, and Changes in Net Position, like a traditional income statement, shows the impact of revenues and expenses on the most recent fiscal year. Except for interest and penalties on ULID assessments (See Note 1), changes to net assets are reported as the underlying event occurs regardless of the timing of related cash flows.

The Statement of Cash Flows presents cash flow from operations, from capital and related financing activities, and from investing activities.

COMPARATIVE FINANCIAL INFORMATION

	NET POSITION		
	2015	2014	2013
Assets			
Current	\$ 34,185,661.	\$ 32,445,649.	\$ 30,478,549.
Restricted	6,279,971.	17,476,961.	18,392,892.
Non-current assets			
Receivable	295,977.	382,340.	489,790.
Capital assets (net of depreciation)	196,779,606.	178,287,882.	174,531,393.
Total Assets	237,541,215.	228,592,832.	223,892,624.
Deferred Outflows of Resources - Pensions	278,851.	-	-
Current liabilities	5,864,199.	4,416,014.	4,108,831.
Liabilities on Restricted Assets	641,889.	631,184.	625,124.
Net Pension Liabilities	2,381,190.	-	-
Other Non-current Liabilities	3,728,514.	4,468,683.	5,376,277.
Total Liabilities	12,615,792.	9,515,880.	10,110,232.
Deferred Inflows of Resources - Pensions	348,584.	-	-
Net position:			
Net investment in capital assets	192,706,204.	173,268,164.	168,389,412.
Restricted	6,392,657.	17,639,886.	18,627,365.
Unrestricted	25,756,830.	28,168,902.	26,765,616.
Total Net Position	\$ 224,855,690.	\$ 219,076,952.	\$ 213,782,393.

SOOS CREEK WATER AND SEWER DISTRICT

MANAGEMENT DISCUSSION AND ANALYSIS

December 31, 2015 and 2014

COMPARATIVE FINANCIAL INFORMATION (Continued)

	CHANGE IN NET POSITION		
	2015	2014	2013
Operating Revenues:			
Sewer	\$ 27,438,355.	\$ 26,141,112.	\$ 25,771,088.
Water	9,002,689.	8,652,615.	8,195,385.
Other	2,329,681.	2,355,700.	2,305,900.
Non-operating Revenues	259,968.	284,352.	427,780.
Total Revenues	39,030,693.	37,433,779.	36,700,153.
Operating Expenses	37,140,973.	36,916,749.	35,459,765.
Non-operating Expenses	151,180.	46,053.	43,949.
Total Expenses	37,292,153.	36,962,802.	35,503,714.
Income Before Contributions	1,738,540.	470,978.	1,196,440.
Capital Contributions	6,540,371.	4,823,581.	2,580,358.
Change in Net Assets	8,278,911.	5,294,559.	3,776,798.
Net Position, Jan. 1	219,076,951.	213,782,392.	210,005,594.
Change In Accounting Principle	(2,500,174.)	-	-
Net Position, Dec. 31	<u>\$ 224,855,690.</u>	<u>\$ 219,076,951.</u>	<u>\$ 213,782,392.</u>

See Note 16 of the notes for information on the change in accounting principle.

FINANCIAL POSITION AND RESULTS OF OPERATIONS

2015

The District posted income before contributions of \$1,738,540 in 2015. Growth in sewer and water connections increased with the growth in residential construction. At yearend 2015 the District served 36,825 sewer equivalent residential units (ERUs) and 23,004 water ERUs, an increase over 2014 of 1.4% in sewer ERUs and 1.0% in water ERUs.

Financial highlights include:

- At the end of 2015 the net position of the District was \$224,855,690. Of this amount \$192,706,204 was invested in capital assets (net of related debt), \$25,756,830 was unrestricted assets and available for meeting the District's ongoing obligations, and \$6,392,657 was restricted assets. The restricted asset amount was composed of \$5,550,266 set aside for capital projects related to District growth and \$842,391 reserved for bond payments.
- The District's Net Assets increased \$8,278,911. This increase was created by Income of \$1,738,540 and by Capital Contributions, also called Contributions in Aid of Construction, of \$6,540,371. Developers installed \$3,780,837 of water and sewer infrastructure. These capital contributions are water and sewer lines and associated appurtenances that are constructed by private developers, according to the District's strict construction standards, and upon project completion are donated to the District. The District then maintains these water and sewer lines in perpetuity. An additional \$2,759,534 in system connection fees were collected. A change in accounting principle related to pensions created a \$2,500,174 decrease in Net Position; see Note 16 for information on the change in accounting principle.

SOOS CREEK WATER AND SEWER DISTRICT

MANAGEMENT DISCUSSION AND ANALYSIS

December 31, 2015 and 2014

FINANCIAL POSITION AND RESULTS OF OPERATIONS (Continued)

2015

- District total liabilities increased \$3,099,912 in 2015. This change was the result of an increase of \$1,458,890 in current liabilities, mostly accounts payable, and the recognition of net pension liabilities of \$2,381,190; see Note 13 for information on pensions. These increased liabilities were partially offset by \$773,929 of scheduled principal reductions in revenue bond and Public Works Trust Fund loan balances.
- Total District total revenues increased \$1,596,914. This increase was created by an average sewer rate increase of 5% yielding a year-over-year revenue increase of \$1,297,243. In addition, water revenue increased year-over-year by \$350,074, the result of a 1% increase in water rates combined with a 4% increase in the volume of water sold. The \$24,384 decrease in non-operating revenue is more than explained by a \$29,071 gain on the sale of surplus property in 2014; the District did not record a gain on the sale of surplus property in 2015.
- The \$224,752 year-over-year increase in operating expenses was due to an increase of \$941,154 in sewage treatment costs offset by a \$537,750 reduction in maintenance costs and a \$178,042 reduction in engineering costs.

2014

The District posted income before contributions of \$470,978 in 2014. Growth in sewer and water connections remained sluggish with the continued slump in residential construction. At yearend 2014 the District served 36,284 sewer equivalent residential units (ERUs) and 22,757 water ERUs, an increase over 2013 of 0.9% in sewer ERUs and 0.3% in water ERUs.

Financial highlights include:

- At the end of the year the net position of the District was \$219,076,952. Of this amount \$173,268,164 was invested in capital assets (net of related debt), \$28,168,902 was unrestricted assets and available for meeting the District's ongoing obligations, and \$17,639,886 was restricted assets. The restricted asset amount was composed of \$16,744,715 set aside for capital projects related to District growth and \$895,171 reserved for bond payments.
- The District's Net Assets increased \$5,294,559. This increase was created by Income of \$470,978 and by contributions from developers, called Contributions in Aid of Construction, of \$4,823,581. Developers installed \$3,373,080 of water and sewer infrastructure. These capital contributions are water and sewer lines and associated appurtenances that are constructed by private developers, according to the District's strict construction standards, and upon project completion are donated to the District. The District then maintains these water and sewer lines in perpetuity. An additional \$1,450,501 in system connection fees was collected.

SOOS CREEK WATER AND SEWER DISTRICT

MANAGEMENT DISCUSSION AND ANALYSIS

December 31, 2015 and 2014

FINANCIAL POSITION AND RESULTS OF OPERATIONS (Continued)

2014

- District total liabilities decreased \$594,351. This change was mainly the result of an increase of \$307,183 in current liabilities, mostly accounts payable, and \$946,316 scheduled principal reductions in revenue bond and Public Works Trust Fund loan balances.
- Total District revenues increased \$733,626. This increase was due to a 1% increase in the District's sewer rate yielding a year-over-year revenue increase of \$370,024. In addition, water revenue increased year-over-year by \$457,230, the result of a 4% increase in water rates combined with a 2% increase in the volume of water sold. The \$143,428 decrease in non-operating revenue was largely due to a decrease in interest received on investments.
- The \$1,456,984 year-over-year increase in operating expenses was due to an increase of \$174,425 in sewage treatment costs; an increase in water purchased of \$213,295; an increase in maintenance and engineering costs of \$876,500 for emergency sewer line repairs; and increased expenditures for employee training, and other materials and supplies.

CAPITAL ASSETS AND LONG-TERM DEBT

Capital Assets

2015

The District's total capital assets at yearend 2015, including work in progress, exceeded \$196 million (net of accumulated depreciation). This total includes land, sewer collection and transmission mains and lines, water transmission and distribution mains and lines, buildings, sewer and water pump stations, and construction work in progress on the sewer and water systems. Significant capital asset activity during the year included:

- The District added \$17,170,377 (net) in sewer infrastructure and other assets. Of this total, \$2,694,096 represented 11 completed developments that connected to the District's sewer system. A major sewer construction project capitalized by the District in 2015 was Lift Station 11B for \$13,461,471.
- The District added \$1,876,485 (net) in water infrastructure and other assets. Of this total, \$1,454,969 represented nine completed developments that connected to the District's water system. A key water project completed by the District in 2015 was the replacement of Pressure Reducing Valve #1 at a cost of \$266,071.
- At yearend 2015, work in progress totaled \$24,329,636. Of this total, \$20,879,749 was for sewer system projects and \$3,449,887 was water system projects.

SOOS CREEK WATER AND SEWER DISTRICT

MANAGEMENT DISCUSSION AND ANALYSIS

December 31, 2015 and 2014

CAPITAL ASSETS AND LONG-TERM DEBT (Continued)

Capital Assets

2015

Work in progress at yearend included:

	2015	2014	2013
Lift Station 46	\$ 19,992,709.	\$ 5,267,519.	\$ 2,897,064.
Cascade Village AC Pipe Replacement	2,115,851.	119,443.	19,711.
Maintenance Facility Expansion	922,287.	251,524.	111,469.
Lift Station 11B	687,418.	13,231,393.	11,433,935.
Cell Service Telemetry	215,459.	121,192.	22,699.
Lift Station 24B Removal	178,916.	178,916.	178,916.
GIS Implementation	68,376.	0.	0.
Sewer Odor Control Project	0.	206,845.	14,009.
Cascade Vista 2 Water Main Rplcmnt	0.	0.	2,321,095.
Water & Sewer Comprehensive Plans	0.	0.	361,879.
Other projects	148,620.	107,527.	142,279.
	<u>\$ 24,329,636.</u>	<u>\$ 19,484,359.</u>	<u>\$ 17,503,056.</u>

2014

The District's total capital assets at yearend 2014, including work in progress, exceeded \$178 million (net of accumulated depreciation). This total includes land, sewer collection and transmission mains and lines, water transmission and distribution mains and lines, buildings, sewer and water pump stations, and construction work in progress on the sewer and water systems. Significant capital asset activity during the year included:

- The District added \$3,101,713 (net) in sewer infrastructure and other assets. Of this total, \$2,560,933 represented 13 completed developments that connected to the District's sewer system. A major sewer project completed by the District in 2014 was an update of the comprehensive plan for \$236,435.
- The District added \$4,123,411 (net) in water infrastructure and other assets. Of this total, \$1,481,280 represented nine completed developments that connected to the District's water system. Major water projects completed by the District in 2014 included \$2,636,109 for the Cascade Vista 2 Water Main Replacement and \$164,975 for an update of the water comprehensive plan.
- At yearend 2014, work in progress totaled \$19,484,359. Of this total, \$18,926,247 was for sewer system projects and \$558,112 was water system projects.

SOOS CREEK WATER AND SEWER DISTRICT

MANAGEMENT DISCUSSION AND ANALYSIS

December 31, 2015 and 2014

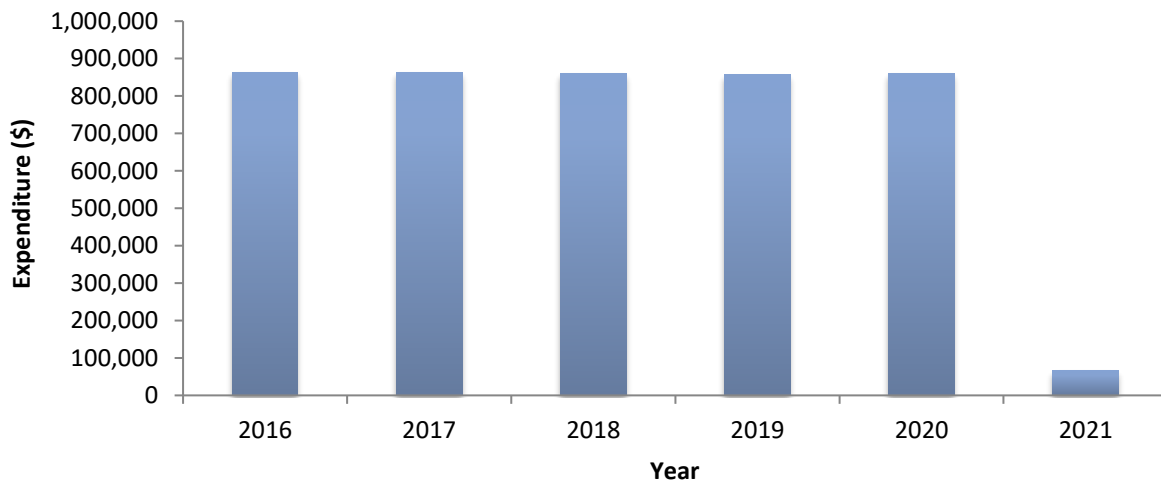
CAPITAL ASSETS AND LONG-TERM DEBT (Continued)

Long-term Debt

At yearend 2015 the District's long-term debt, including current portion, stood at \$4,073,402, composed of \$3,221,294 in revenue bonds (net of bond premium) and \$852,108 in loans from the Washington State Public Works Trust Fund. These borrowed funds were used to complete projects that expanded, upgraded, and replaced sewer and water infrastructure. During 2015 long-term debt decreased \$946,316, the result of scheduled payments on debt principal.

The District is obligated to pay a total of \$4,356,492 in principal and interest from 2016 through 2021. The District's revenue bonds are rated AA+ by Standard & Poor's.

Annual Debt Service



See Notes 4, 5, 9, 10 and 11 of the notes to the financial statements for more information on capital assets and long-term debt.

Outlook

The District's ongoing capital improvement plan calls for the expenditure of \$39.8 million through 2020. It is the District's intent to fund these capital expenditures through a combination of utility receipts, sewer and water system connection fees, and assets currently on hand. The District has no current plans for additional revenue bond financing; however, should they become available the District would pursue grants and/or additional low-interest rate loans.

SOOS CREEK WATER AND SEWER DISTRICT

STATEMENT OF NET POSITION

December 31, 2015 and 2014

	2015	2014
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents - Notes 1 & 3	\$ 26,133,043.	\$ 24,367,472.
Receivables - Note 1	7,064,398.	6,998,568.
Inventory - Note 1	281,412.	275,899.
Prepays	706,809.	803,720.
Restricted assets - Notes 2 & 3		
Capital Improvement Fund		
Cash and cash equivalents	5,429,705.	16,574,679.
Receivables	7,197.	12,524.
Project Construction Fund		
Cash and cash equivalents	1,696.	1,686.
Receivables	1.	1.
Revenue Bond Fund		
Cash and cash equivalents	790,280.	837,026.
Investments	50,683.	50,683.
Receivables	409.	352.
TOTAL CURRENT ASSETS	40,465,632.	49,922,610.
NON-CURRENT ASSETS		
Contractual obligation receivable - Note 17	157,708.	189,249.
Assessments receivable - Note 2	26,400.	36,804.
Accounts receivable general facility and connection charges - Note 7	111,869.	156,287.
TOTAL NON-CURRENT ASSETS	295,977.	382,340.
CAPITAL ASSETS - Notes 1 & 4		
Capital assets not being depreciated:		
Land and land rights	1,407,806.	1,407,102.
Intangible property rights	1,800,706.	1,800,706.
Construction work in process - Note 5	24,329,636.	19,484,359.
Capital assets being depreciated:		
Utility plant in service	274,938,760.	255,892,601.
Less accumulated depreciation	(105,697,302.)	(100,296,886.)
TOTAL CAPITAL ASSETS	196,779,606.	178,287,882.
TOTAL NON-CURRENT AND CAPITAL ASSETS	197,075,583.	178,670,223.
TOTAL ASSETS	237,541,215.	228,592,832.
DEFERRED OUTFLOWS OF RESOURCES		
Deferred outflows related to pensions	278,851.	0.
TOTAL DEFERRED OUTFLOWS OF RESOURCES	278,851.	0.

The accompanying notes are an integral part of these statements.

SOOS CREEK WATER AND SEWER DISTRICT

STATEMENT OF NET POSITION

December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
LIABILITIES AND NET POSITION		
CURRENT LIABILITIES		
Accounts payable	4,363,038.	2,906,607.
Current portion of Public Works Trust Fund loans	157,623.	345,288.
Accrued interest payable on Public Works Trust Fund loans	3,301.	4,867.
Deposits of developers and customers - Note 6	546,616.	608,826.
Contract retainage - Note 8	793,621.	550,426.
Payables from Restricted Assets:		
Accounts payable - Capital Improvement Fund	202.	462.
Current portion of revenue and refunding bonds	616,306.	601,028.
Accrued interest payable on revenue and refunding bonds	<u>25,381.</u>	<u>29,694.</u>
TOTAL CURRENT LIABILITIES	6,506,088.	5,047,198.
NON-CURRENT LIABILITIES		
Accrued vacation and sick leave - Note 1	429,041.	395,281.
Revenue and refunding bonds, net of current portion, bond discount and premium - Notes 9 & 10	2,604,988.	3,221,294.
Public Works Trust Fund loans, net of current portion - Note 11	694,485.	852,108.
Net pension liability - Note 13	<u>2,381,190.</u>	<u>0.</u>
TOTAL NON-CURRENT LIABILITIES	6,109,704.	4,468,683.
TOTAL LIABILITIES	12,615,792.	9,515,880.
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows related to pensions	<u>348,584.</u>	<u>0.</u>
TOTAL DEFERRED INFLOWS OF RESOURCES	348,584.	0.
NET POSITION		
Net investment in capital assets	192,706,204.	173,268,164.
Restricted	6,392,657.	17,639,886.
Unrestricted	<u>25,756,830.</u>	<u>28,168,902.</u>
TOTAL NET POSITION	<u>\$ 224,855,690.</u>	<u>\$ 219,076,952.</u>

The accompanying notes are an integral part of these statements.

SOOS CREEK WATER AND SEWER DISTRICT

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION Years ended December 31, 2015 and 2014

	2015	2014
OPERATING REVENUES		
Sewer	\$ 27,438,355.	\$ 26,141,112.
Water	9,002,689.	8,652,615.
Street lights	244,044.	243,647.
Other operating revenue	2,085,637.	2,112,053.
TOTAL OPERATING REVENUES	38,770,725.	37,149,428.
OPERATING EXPENSES		
Sewage treatment	18,091,246.	17,150,092.
Water purchased for resale	3,458,130.	3,561,408.
Street light power	239,817.	233,943.
Maintenance	4,676,546.	5,214,296.
Business and accounting	1,790,175.	1,793,966.
Administration	2,128,256.	2,376,823.
Business and payroll taxes	901,335.	850,632.
Depreciation	5,855,466.	5,735,588.
TOTAL OPERATING EXPENSES	37,140,973.	36,916,748.
OPERATING INCOME (LOSS)	1,629,752.	232,680.
NON-OPERATING REVENUES (EXPENSES)		
Assessment interest	1,687.	7,147.
Investment interest	258,281.	248,134.
Gain on sale of surplus property	0.	29,071.
Interest paid on debt	(7,073.)	(10,979.)
Loss on abandonment of utility plant	(144,107.)	(35,074.)
TOTAL NON-OP REVENUES (EXPENSES)	108,788.	238,299.
INCOME (LOSS) BEFORE CONTRIBUTIONS	1,738,540.	470,979.
Contributions in aid of construction	6,540,371.	4,823,581.
CHANGE IN NET POSITION	8,278,911.	5,294,559.
NET POSITION, JANUARY 1	219,076,952.	213,782,393.
CHANGE IN ACCOUNTING PRINCIPLE - Note 16	(2,500,174.)	0.
NET POSITION, DECEMBER 31	<u>\$ 224,855,690.</u>	<u>\$ 219,076,952.</u>

The accompanying notes are an integral part of these statements.

SOOS CREEK WATER AND SEWER DISTRICT

STATEMENTS OF CASH FLOWS Years ended December 31, 2015 and 2014

	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from customers	\$ 38,736,436.	\$ 37,058,263.
Payments to suppliers	(25,367,378.)	(26,769,219.)
Payments to employees	(4,155,553.)	(4,014,841.)
NET CASH FROM OPERATING ACTIVITIES	9,213,505.	6,274,204.
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Acquisition and construction of capital assets	(20,674,053.)	(6,050,728.)
Principal and interest paid on revenue bonds	(693,775.)	(695,575.)
Principal and interest paid on loans	(322,377.)	(513,593.)
Proceeds from assessments	12,090.	21,074.
Proceeds from deferred facility and connection charges	54,771.	73,085.
Proceeds from sale of capital assets	0.	29,071.
Cash contributed in aid of construction	2,759,534.	1,450,501.
NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	(18,863,810.)	(5,686,166.)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest on investments	224,165.	205,015.
NET CASH FROM INVESTING ACTIVITIES	224,165.	205,015.
NET CHANGE IN CASH BALANCES	(9,426,140.)	793,053.
CASH BALANCES AT BEGINNING OF YEAR	41,780,863.	40,987,811.
CASH BALANCES AT END OF YEAR	<u>\$ 32,354,723.</u>	<u>\$ 41,780,863.</u>
CASH BALANCES AT END OF YEAR CONSIST OF:		
Restricted	6,221,681.	17,413,391.
Unrestricted	26,133,043.	24,367,472.
TOTAL CASH BALANCE	<u>\$ 32,354,723.</u>	<u>\$ 41,780,864.</u>

The accompanying notes are an integral part of these statements.

SOOS CREEK WATER AND SEWER DISTRICT

STATEMENTS OF CASH FLOWS
Years ended December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income (loss)	\$ 1,629,752.	\$ 232,679.
ADJUSTMENTS TO RECONCILE OPERATING INCOME (LOSS) TO CASH PROVIDED BY OPERATING ACTIVITIES:		
Depreciation expense	5,855,466.	5,735,588.
Change in assets and liabilities:		
(Increase) decrease in accounts receivable	(65,830.)	(122,706.)
(Increase) decrease in contractual receivable	31,542.	31,542.
(Increase) decrease in inventory	(5,513.)	(11,562.)
(Increase) decrease in prepaid expenses	96,911.	(126,116.)
Increase (decrease) in accounts payable	1,456,431.	346,689.
Increase (decrease) in accrued vacation and sick leave	33,761.	38,721.
Increase (decrease) in deposits of developers and customers	(62,209.)	101,444.
Increase (decrease) in contract retainage	243,195.	47,926.
TOTAL ADJUSTMENTS	7,583,752.	6,041,525.
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 9,213,505.</u>	<u>\$ 6,274,204.</u>
NON-CASH CAPITAL FINANCING ACTIVITIES:		
Developer contributed capital	<u>\$ 3,780,837.</u>	<u>\$ 3,373,080.</u>

See accompanying notes to the financial statements

SOOS CREEK WATER AND SEWER DISTRICT

NOTES TO FINANCIAL STATEMENTS

December 31, 2015 and 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The summary of significant accounting policies of Soos Creek Water and Sewer District (the District) is presented to assist in understanding the District's financial statements. The financial statements and notes are representations of the District's management who are responsible for their integrity and objectivity. The accounting policies of the District conform to generally accepted accounting principles as applicable to proprietary funds of governmental units, except for interest and penalties earned on utility local improvement district assessments which are recorded as received. This practice is not in accordance with generally accepted accounting principles, but does not result in a material difference. The following is a summary of the more significant policies.

Reporting Entity

The District is a municipal corporation formed in King County, State of Washington, which is governed by an elected five-member board. The District's primary activity is to provide water and sewer services to residential and commercial customers within the District's boundaries. The District has no component units.

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 RCW Chapter 43.09. The District uses the BARS System of Accounts for governmental units.

The District uses the full-accrual basis of accounting where revenues are recognized when earned and expenses are recognized when incurred, except that accrued assessment interest is not reflected therein. The District's financial statements include the financial position and results of all operations that the District manages.

Revenues and expenses are distinguished between operating and non-operating items. Operating revenues result from providing services related to the District's water and sewer systems. Operating expenses include costs associated with providing District services, general and administrative expenses, and depreciation on assets. All revenues and expenses not meeting these definitions are classified as non-operating.

Cash and Cash Equivalents

The District presents its cash flow statements using the direct method. For purposes of the statements of cash flows, the District considers all highly liquid investments with maturities of three months or less when purchased to be cash equivalents. For more information, see Note 3, Deposits and Investments.

Cash and cash equivalents at the balance sheet dates consisted of the following:

	2015	2014
Cash in trust account	\$ 495,099.	\$ 485,251.
Cash in bank	577,885.	472,309.
Cash in bank lockbox facility	19,346.	34,883.
Deposits in transit	11,000.	0.
Cash in King County Investment Pool	25,029,712.	23,375,031.
Total	<u>\$ 26,133,043.</u>	<u>\$ 24,367,472.</u>

SOOS CREEK WATER AND SEWER DISTRICT

NOTES TO FINANCIAL STATEMENTS

December 31, 2015 and 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Accounts Receivable

Unbilled utility service receivables are recorded at yearend. The District takes advantage of its authority to file liens against properties with delinquent utility balances. Such liens are recorded at the King County Recorder's Office and are maintained until balances are paid in full. Interest is assessed until these accounts are paid. For this reason, the District does not provide an allowance for doubtful accounts, all accounts are considered collectible. Use of this method does not result in a material difference from the valuation method required by generally accepted accounting principles.

The following amounts were due the District at December 31:

	2015	2014
Utilities	\$ 6,890,983.	\$ 6,848,264.
Developers	102,935.	104,811.
Contractual obligation, current portion	31,542.	31,542.
Interest	13,633.	10,628.
Other	25,305.	3,323.
Total	<u>\$ 7,064,398.</u>	<u>\$ 6,998,568.</u>

Inventories

Inventories are valued at the average acquisition cost which approximates the market value. The District conducts an annual physical inventory count. Inventories consisted of the following as of December 31:

	2015	2014
Materials and supplies	\$ 107,397.	\$ 110,994.
Small tools	174,015.	164,905.
Total	<u>\$ 281,412.</u>	<u>\$ 275,899.</u>

Utility Plant and Depreciation

Utility plant in service and other capital assets are stated at cost where the historical cost is known. Where historical cost is not known, assets are recorded at the District engineer's estimated cost. Donations by developers and customers are recorded at the contract price or donor cost or appraised value.

Expenditures for maintenance, repairs, and minor renewals are accounted for as expenses when incurred. Renewals and betterments that materially extend the life of the assets are capitalized. At the time property is sold, retired or otherwise disposed of, the original cost 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. Initial depreciation on utility plant is recorded in the year subsequent to purchase. Depreciation expense for the years ended December 31, 2015 and 2014 were \$5,855,466 and \$5,735,588 respectively. Preliminary costs incurred for proposed projects are deferred pending construction of the facility. Costs related to projects ultimately constructed are transferred to utility plant; charges related to abandoned projects are expensed.

SOOS CREEK WATER AND SEWER DISTRICT

NOTES TO FINANCIAL STATEMENTS

December 31, 2015 and 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capitalization of Expenses

The District incurs engineering, legal, and other expenses in connection with the design and construction of utility plant. These costs are capitalized and recorded as a cost of utility plant. Expenditures for capital assets that exceed \$5,000, including capital leases and repairs that extend useful lives in excess of one year are capitalized. Interest costs incurred are subject to capitalization. Total interest costs incurred for the years ending December 31, 2015 and 2014 were \$121,526 and \$142,346 respectively; interest amounts capitalized in 2015 and 2014 were \$114,453 and \$131,367 respectively.

Income and Property Taxes

The District is a municipal corporation and as such is exempt from income and property taxes.

Compensated Absences

The District accrues accumulated unpaid vacation and sick leave benefits as earned. Sick leave is accrued at 50% of the amount due, as that portion would be paid on termination. The liabilities for unpaid vacation and sick leave benefits at December 31, 2015 and 2014 were \$429,041 and \$395,281 respectively.

Vacation

Each full-time employee receives vacation benefits as follows:

<u>Years of Continuous Service</u>	<u>Monthly Vacation Credit</u>	<u>Equivalent Annual Vacation Earned</u>
First year	1 day	12 working days
After two years	1.083 days	13 working days
After three years	1.167 days	14 working days
After five years	1.25 days	15 working days
After ten years	1.50 days	18 working days
After fifteen years	1.67 days	20 working days
After twenty years	1.75 days	21 working days
After twenty-five years	1.833 days	22 working days

During the first year of employment, an employee is not entitled to take any vacation. If an employee's employment with the District terminates prior to completing one year of employment, the employee is not entitled to any prorated vacation pay. During the second and all subsequent years of employment, vacation will accrue and be eligible on a continuing basis each month. An employee may not accumulate more than 1.5 times his/her annual vacation days. At the end of the year, or at the time of termination or retirement, vacation accruals will be adjusted accordingly. Each December 31st, all vacation accruals in excess of the allowable amount are dropped.

SOOS CREEK WATER AND SEWER DISTRICT

NOTES TO FINANCIAL STATEMENTS

December 31, 2015 and 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Compensated Absences

Sick Leave

Each fulltime regular employee of the District accrues sick leave benefits at the rate of one day per calendar month, beginning with the first calendar month following the commencement of employment. The sick leave accruing each month is credited to the employee at the end of that month. The amount of accumulated sick leave is limited to 520 hours.

Upon retirement, an employee receives 50% of any remaining unused accumulated sick leave at the employee's then current rate of pay.

Upon the death of an employee who leaves a surviving spouse or surviving minor child, the surviving spouse or surviving minor child, but not both, is entitled to 50% of the employee's unused accumulated sick leave at the employee's then current rate of pay.

An employee who voluntarily terminates, and is not on probation at the time of termination, receives 50% of the employee's unused accumulated sick leave at the employee's then current rate of pay. An employee terminated by the District without cause receives 50% of the employee's unused accumulated sick leave at the employee's then current rate of pay; terminated with cause receives no sick leave accrual.

Pensions

For purposes of measuring the net pension liability, deferred outflows and inflows 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.

NOTE 2 - RESTRICTED ASSETS

Cash, investments, and bond funds are maintained by the King County Treasurer's Office. For more information, see Note 3, Deposits and Investments.

Revenue Bond Funds

In accordance with bond resolutions and certain related agreements, separate restricted funds are required to be established. Assets held in these funds are restricted for specific uses, including debt service and other special reserve requirements. Restricted bond funds included the following at the balance sheet dates:

	2015	2014
Bond fund cash	\$ 790,280.	\$ 837,026.
Bond fund investments	50,683.	50,683.
Accrued interest receivable	409.	352.
Total	<u>\$ 841,372.</u>	<u>\$ 888,061.</u>

SOOS CREEK WATER AND SEWER DISTRICT

NOTES TO FINANCIAL STATEMENTS

December 31, 2015 and 2014

NOTE 2 - RESTRICTED ASSETS (Continued)

Revenue Bond Funds

These restricted funds are to be used for redemption of revenue bonds and related interest costs. Restricted bond fund assets shown on the balance sheets included the following investments:

	<u>2015</u>	<u>2014</u>
King County Investment Pool	\$ 790,280.	\$ 837,026.
Land	<u>50,683.</u>	<u>50,683.</u>
Total	<u><u>\$ 840,963.</u></u>	<u><u>\$ 887,709.</u></u>

Assessments Receivable

Assessment levies are recorded as filed with the King County Treasurer for Utility Local Improvement District (ULID) projects, payments are deposited to the revenue bond fund. The following sewer assessments were outstanding as of the balance sheet dates:

	<u>2015</u>	<u>2014</u>
ULID No. 86	\$ 0.	\$ 1,139.
ULID No. 101	2,500.	3,333.
ULID No. 107	<u>23,900.</u>	<u>32,331.</u>
Total	<u><u>\$ 26,400.</u></u>	<u><u>\$ 36,804.</u></u>

Special Funds

In accordance with District resolutions, separate restricted funds are required. Assets held in these funds are restricted for specific uses, including construction and replacement of utility plant. Restricted funds included the following special funds at the balance sheet dates:

	<u>2015</u>	<u>2014</u>
Capital Improvement Fund		
King County Investment Pool	\$ 5,429,705.	\$16,574,679.
Interest receivable	7,197.	12,524.
Project Construction Fund		
King County Investment Pool	1,696.	1,686.
Interest receivable	<u>1.</u>	<u>1.</u>
Total	<u><u>\$ 5,438,599.</u></u>	<u><u>\$16,588,889.</u></u>

Restricted and special fund assets shown on the balance sheets included the following investments:

	<u>2015</u>	<u>2014</u>
King County Investment Pool	\$ 6,221,681.	\$17,413,391.

SOOS CREEK WATER AND SEWER DISTRICT

NOTES TO FINANCIAL STATEMENTS

December 31, 2015 and 2014

NOTE 3 - DEPOSITS AND INVESTMENTS

Cash and investments are maintained by the District's *ex officio* treasurer, King County. In accordance with state investment laws, the District has entered into a formal inter-local agreement with King County to have some 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 in the Pool:

Investment	Par Value	Fair Value	Effective Duration
Main pool	\$31,141,771.	\$31,104,401.	0.93 years
Impaired pool	109,623.	68,810.	
Total	<u>\$31,251,394.</u>	<u>\$31,173,211.</u>	

As of December 31, 2014, the District had the following investments in the Pool:

Investment	Par Value	Fair Value	Effective Duration
Main pool	\$40,646,134.	\$40,638,005.	1.23 years
Impaired pool	142,289.	86,124.	
Total	<u>\$40,788,423.</u>	<u>\$40,724,129.</u>	

Impaired Investments. As of Dec. 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 four commercial paper assets that were part of completed enforcement events, where the Impaired Pool accepted the cash-out option. The District's share of the impaired investment pool principal on December 31, 2015 and 2014 were \$109,623 and \$142,289 respectively; the fair value of these investments on December 31, 2015 and 2014 were \$68,810 and \$86,124 respectively.

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 Dec. 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, bank corporate notes (rated at least "A" by two NRSROs), 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.

SOOS CREEK WATER AND SEWER DISTRICT

NOTES TO FINANCIAL STATEMENTS December 31, 2015 and 2014

NOTE 4 – UTILITY PLANT

Major expenses for capital assets, including major repairs that increase useful lives, are capitalized. Maintenance, repairs, and minor renewals are accounted for as expenses when incurred. Utility plant in service is recorded at cost. Donations by developers are recorded at the donor cost.

Utility plant activity for the year ended December 31, 2015, was as follows:

	Balance Dec. 31, 2014	Increase	Decrease	Balance Dec. 31, 2015
Utility plant not being depreciated:				
Land & land rights	\$ 1,407,102.	\$ 704.	\$ 0.	\$ 1,407,806.
Intangible property rights	1,800,706.	0.	0.	1,800,706.
Construction in progress	19,484,359.	20,259,542.	15,414,265.	24,329,636.
Total	22,692,167.	20,260,246.	15,414,265.	27,538,148.
Utility plant being depreciated:				
Sewer collection mains & pipes	146,041,322.	6,465,007.	8,726.	152,497,603.
Water transmission mains & pipes	63,112,362.	1,505,578.	44,919.	64,573,021.
Pumping stations & reservoirs	29,357,176.	11,407,381.	221,373.	40,543,184.
Buildings	4,680,481.	0.	324,139.	4,356,342.
Machinery, equipment, & other	12,701,260.	267,349.	0.	12,968,609.
Total	255,892,602.	19,645,315.	599,157.	274,938,760.
Less accumulated depreciation:				
Sewer collection mains & pipes	54,988,205.	2,906,312.	2,802.	57,891,715.
Water transmission mains & pipes	19,029,833.	1,285,216.	25,256.	20,289,793.
Pumping stations & reservoirs	13,852,438.	949,166.	214,009.	14,587,595.
Buildings	2,293,806.	104,765.	212,983.	2,185,588.
Machinery, equipment, & other	10,132,604.	610,007.	0.	10,742,611.
Total	100,296,886.	5,855,466.	455,050.	105,697,302.
Total depreciable assets, net	155,595,716.	13,789,849.	144,107.	169,241,458.
Total capital assets, net	<u>\$ 178,287,882.</u>	<u>\$ 34,050,095.</u>	<u>\$ 15,558,372.</u>	<u>\$ 196,779,606.</u>

SOOS CREEK WATER AND SEWER DISTRICT

NOTES TO FINANCIAL STATEMENTS

December 31, 2015 and 2014

NOTE 4 – UTILITY PLANT (Continued)

Utility plant activity for the year ended December 31, 2014, was as follows:

	Balance Dec. 31, 2013	Increase	Decrease	Balance Dec. 31, 2014
Utility plant not being depreciated:				
Land & land rights	\$ 1,404,902.	\$ 2,200.	\$ 0.	\$ 1,407,102.
Intangible property rights	1,800,706.	0.	0.	1,800,706.
Construction in progress	17,503,056.	6,166,197.	4,184,894.	19,484,359.
Total	20,708,664.	6,168,397.	4,184,894.	22,692,167.
Utility plant being depreciated:				
Sewer collection mains & pipes	144,253,568.	1,806,494.	18,740.	146,041,322.
Water transmission mains & pipes	59,080,771.	4,203,629.	172,037.	63,112,362.
Pumping stations & reservoirs	28,602,737.	754,439.	0.	29,357,176.
Buildings	4,680,481.	0.	0.	4,680,481.
Machinery, equipment, & other	12,052,120.	779,087.	129,947.	12,701,260.
Total	248,669,677.	7,543,648.	320,724.	255,892,601.
Less accumulated depreciation:				
Sewer collection mains & pipes	52,118,249.	2,877,891.	7,935.	54,988,205.
Water transmission mains & pipes	17,974,354.	1,194,363.	138,884.	19,029,833.
Pumping stations & reservoirs	12,868,268.	984,170.	0.	13,852,438.
Buildings	2,182,356.	111,450.	0.	2,293,806.
Machinery, equipment, & other	9,703,721.	567,714.	138,831.	10,132,604.
Total	94,846,948.	5,735,588.	285,650.	100,296,886.
Total depreciable assets, net	153,822,729.	1,808,060.	35,074.	155,595,715.
Total capital assets, net	\$ 174,531,393.	\$ 7,976,457.	\$ 4,219,968.	\$ 178,287,882.

SOOS CREEK WATER AND SEWER DISTRICT

NOTES TO FINANCIAL STATEMENTS

December 31, 2015 and 2014

NOTE 5 - WORK IN PROGRESS

Work in progress represents expenditures to-date on projects authorized by the Board of Commissioners. Costs are accumulated on projects until completed and accepted by the Board. Upon acceptance by the Board the projects are transferred to Utility Plant.

Work in progress at December 31, 2015 and 2014 was composed of the following:

	2015	2014
Lift Station 46	\$ 19,992,709.	\$ 5,267,519.
Cascade Village AC Pipe Replacement	2,115,851.	119,443.
Maintenance Facility Expansion	922,287.	251,524.
Lift Station 11B	687,418.	13,231,393.
Cell Service Telemetry	215,459.	121,192.
Lift Station 24B Removal	178,916.	178,916.
GIS Implementation	68,376.	0.
Water System Air Vac Study	20,398.	0.
Sewer Odor Control Project	0.	206,845.
Other projects	128,222.	107,527.
	<u>\$ 24,329,636.</u>	<u>\$ 19,484,359.</u>

NOTE 6 - DEPOSITS OF DEVELOPERS AND CUSTOMERS

The District requires developers and customers to deposit funds upon beginning a project to which charges for District services are applied.

The following deposits of developers and customers were on hand at December 31:

	2015	2014
Main extension deposits	\$ 129,924.	\$ 168,964.
Prepaid sewer area charges	15,315.	15,315.
Prepaid water area charges	1,292.	1,292.
Prepaid connection charges	14,899.	14,899.
Guaranty deposits	160,373.	160,014.
Developer easement deposits	69,794.	77,232.
Construction inspection deposits	66,635.	91,460.
Latecomer deposits	60,060.	55,725.
Customer deposits	28,325.	23,925.
Total	<u>\$ 546,616.</u>	<u>\$ 608,826.</u>

SOOS CREEK WATER AND SEWER DISTRICT

NOTES TO FINANCIAL STATEMENTS

December 31, 2015 and 2014

NOTE 7 - ACCOUNTS RECEIVABLE GENERAL FACILITY CHARGES AND SPECIAL CONNECTION CHARGES

The District has recorded as receivable unpaid general facility charges and connection charges. The various payment agreements include interest rates ranging from 6.0% to 7.75% with final payments due in 2016 to 2020. The total general facility and special connection charge balances due December 31, 2015 and 2014 were \$111,869 and \$156,287 respectively.

NOTE 8 – CONTRACT RETAINAGE

The following amounts were due to contractors for District construction contracts at December 31:

	2015	2014
Pease & Sons	\$ 594,119.	\$ 485,251.
R. L. Alia	59,408.	54,810.
Work Construction	17,439.	5,656.
Buno Construction	0.	4,710.
Bonner Brothers	12,377.	0.
Hoffman Construction	87,563.	0.
Par-Tech Construction	22,715.	0.
	<u>\$ 793,621.</u>	<u>\$ 550,426.</u>

NOTE 9 – REVENUE BONDS

Water and Sewer Revenue Bonds, 2011

The District issued \$5,375,000 of Water and Sewer Revenue Bonds, 2011, dated March 16, 2011. The bonds were issued to pay a portion of the costs to construct and equip sewer Lift Station 11B and to pay a portion of the costs of issuance of the Bonds. The Bonds are fully registered as to both principal and interest and bear interest from March 16, 2011, payable semiannually on March 1 and September 1. The District's revenue bonds are rated AA+ by Standard & Poor's.

The maturity and interest schedule for the 2011 Bonds is as follows:

Maturity Schedule for 2011 Bonds

Year	Principal	Interest	Total
2016	\$ 595,000.	101,345.	\$ 696,345.
2017	615,000.	83,675.	698,675.
2018	630,000.	65,225.	695,225.
2019	650,000.	44,750.	694,750.
2020	675,000.	23,625.	698,625.
	<u>\$ 3,165,000.</u>	<u>\$ 318,620.</u>	<u>\$ 3,483,620.</u>

SOOS CREEK WATER AND SEWER DISTRICT

NOTES TO FINANCIAL STATEMENTS

December 31, 2015 and 2014

NOTE 9 – REVENUE BONDS (Continued)

Summary

Summary of Revenue Bonds Outstanding and accrued interest thereon as of December 31:

2015		2014	
Principal	Accrued Interest	Principal	Accrued Interest
\$ 3,165,000.	\$ 25,381.	\$ 3,740,000.	\$ 29,694.

NOTE 10 – PREMIUM ON BOND ISSUES

Bond Premium Amortization

The District, upon issuance of the 2011 Revenue Bonds, received \$223,100 in offering premium. The District is amortizing the bond premium in a systematic fashion over the life of the bonds. The remaining premium, \$56,294 as of December 31, 2015, will be recorded as interest on revenue bonds.

NOTE 11 - PUBLIC WORKS TRUST FUND LOANS

2001 Public Works Trust Fund Loan

The District entered into an agreement with the Department of Community Development of the State of Washington on May 4, 2001, to obtain a loan of \$1,224,484.

The loan bears interest at one-half of one percent (0.5%) per annum on the outstanding principal balance. The term of the loan is twenty (20) years, with the final payment due July 1, 2021. The loan is being repaid solely from utility revenues. The first loan repayment under the agreement was due July 1, 2000, and subsequent installments are due on July 1 of each year during the term of the loan.

The proceeds were used for the construction of the Meridiana Sewer Extension and Water Main Project.

2000 Public Works Trust Fund Loan

The District entered into an agreement with the Department of Community Development of the State of Washington on March 30, 2000, to obtain a loan of \$1,779,000.

The loan bears interest at one percent (1.0%) per annum on the outstanding principal balance. The term of the loan is twenty (20) years, with the final payment due July 1, 2020. The loan is being repaid solely from utility revenues. The first loan repayment under the agreement was due July 1, 2000, and subsequent installments are due on July 1 of each year during the term of the loan.

The proceeds were used for the construction of Lift Station 38 and the Witte Road conveyance.

SOOS CREEK WATER AND SEWER DISTRICT

NOTES TO FINANCIAL STATEMENTS

December 31, 2015 and 2014

NOTE 11 - PUBLIC WORKS TRUST FUND LOANS (Continued)

1995 Public Works Trust Fund Loan

The District entered into an agreement with the Department of Community Development of the State of Washington on June 1, 1995, to obtain a loan of \$3,500,000.

The loan bears interest at one percent (1.0%) per annum on the outstanding principal balance. The term of the loan is twenty (20) years, with the final payment due July 1, 2015. The loan is being repaid solely from utility revenues. The first loan repayment under the agreement was due July 1, 1997, and subsequent installments are due on July 1 of each year during the term of the loan.

The proceeds were used for lift station/storage replacement or improvements, interceptors, relief sewers and force main improvements.

Summary

Public Works Trust Fund loans at the balance sheet dates consisted of the following:

	2015	2014
Balance	\$ 852,108.	\$ 1,197,396.
Less: current portion	(157,623.)	(345,288.)
Long term debt	<u>\$ 694,485.</u>	<u>\$ 852,108.</u>
Accrued interest payable on loans	\$ 3,301.	\$ 4,867.

The following annual debt service costs will be due on Public Works Trust Fund loans:

	Principal	Interest	Total
2016	\$ 157,623.	\$ 6,601.	\$ 164,225.
2017	157,623.	5,345.	162,968.
2018	157,623.	4,089.	161,712.
2019	157,623.	2,833.	160,456.
2020	157,623.	1,576.	159,199.
2021	63,992.	320.	64,312.
Total	<u>\$ 852,109.</u>	<u>\$ 20,764.</u>	<u>\$ 872,872.</u>

SOOS CREEK WATER AND SEWER DISTRICT

NOTES TO FINANCIAL STATEMENTS December 31, 2015 and 2014

NOTE 12 – CHANGES IN LONG-TERM LIABILITIES

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

	Balance Dec. 31, 2014	Additions	Reductions	Balance Dec. 31, 2015	Due Within One Year
Revenue Bonds Payable	\$ 3,740,000.	\$ 0.	\$ 575,000.	\$ 3,165,000.	\$ 595,000.
Plus Bond Premium	82,322.	0.	26,028.	56,294.	21,306.
Total Bonds Payable	3,822,322.	0.	601,028.	3,221,294.	616,306.
Public Works Trust Fund Loans	1,197,396.	0.	345,288.	852,108.	157,623.
Compensated Absences	395,281.	33,761.	0.	429,041.	0.
Pension Obligations	1,855,198.	525,992.	0.	2,381,190.	0.
Total Long-term Liabilities	<u>\$ 7,270,196.</u>	<u>\$ 559,753.</u>	<u>\$ 946,316.</u>	<u>\$ 6,883,633.</u>	<u>\$ 773,929.</u>

During the year ended December 31, 2014, the following changes occurred in long-term liabilities:

	Balance Dec. 31, 2013	Additions	Reductions	Balance Dec. 31, 2014	Due Within One Year
Revenue Bonds Payable	\$ 4,300,000.	\$ 0.	\$ 560,000.	\$ 3,740,000.	\$ 575,000.
Plus Bond Premium	112,920.	0.	30,598.	82,322.	26,028.
Total Bonds Payable	4,412,920.	0.	590,598.	3,822,322.	601,028.
Public Works Trust Fund Loans	1,729,061.	0.	531,665.	1,197,396.	345,288.
Compensated Absences	356,559.	38,722.	0.	395,281.	0.
Total Long-term Liabilities	<u>\$ 6,498,540.</u>	<u>\$ 38,722.</u>	<u>\$ 1,122,264.</u>	<u>\$ 5,414,998.</u>	<u>\$ 946,316.</u>

SOOS CREEK WATER AND SEWER DISTRICT

NOTES TO FINANCIAL STATEMENTS

December 31, 2015 and 2014

NOTE 13 – PENSION PLANS

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	\$2,381,190.
Pension assets	-
Deferred outflows of resources	278,851.
Deferred inflows of resources	348,584.
Pension expense/expenditures	(49,251.)

State Sponsored Pension Plans

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

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.

SOOS CREEK WATER AND SEWER DISTRICT

NOTES TO FINANCIAL STATEMENTS

December 31, 2015 and 2014

NOTE 13 – PENSION PLANS (Continued)

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%

The District's actual contributions to the plan were \$19,004 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. As of December 31, 2015, the District had no employees in PERS Plan 3.

SOOS CREEK WATER AND SEWER DISTRICT

NOTES TO FINANCIAL STATEMENTS

December 31, 2015 and 2014

NOTE 13 – PENSION PLANS (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 \$269,965 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%

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.

SOOS CREEK WATER AND SEWER DISTRICT

NOTES TO FINANCIAL STATEMENTS

December 31, 2015 and 2014

NOTE 13 – PENSION PLANS (Continued)

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 and TERS 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. (All plans use 7.7 percent except LEOFF 2, which has assumed 7.5 percent). 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, PSERS 2, SERS 2/3, and TRS 2/3 employers, whose rates include a component for the PERS 1, and TRS 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.

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.

SOOS CREEK WATER AND SEWER DISTRICT

NOTES TO FINANCIAL STATEMENTS

December 31, 2015 and 2014

NOTE 13 – PENSION PLANS (Continued)

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.

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
PERS 1	\$1,646,811.	\$1,352,614.	\$1,099,631.
PERS 2/3	3,007,609.	1,028,576.	(486,696.)

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 \$2,381,190 for its proportionate share of the net pension liabilities as follows:

	Liability (or Asset)
PERS 1	\$1,352,614.
PERS 2/3	1,028,576.

SOOS CREEK WATER AND SEWER DISTRICT

NOTES TO FINANCIAL STATEMENTS December 31, 2015 and 2014

NOTE 13 – PENSION PLANS (Continued)

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	0.025477%	0.025858%	0.000381%
PERS 2/3	0.028287%	0.028787%	0.000500%

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 Non-employer Allocations* for all plans except LEOFF 1.

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.

Pension Expense

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

	Pension Expense
PERS 1	\$(30,286.)
PERS 2/3	(18,966.)
TOTAL	\$(49,252.)

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	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	-	-
Net difference between projected and actual investment earnings on pension plan investments	-	\$74,003.
Changes of assumptions	-	-
Changes in proportion and differences between contributions and proportionate share of contributions	-	-
Contributions subsequent to the measurement date	\$71,612.	-
TOTAL	\$71,612.	\$74,003.

SOOS CREEK WATER AND SEWER DISTRICT

NOTES TO FINANCIAL STATEMENTS December 31, 2015 and 2014

NOTE 13 – PENSION PLANS (Continued)

Deferred Outflows of Resources and Deferred Inflows of Resources

PERS 2/3	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$109,338.	-
Net difference between projected and actual investment earnings on pension plan investments	-	\$274,581.
Changes of assumptions	1,657.	-
Changes in proportion and differences between contributions and proportionate share of contributions	16,089.	-
Contributions subsequent to the measurement date	80,156.	-
TOTAL	\$207,240.	\$274,581.

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
2016	\$(28,681.)
2017	(28,681.)
2018	(28,681.)
2019	12,040.
2020	-
Thereafter	-

Year ended December 31:	PERS 2/3
2016	\$(69,818.)
2017	(69,818.)
2018	(69,818.)
2019	62,250.
2020	-
Thereafter	-

SOOS CREEK WATER AND SEWER DISTRICT

NOTES TO FINANCIAL STATEMENTS

December 31, 2015 and 2014

NOTE 14 –HEALTHCARE REIMBURSEMENT ACCOUNT

Description of the Plan

The District adopted a healthcare reimbursement account VEBA plan (HRA/VEBA) effective January 1, 2001. The intention of the District is that the HRA/VEBA qualify as a tax-exempt trust as authorized by Internal Revenue Code section 501(c)(9). The HRA/VEBA is a pre- and post-retirement, tax-exempt, medical expense reimbursement account.

Contributions

The HRA/VEBA accounts are funded in two ways, through annual sick leave cash-outs and through medical and dental benefits equalization.

Sick Leave Cash-outs. In January of each year, annual net sick leave (annual hours earned less hours used) is deposited to the employees' HRA/VEBA accounts. The number of sick leave hours and the employees' rate of pay are as of December 1 of the prior year. The HRA/VEBA deposit schedule for fulltime employees is as follows:

<u>Accumulated Sick Leave as of December 1</u>	<u>Deposit to HRA/VEBA Account</u>
0 to 95 hours	0
96 to 300 hours	25% of annual net sick leave (24 hours max)
301 to 520 hours	50% of annual net sick leave (48 hours max)
> 520 hours	100% of sick leave accrual over 520 hours

The deposit schedule for regular part-time employees would be on a pro-rated basis.

Benefits Equalization. The District determined that it was prudent to pay all employees the same medical and dental insurance benefit regardless of marital and/or family status. Those employees that waive medical and/or dental insurance coverage offered by the District for spouses and/or children receive an amount equal to the difference between full coverage (employee, spouse, and children) and their elected coverage. This difference is deposited monthly into the employees' HRA/VEBA accounts.

The District's 2015 and 2014 contributions to the employees' HRA/VEBA accounts totaled \$274,439 and \$260,995 respectively. Employees are always 100% vested in their HRA/VEBA accounts.

NOTE 15 – RISK MANAGEMENT

Property and Liability Insurance

The District is exposed to the risk of loss from torts, theft of or damage to assets, business interruption, errors and omissions, contractual actions, natural disasters, environmental regulations, and other third-party liabilities. The District has implemented programs to protect against accidental and criminal losses that would significantly affect personnel, property, or finances by using a combination of loss control programs, participation in a risk-sharing pool, and self-insurance.

SOOS CREEK WATER AND SEWER DISTRICT

NOTES TO FINANCIAL STATEMENTS

December 31, 2015 and 2014

NOTE 15 – RISK MANAGEMENT (Continued)

Property and Liability Insurance

For property and liability insurance, the 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, 2015, there are 507 Enduris members representing a broad array of special purpose districts throughout the state.

Members make an annual contribution to fund Enduris and share in the self-insured retention of the jointly purchased excess and/or reinsurance coverage. The self-insured retention is:

- \$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 a 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 a property loss.
- Enduris is responsible for the \$4,000 deductible on boiler and machinery loss.

Enduris acquires reinsurance from unrelated insurance companies on a “per occurrence” basis to cover all losses over the deductibles as shown on the policy maximum limits. Liability coverage is 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, boiler and machinery, electronic data processing equipment, business interruption, course of construction and additions, property in transit, fine arts, and automobile physical damage to insured vehicles. Liability coverage limit is \$10 million per occurrence and property coverage limit is \$1 billion per occurrence. Enduris offers crime coverage up to a limit of \$1 million per occurrence.

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.

Health Insurance

For health insurance (medical, vision, prescription), the District maintains a self-funded insurance plan. The District assumes an annual stop loss of \$25,000 per employee/family, with an aggregating specific deductible of \$40,000, and an aggregate stop loss of \$1 million. The stop loss insurance coverage is with Sun Life Financial. A third-party administrator handles claims and plan administration. As of December 31, 2015 and 2014 the District’s Medical Reserve Fund balances were \$541,985 and \$436,409 respectively.

SOOS CREEK WATER AND SEWER DISTRICT

NOTES TO FINANCIAL STATEMENTS

December 31, 2015 and 2014

NOTE 16 – ACCOUNTING AND REPORTING CHANGES

In 2015 the District implemented Governmental Accounting Standards Board (GASB) Statement 68, Accounting and Financial Reporting for Pensions, and GASB Statement 71, Pension Transition for Contributions Made Subsequent to the Measurement Date (amends GASB Statement 68). The primary objective of GASB Statements 68 and 71 is to improve accounting and financial reporting by state and local governments for pensions. A second objective is to improve information provided by state and local government employers about financial support for pensions that are provided by other entities. The implementation required the restatement of the District's net position. The total adjustment is \$2,500,174, which restated the December 31, 2014, Statement of Net Position from \$219,076,952 to \$216,576,778. Prior periods have not been restated as information necessary for a complete restatement was unavailable.

NOTE 17 – OTHER DISCLOSURES

Contractual Receivable

On May 17, 2000, the District entered into an inter-local agreement with King County Water District 111 (WD 111) for the joint construction of the Meridiana project, a District sewer line and a WD 111 water line. As project administrator, the District borrowed \$1,224,484 from the Department of Community Development of the State of Washington (See Note 12). Based upon proportional construction costs, WD 111's pro-rata share of the loan was 49.29% or \$603,548.

The following schedule depicts the annual obligation WD 111 has to the District:

Due from Water District 111			
Year	Principal	Interest	Total
2016	\$ 31,542.	\$ 946.	\$ 32,488.
2017	31,542.	789.	32,330.
2018	31,542.	631.	32,172.
2019	31,542.	473.	32,015.
2020	31,542.	315.	31,857.
2021	31,542.	158.	31,699.
	<u>\$ 189,249.</u>	<u>\$ 3,312.</u>	<u>\$ 192,561.</u>

SOOS CREEK WATER AND SEWER DISTRICT

NOTES TO FINANCIAL STATEMENTS

December 31, 2015 and 2014

NOTE 17 – OTHER DISCLOSURES (Continued)

Funds Transfer, Restricted Funds to Unrestricted Funds

In 2014 the District completed a capital project that was constructed to handle both future growth in connections and to replace existing facilities. District management and engineers determined that the payment of this project should be split between restricted funds dedicated to growth-related capital projects and unrestricted funds. During the course of the project, to facilitate bookkeeping and cost tracking, the projects' expenditures were paid from unrestricted funds. In April 2015 the District made a \$1,028,082 transfer from restricted to unrestricted funds to recognize the funding split.

Project	% Unrestricted Funds	% Restricted Funds	Total Expenditures	Transfer
Cascade Vista 2 AC Replacement	61%	39%	\$ 2,636,109.	\$ 1,028,083.
				<u>\$ 1,028,083.</u>

SOOS CREEK WATER AND SEWER DISTRICT

REQUIRED SUPPLEMENTARY INFORMATION

December 31, 2015

Schedule of Proportionate Share of the Net Pension Liability

PERS 1

As of June 30, 2015

Last 10 Fiscal Years*

		2015	20XX	20XX	20XX	20XX	20XX	20XX	20XX	20XX	20XX
Employer's proportion of the net pension liability (asset) PERS 1	%	0.003573%									
Employer's proportion of the net pension liability (asset) PERS 1 UAAL	%	0.022285%									
Employer's proportionate share of the net pension liability	\$	1,352,614									
Employer's covered employee payroll	\$	185,495									
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	%	729.19%									
Plan fiduciary net position as a percentage of the total pension liability	%	59.10%									

* Until a full 10-year trend is compiled, information is presented only for those years for which it is available.

Schedule of Proportionate Share of the Net Pension Liability

PERS 2/3

As of June 30, 2015

Last 10 Fiscal Years*

		2015	20XX	20XX	20XX	20XX	20XX	20XX	20XX	20XX	20XX
Employer's proportion of the net pension liability (asset) PERS 2/3	%	0.028787%									
Employer's proportionate share of the net pension liability	\$	1,028,576									
Employer's covered employee payroll	\$	2,626,286									
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	%	39.16%									
Plan fiduciary net position as a percentage of the total pension liability	%	89.20%									

* Until a full 10-year trend is compiled, information is presented only for those years for which it is available.

SOOS CREEK WATER AND SEWER DISTRICT

REQUIRED SUPPLEMENTARY INFORMATION

December 31, 2015

Schedule of Employer Contributions PERS 1 As of December 31, 2015 Last 10 Fiscal Years*

		2015	20XX	20XX	20XX	20XX	20XX	20XX	20XX	20XX	20XX
Statutorily or contractually required contributions	\$	19,004									
Contributions in relation to the statutorily or contractually required contributions	\$	(19,004)									
Contribution deficiency (excess)	\$	0									
Covered employer payroll	\$	185,495									
Contributions as a percentage of covered employee payroll	%	10.25%									

* Until a full 10-year trend is compiled, information is presented only for those years for which it is available.

Schedule of Employer Contributions PERS 2/3 As of December 31, 2015 Last 10 Fiscal Years*

		2015	20XX	20XX	20XX	20XX	20XX	20XX	20XX	20XX	20XX
Statutorily or contractually required contributions	\$	269,965									
Contributions in relation to the statutorily or contractually required contributions	\$	(269,965)									
Contribution deficiency (excess)	\$	0									
Covered employer payroll	\$	2,626,286									
Contributions as a percentage of covered employee payroll	%	10.28%									

* Until a full 10-year trend is compiled, information is presented only for those years for which it is available.

ABOUT THE STATE AUDITOR'S OFFICE

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

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

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

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

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

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

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

Contact information for the State Auditor's Office	
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