



# Washington State Auditor's Office

Government that works for citizens

## Financial Statements Audit Report **King County Water District No. 49**

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

**Published December 5, 2016**

**Report No. 1018076**





## Washington State Auditor's Office

December 5, 2016

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

### Report on Financial Statements

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

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

Sincerely,

TROY KELLEY  
STATE AUDITOR  
OLYMPIA, WA

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

**King County Water District No. 49  
January 1, 2014 through December 31, 2015**

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of King County Water District No. 49, 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 1 to the financial statements, during the year ended December 31, 2015, the District implemented Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*.

**INTERNAL CONTROL OVER FINANCIAL REPORTING**

In planning and performing our 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**

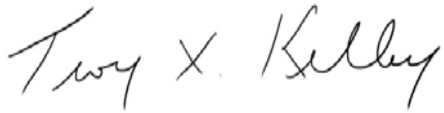
As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of the District's compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and 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 style with a large, stylized 'T' and 'K'.

TROY KELLEY  
STATE AUDITOR  
OLYMPIA, WA

November 2, 2016

# INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

## **King County Water District No. 49 January 1, 2014 through December 31, 2015**

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

### **REPORT ON THE FINANCIAL STATEMENTS**

We have audited the accompanying financial statements of King County Water District No. 49, 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 King County Water District No. 49, 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 1 to the financial statements, in 2015, the District adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*. Our opinion is not modified with respect to this matter.

## **Other Matters**

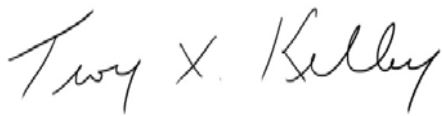
### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 11 through 17, and pension plan information on pages 42 through 44 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

### **King County Water District No. 49 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 Net Pension Liability – 2015

Schedule of Employers Contributions – 2015

Notes to the Schedule of Proportionate Share of the Net Position Liability and Schedule  
of Schedule of Employer Contributions – 2015

**Brief Discussion of the Basic Financial Statements**

The District's financial statements include a Statement of Net Position; a Statement of Revenues, Expenses & Changes in Fund Net Position; a Statement of Cash Flows; and Notes to the Financial Statements. The financial statements are prepared using the accrual basis of accounting and conform to generally accepted accounting principles as applicable to proprietary funds of governments. The intent of the management's discussion and analysis is to provide highlights of the District's financial activities for the years ended December 31, 2015 and 2014. Readers are encouraged to read this section in conjunction with the accompanying financial statements.

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

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

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

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

Water District No. 49 of King County  
Management's Discussion and Analysis  
Years Ended December 31, 2015 and 2014

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**Condensed Comparative Statement of Net Position**

The following condensed statements of net position present an overview of the District's financial position as of December 31, 2015, 2014, and 2013:

	<u>2015</u>	<u>2014</u>	<u>2013</u>
<b><u>Assets</u></b>			
Current Assets	\$ 3,253,150	\$ 2,699,268	\$ 2,655,919
Noncurrent Assets:			
Capital Assets - Net	11,758,478	11,757,465	11,300,334
Other	<u>30,932</u>	<u>33,082</u>	<u>35,336</u>
Total Assets	<u>\$ 15,042,560</u>	<u>\$ 14,489,815</u>	<u>\$ 13,991,589</u>
<b><u>Deferred Outflow of Resources</u></b>			
Total Deferred Outflows	<u>\$ 61,011</u>	<u>\$ -</u>	<u>\$ -</u>
<b><u>Liabilities</u></b>			
Current Liabilities	\$ 308,594	\$ 399,161	\$ 360,642
Noncurrent Liabilities:			
Long-Term Debt	2,083,097	1,710,525	1,965,233
Other	<u>66,928</u>	<u>95,651</u>	<u>83,068</u>
Total Liabilities	<u>\$ 2,458,619</u>	<u>\$ 2,205,337</u>	<u>\$ 2,408,943</u>
<b><u>Deferred Inflows of Resources</u></b>			
Deferred Inflows Related to Pensions	<u>\$ 81,053</u>	<u>\$ -</u>	<u>\$ -</u>
<b><u>Net Position</u></b>			
Net Investment in Capital Assets	\$ 10,058,327	\$ 9,910,954	\$ 9,307,569
Unrestricted	<u>2,505,572</u>	<u>2,373,524</u>	<u>2,275,077</u>
Total Net Position	<u>\$ 12,563,899</u>	<u>\$ 12,284,478</u>	<u>\$ 11,582,646</u>

**Analysis of the Condensed Comparative Statement of Net Position**

**Assets**

Current Assets consist of cash and cash equivalents held in maintenance fund and capital improvement fund, which are unrestricted. Current assets also include customer accounts receivable, accrued utility revenue, inventories, and prepaid expenses. In 2015, current asset increased by \$553,882, due to an increase of \$588,342 in cash and cash equivalents held in the District's Funds. This increase resulted from operating income of \$535,581. 2015 also saw an increase in Inventories and Accrued Utility Revenue. In 2014, current asset increased by \$43,349, due to an increase of \$79,734 in developer accounts receivable. This increase is partially offset by a decrease in maintenance fund balance. The fluctuations in these accounts are normal in the District's operations.

Water District No. 49 of King County  
Management's Discussion and Analysis  
Years Ended December 31, 2015 and 2014

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Noncurrent Assets contain net capital assets, which include land, construction work in progress, utility plant, equipment, and intangible assets less accumulated depreciation and amortization. Capital assets before depreciation increased by \$535,661 in 2015, which reflects the District's investment in plant and equipment for the year. In 2014, the increase was \$932,136 for the same reason.

Deferred Outflow of Resources

Deferred pension outflow totaled \$61,011 in 2015. Accounting for the deferred pension outflow began in 2015 with the implementation of GASB 68.

Liabilities

Current Liabilities include accounts payable, accrued interest payable on debt, and the current portion of long-term debt. In 2015, current liabilities decreased by \$90,567, mostly as a result of a decrease in accounts payable and paying off the prior year's SPU Purveyor Liability. In 2014, current liabilities increased by \$38,519, mostly as a result of an increase in accounts payable. Changes in accounts payable are normal in daily operations.

Noncurrent Liabilities contain compensated absences, the long-term portion of bonds outstanding, purveyor balance liability, and Public Works Trust Fund loans. Noncurrent liabilities increased by \$343,849 in 2015 due primarily to the District being required to recognize a net pension liability of \$525,625 from the implementation of GASB 68. In 2015, Mike Harris resigned as general manager resulting in the District having to compensate him for his accrued vacation and sick leave hours. In 2014, noncurrent liabilities decreased by \$242,125 in 2014, mostly due to required principal payments made on the Public Works Trust Fund loans, bonds, and the purveyor balance liability. Other noncurrent liabilities consist of compensated absences, which normally increases unless an employee resigns or is fired. Manager Michael Harris resigned in 2015, accounting for much of the \$28,723 decrease in 2015.

Deferred Inflow of Resources

In accordance with GASB 68 the District recognized a deferred inflow related to pensions of \$81,053 beginning in 2015.

Net Position

Net position consists of total assets less total liabilities. Net position increased by \$279,421 in 2015 and increased by \$701,832 in 2014. Over time, increases or decreases in the District's net position are an indicator of the District's overall financial strength. An increase in net position is a positive sign of the District's financial strength.

Water District No. 49 of King County  
Management's Discussion and Analysis  
Years Ended December 31, 2015 and 2014

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

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

	<u>2015</u>	<u>2014</u>	<u>2013</u>
<b><u>Revenues</u></b>			
Water Sales	\$ 3,877,310	\$ 3,533,225	\$ 3,465,896
Other Operating Revenue	42,194	41,863	55,687
Nonoperating Revenues	<u>10,240</u>	<u>14,876</u>	<u>1,642</u>
Total Revenues	<u>\$ 3,929,744</u>	<u>\$ 3,589,964</u>	<u>\$ 3,523,225</u>
<b><u>Expenses</u></b>			
Operating Expenses	\$ 3,383,923	\$ 3,324,847	\$ 3,055,407
Nonoperating Expenses	<u>68,058</u>	<u>83,946</u>	<u>86,970</u>
Total Expenses	<u>\$ 3,451,981</u>	<u>\$ 3,408,793</u>	<u>\$ 3,142,377</u>
Change in Net Position before Capital Contributions	\$ 477,763	\$ 181,171	\$ 380,848
Capital Contributions	<u>349,765</u>	<u>520,661</u>	<u>46,474</u>
Change in Net Position	<u>\$ 827,528</u>	<u>\$ 701,832</u>	<u>\$ 427,322</u>
<b><u>Total Net Position, January 1</u></b>	<u>\$ 12,284,478</u>	<u>\$ 11,582,646</u>	<u>\$ 11,155,324</u>
Change in Application of Accounting Principal	<u>(548,107)</u>	<u>-</u>	<u>-</u>
<b><u>Adjusted Total Net Position, January 1</u></b>	<u>\$ 11,736,371</u>	<u>\$ 11,582,646</u>	<u>\$ 11,155,324</u>
<b><u>Total Net Position, December 31</u></b>	<u>\$ 12,563,899</u>	<u>\$ 12,284,478</u>	<u>\$ 11,582,646</u>

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

Revenues

Water sales increased by \$344,085 in 2015 and by \$67,329 in 2014. The increase in 2015 was due to a 5% rate increase that was authorized at the beginning of 2015. The small increase in 2014 was due to normal fluctuations.

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

Other operating revenue consists of street lighting revenue, which increased by \$331 in 2015 and decreased by \$13,824 in 2014. The District received approximately \$30,000 from City of Seattle in 2013 because the District was overcharged for street lights in prior years. As a result, the District has lowered the amount charged to street light customers, and the lower rate continued until the credit was depleted, which lasted until the end of 2015.

Nonoperating revenues consist of interest income from investments, which decreased by \$4,636 in 2015 and increased by \$13,243 in 2014. Interest income received from the funds decreased in 2015 relative to 2014.

Expenses

Operating expenses increased by \$59,076 in 2015 and increased by \$248,669 in 2014. In 2015, water costs went up \$53,782, transmissions & distribution expenses went up by \$4,474, administrative & general expenses went down by \$981, street lighting cost went up by \$14,278, and depreciation and amortization expense went down by \$13,481. Water costs was up due to the District having to buy more water and an increase in demand. These changes account for most of the operating expense increase in 2015. In 2014, transmissions & distribution expenses went up by \$90,835, administrative & general expenses went up by \$86,823, street lighting cost went up by \$30,956, and depreciation & amortization went up by \$20,771. Transmission & distribution was up mostly due to additional maintenance expenses. Administrative & general was up mostly due to additional engineering expenses and contract labor expenses. These changes account for most of the operating expense increase in 2014.

Nonoperating expenses consist of interest expense, amortization of debt discount, and gains or losses on asset disposition. There was no significant change in 2015 or 2014.

Capital Contributions

Capital contributions decreased by \$170,896 in 2015. This change consisted of an increase of \$53,082 in customer connection charges and a decrease of \$223,978 in bills of sale for systems donated to the District. Capital contributions increased by \$474,187 in 2014. This change consisted of an increase of \$120,157 in customer connection charges and an increase of \$354,030 in bills of sale for systems donated to the District. Capital contributions can vary greatly year to year depending on the economy and the timing of projects donated.

Change in Net Position

Net position increased by \$279,421 in 2015 and increased by \$701,832 in 2014, reflecting the fact that revenue exceeded expenses in both 2015 and 2014.

Water District No. 49 of King County  
Management's Discussion and Analysis  
Years Ended December 31, 2015 and 2014

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**Analysis of Overall Financial Condition**

The District's overall financial condition improved in 2015 and 2014, with an increase in net position, adequate liquid assets, and positive operating cash flow.

**Capital Assets**

Capital assets consist of land, construction in progress, utility plant and equipment. Net capital assets increased by \$1,013 in 2015 and increased by \$457,131 in 2014. The principal project included in 2015 capital asset increases was Phase I and Phase 2 of Des Moines Memorial Drive construction in progress offset by normal depreciation; in 2014, the principal project included in capital asset increases was the 16th Ave main replacements. Donated systems (infrastructure donated by developers) in the amount of \$174,351 and \$398,329 are included in the 2015 and 2014 increase in net capital assets, respectively. Over the next five years it is anticipated that capital spending will be in the range of \$2,550,000. The areas of major emphasis in the capital budget include water main & hydrant replacements.

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

	<u>Balance</u> <u>12/31/15</u>	<u>Balance</u> <u>12/31/14</u>	<u>Change</u>
Land	\$ 69,049	\$ 69,049	\$ -
Construction in Progress	250,727	512,258	(261,531)
Utility Plant	19,072,617	18,286,610	786,007
Equipment	673,821	662,636	11,185
Intangibles	363,244	363,244	-
Accumulated Depreciation	<u>(8,670,980)</u>	<u>(8,136,332)</u>	<u>(534,648)</u>
Total Capital Assets, Net	<u>\$ 11,758,478</u>	<u>\$ 11,757,465</u>	<u>\$ 1,013</u>

Capital assets activity for the year ended December 31, 2014 was as follows:

	<u>Balance</u> <u>12/31/14</u>	<u>Balance</u> <u>12/31/13</u>	<u>Change</u>
Land	\$ 69,049	\$ 69,049	\$ -
Construction in Progress	512,258	301,324	210,934
Utility Plant	18,286,610	17,625,127	661,483
Equipment	662,636	602,917	59,719
Intangibles	363,244	363,244	-
Accumulated Depreciation	<u>(8,136,332)</u>	<u>(7,661,327)</u>	<u>(475,005)</u>
Total Capital Assets, Net	<u>\$ 11,757,465</u>	<u>\$ 11,300,334</u>	<u>\$ 457,131</u>

See Note 3 for more information regarding capital assets.



**Long-Term Debt**

At December 31, 2015, the District had total Public Works Trust Fund loans outstanding of \$450,524 and total revenue bonds outstanding of \$1,260,000. At December 31, 2014, the District had total Public Works Trust Fund loans outstanding of \$518,577, total revenue bonds outstanding of \$1,340,000, and total purveyor balance liability outstanding of \$89,152. The total long-term debt of the District increased by \$372,572 during 2015 and decreased by \$254,708 during 2014. The increase in 2015 is due to the District being required to recognize the net pension liability from the implementation of GASB 68. The decrease in 2014 is due to principal payments made on the Public Works Trust Fund loans, bonds, and purveyor balance liability.

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

Water District No. 49 of King County  
Statement of Net Position  
December 31, 2015 and 2014

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<u>ASSETS</u>	<u>2015</u>	<u>2014</u>
<u>Current Assets</u>		
Cash & Cash Equivalents	\$ 2,565,160	\$ 1,976,818
Accrued Interest Receivable	1,250	929
Receivables:		
Customer Accounts Receivable	111,210	112,309
Accrued Utility Revenue	454,958	422,986
Receivable - Developers & Others	-	80,501
Inventories	88,776	72,741
Prepaid Expenses & Deposits	<u>31,796</u>	<u>32,984</u>
Total Current Assets	<u>\$ 3,253,150</u>	<u>\$ 2,699,268</u>
<u>Noncurrent Assets</u>		
Unamortized Bond Insurance	\$ 10,373	\$ 12,066
Unamortized Contract Costs	20,559	21,016
Capital Assets Not Being Depreciated:		
Land	69,049	69,049
Construction in Progress	250,727	512,258
Capital Assets Being Depreciated:		
Plant	19,072,617	18,286,610
Machinery and Equipment	673,821	662,636
Intangibles	363,244	363,244
Less Accumulated Depreciation	<u>(8,670,980)</u>	<u>(8,136,332)</u>
Total Capital Assets	<u>\$ 11,758,478</u>	<u>\$ 11,757,465</u>
Total Noncurrent Assets	<u>\$ 11,789,410</u>	<u>\$ 11,790,547</u>
Total Assets	<u>\$ 15,042,560</u>	<u>\$ 14,489,815</u>
<u>Deferred Outflows of Resources</u>		
Deferred Outflows Related to Pensions	<u>\$ 61,011</u>	<u>\$ -</u>

See accompanying notes.

Water District No. 49 of King County  
Statement of Net Position  
December 31, 2015 and 2014

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	<u>2015</u>	<u>2014</u>
<u>LIABILITIES</u>		
<u>Current Liabilities</u>		
Accounts Payable	\$ 137,091	\$ 142,105
Public Works Trust Fund Loans (Current Portion)	68,052	68,052
Interest Payable - PWTF Loans	5,561	6,232
Purveyor Balance Liability (Current Portion)	-	89,152
Payable from Restricted Assets:		
Revenue Bonds (Current Portion)	85,000	80,000
Bond Interest Payable	<u>12,890</u>	<u>13,620</u>
Total Current Liabilities	<u>\$ 308,594</u>	<u>\$ 399,161</u>
<u>Noncurrent Liabilities</u>		
Public Works Trust Fund Loans		
(Less Current Portion)	\$ 382,472	\$ 450,525
Compensated Absences	66,928	95,651
Net Pension Liability	525,625	-
Payable from Restricted Assets:		
Revenue Bonds Outstanding		
(Less Current Portion)	<u>1,175,000</u>	<u>1,260,000</u>
Total Noncurrent Liabilities	<u>\$ 2,150,025</u>	<u>\$ 1,806,176</u>
Total Liabilities	<u>\$ 2,458,619</u>	<u>\$ 2,205,337</u>
<u>Deferred Inflows of Resources</u>		
Deferred Inflows Related to Pensions	<u>\$ 81,053</u>	<u>\$ -</u>
<u>NET POSITION</u>		
Net Investment in Capital Assets	\$ 10,058,327	\$ 9,910,954
Unrestricted	<u>2,505,572</u>	<u>2,373,524</u>
Total Net Position	<u>\$ 12,563,899</u>	<u>\$ 12,284,478</u>

See accompanying notes.

Water District No. 49 of King County  
Statement of Revenues, Expenses and Changes in Fund Net Position  
Years Ended December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
<u>Operating Revenues</u>		
Water Sales	\$ 3,818,747	\$ 3,478,285
Penalties and Miscellaneous	58,563	54,940
Street Lighting	<u>42,194</u>	<u>41,863</u>
Total Operating Revenues	<u>\$ 3,919,504</u>	<u>\$ 3,575,088</u>
<u>Operating Expenses</u>		
Water Cost	\$ 1,166,456	\$ 1,112,674
Reservoir	11,653	25,403
Customer Accounts	37,609	22,855
Transmission and Distribution	479,553	475,079
Administrative and General	1,081,179	1,082,160
Street Lighting Cost	72,825	58,547
Depreciation and Amortization	<u>534,648</u>	<u>548,129</u>
Total Operating Expenses	<u>\$ 3,383,923</u>	<u>\$ 3,324,847</u>
Operating Income (Loss)	<u>\$ 535,581</u>	<u>\$ 250,241</u>
<u>Nonoperating Revenues (Expenses)</u>		
Interest Income	\$ 10,240	\$ 14,876
Interest Expense	(68,058)	(60,624)
Gain (Loss) on Capital Asset Dispositions	<u>-</u>	<u>(23,322)</u>
Total Nonoperating Revenues (Expenses)	<u>\$ (57,818)</u>	<u>\$ (69,070)</u>
Income (Loss) Before Contributions	\$ 477,763	\$ 181,171
Capital Contributions	<u>349,765</u>	<u>520,661</u>
Change in Net Position	\$ 827,528	\$ 701,832
<u>Total Net Position, January 1</u>	<u>\$ 12,284,478</u>	<u>\$ 11,582,646</u>
Change in Accounting Principle – GASB 68	\$ (548,107)	\$ -
<u>Total Net Position, December 31</u>	<u>\$ 12,563,899</u>	<u>\$ 12,284,478</u>

See accompanying notes.

Water District No. 49 of King County  
Statement of Cash Flows  
Years Ended December 31, 2015 and 2014

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	<u>2015</u>	<u>2014</u>
<u>Cash Flows From Operating Activities</u>		
Receipts from Customers	\$ 3,969,132	\$ 3,496,902
Payments to Suppliers	(2,083,294)	(1,880,318)
Payments to Employees	<u>(911,104)</u>	<u>(942,775)</u>
Net Cash Provided by Operating Activities	<u>\$ 974,734</u>	<u>\$ 673,809</u>
 <u>Cash Flows From Capital &amp; Related Financing Activities</u>		
Acquisition & Construction of Capital Assets	\$ (354,213)	\$ (636,383)
Proceeds from Sale of Capital Assets	-	6,130
Contributions in Aid of Construction	175,414	122,332
Principal Payments on Revenue Bonds	(80,000)	(80,000)
Principal Payments on Public Works		
Trust Fund Loans	(68,053)	(68,052)
Interest Paid	<u>(69,459)</u>	<u>(62,005)</u>
Net Cash (Used) by Capital & Related Financing Activities	<u>\$ (396,311)</u>	<u>\$ (717,978)</u>
 <u>Cash Flows From Investing Activities</u>		
Interest Received on Investments	<u>\$ 9,919</u>	<u>\$ 14,841</u>
Net Cash Provided by Investing Activities	<u>\$ 9,919</u>	<u>\$ 14,841</u>
 Net (Decrease) in Cash & Cash Equivalents	 \$ 588,342	 \$ (29,328)
 <u>Cash &amp; Cash Equivalents - January 1</u>	 <u>1,976,818</u>	 <u>2,006,146</u>
 <u>Cash &amp; Cash Equivalents - December 31</u>	 <u>\$ 2,565,160</u>	 <u>\$ 1,976,818</u>
 <u>Noncash Investing, Capital &amp; Financing Activities</u>		
Contributions of Capital Assets from Developers	<u>\$ 174,351</u>	<u>\$ 398,329</u>
Noncash Loss on Plant Removals	<u>\$ -</u>	<u>\$ 29,452</u>

See accompanying notes.

Water District No. 49 of King County  
Statement of Cash Flows  
Years Ended December 31, 2015 and 2014

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	<u>2015</u>	<u>2014</u>
<u>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES</u>		
Operating Income (Loss)	\$ 535,581	\$ 250,241
<u>Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities</u>		
Depreciation & Amortization	\$ 534,648	\$ 548,129
Bond Insurance Amortization	1,693	1,798
<u>Changes in Assets &amp; Liabilities</u>		
(Increase) Decrease in Accounts Receivable	1,099	12,049
(Increase) Decrease in Accrued Utility Revenue	(31,972)	(10,501)
(Increase) Decrease in Other Accounts Receivable	80,501	(79,734)
(Increase) Decrease in Inventories	(16,035)	1,521
(Increase) Decrease in Prepayments	1,188	4,023
(Increase) Decrease in Unamortized Contract Cost	457	456
Increase (Decrease) in Accounts Payable	(12,111)	52,694
Increase (Decrease) in Compensated Absences	(28,723)	12,583
Increase (Decrease) in Purveyor Balance Liability	(89,152)	(119,450)
(Increase) Decrease in Deferred Outflows of Resources	(61,011)	-
Increase (Decrease) in Deferred Inflows of Resources	81,053	-
Increase (Decrease) in Net Pension Liability	<u>(22,482)</u>	<u>-</u>
Total Adjustments	\$ 439,153	\$ 423,568
Net Cash Provided by Operating Activities	<u>\$ 974,734</u>	<u>\$ 673,809</u>

See accompanying notes.

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

a. Reporting Entity

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

b. Basis of Accounting and Presentation

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

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

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

c. Cash and Cash Equivalents

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

Water District No. 49 of King County  
Notes to Financial Statements  
December 31, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

d. Capital Assets

Utility plant in service is recorded at cost. Donations by developers are recorded at the contract price. Depreciation is calculated on the straight-line method with the following useful lives: equipment & machinery, 5-10 years; plant, 5-40 years; intangibles, 6-10 years. Upon retirement, sale, or other disposition of an asset, the cost of the assets and the related accumulated depreciation are removed from the property accounts and the net gain or loss is reflected in the statement of revenues, expenses and changes in fund net position.

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

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

See Note 3.

e. Deferred outflows/inflows of resources

Deferred outflows of resources represent a consumption of net position that applies to future periods and will not be recognized as an outflow of resources (expense) until that time. The District incurred a deferred pension outflow of resources in 2015 due to the implementation of GASB 68.

Deferred inflows of resources represent an acquisition of net position that applies to future periods and will not be recognized as an inflow of resources (revenue) until that time. The District incurred a deferred inflow of resources related to pensions in 2015 due to the implementation of GASB 68.

f. Receivables

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

g. Inventories

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

h. Investments

Investments are recorded at market value. See Note 2.



Water District No. 49 of King County  
Notes to Financial Statements  
December 31, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

i. Pensions

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

j. Compensated Absences

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

k. Unamortized Bond Insurance

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

l. Subsequent Events

Management has evaluated subsequent events through May 27, 2016, the date that the financial statements were available to be issued.

m. Reclassifications

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

NOTE 2 - DEPOSITS & INVESTMENTS

The District's cash and investment balances at December 31, 2015 and 2014 are listed below.

	<u>2015</u>	<u>2014</u>
Change Fund	\$ 625	\$ 625
Bank Deposit Accounts	4,672	5,000
Investment in King County Investment Pool	<u>2,559,863</u>	<u>1,971,193</u>
Total Cash & Investments	<u>\$ 2,565,160</u>	<u>\$ 1,976,818</u>

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

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

Water District No. 49 of King County  
Notes to Financial Statements  
December 31, 2015

NOTE 2 - DEPOSITS & INVESTMENTS (Continued)

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

<u>Investment Type</u>	<u>Fair Value</u>	<u>Effective Duration</u>
King County Investment Pool	\$ 2,559,863	.93 Years

***Impaired Investments.*** As of December 31, 2015, all impaired commercial paper investments have completed enforcement events. The King County impaired investment pool (Impaired Pool) held one commercial paper asset where the Impaired Pool accepted an exchange offer and is receiving the cash flows from the investment's underlying securities. The Impaired Pool also held the residual investments in two commercial paper assets that were part of completed enforcement events, where the Impaired Pool accepted the cash-out option. The District's share of the impaired investment pool principal is \$3,073 and the District's fair value of these investments is \$1,734.

***Interest Rate Risk.*** As of December 31, 2015, the Pool's average duration was .93 years. As a means of limiting its exposure to rising interest rates, securities purchased in the Pool must have a final maturity, or weighted average life, no longer than five years. While the Pool's market value is calculated on a monthly basis, unrealized gains and losses are not distributed to participants. The Pool distributes earnings monthly using an amortized cost methodology.

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

Water District No. 49 of King County  
Notes to Financial Statements  
December 31, 2015

NOTE 3 - CAPITAL ASSETS

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

	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>
Capital assets not being depreciated:				
Land	\$ 69,049	\$ -	\$ -	\$ 69,049
Construction in Progress	<u>512,258</u>	<u>328,785</u>	<u>(590,316)</u>	<u>250,727</u>
<u>Total capital assets not being depreciated</u>	<u>581,307</u>	<u>328,785</u>	<u>(590,316)</u>	<u>319,776</u>
Capital assets being depreciated:				
Plant	18,286,610	791,122	(5,115)	19,072,617
Machinery & Equipment	662,636	11,185	-	673,821
Intangibles	<u>363,244</u>	<u>-</u>	<u>-</u>	<u>363,244</u>
<u>Total capital assets being depreciated</u>	<u>19,312,490</u>	<u>802,307</u>	<u>(5,115)</u>	<u>20,109,682</u>
Less accumulated depreciation for:				
Plant	7,390,040	472,472	(5,115)	7,857,397
Machinery & Equipment	436,256	52,376	-	488,632
Intangibles	<u>310,036</u>	<u>14,915</u>	<u>-</u>	<u>324,951</u>
<u>Total accumulated depreciation</u>	<u>8,136,332</u>	<u>539,763</u>	<u>(5,115)</u>	<u>8,670,980</u>
<u>Total capital assets being depreciated, net</u>	<u>11,176,158</u>	<u>262,544</u>	<u>-</u>	<u>11,438,702</u>
<u>TOTAL CAPITAL ASSETS, NET</u>	<u>\$ 11,757,465</u>	<u>\$ 591,329</u>	<u>\$ (590,316)</u>	<u>\$ 11,758,478</u>

Water District No. 49 of King County  
Notes to Financial Statements  
December 31, 2015

NOTE 3 - CAPITAL ASSETS (Continued)

Capital assets activity for the year ended December 31, 2014 was as follows:

	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>
Capital assets not being depreciated:				
Land	\$ 69,049	\$ -	\$ -	\$ 69,049
Construction in Progress	<u>301,324</u>	<u>511,232</u>	<u>(300,298)</u>	<u>512,258</u>
<u>Total capital assets not being depreciated</u>	<u>370,373</u>	<u>511,232</u>	<u>(300,298)</u>	<u>581,307</u>
Capital assets being depreciated:				
Plant	17,625,127	713,767	(52,284)	18,286,610
Machinery & Equipment	602,917	110,011	(50,292)	662,636
Intangibles	<u>363,244</u>	<u>-</u>	<u>-</u>	<u>363,244</u>
<u>Total capital assets being depreciated</u>	<u>18,591,288</u>	<u>823,778</u>	<u>(102,576)</u>	<u>19,312,490</u>
Less accumulated depreciation for:				
Plant	6,951,433	461,715	(23,108)	7,390,040
Machinery & Equipment	415,926	70,346	(50,016)	436,256
Intangibles	<u>293,968</u>	<u>16,068</u>	<u>-</u>	<u>310,036</u>
<u>Total accumulated depreciation</u>	<u>7,661,327</u>	<u>548,129</u>	<u>(73,124)</u>	<u>8,136,332</u>
<u>Total capital assets being depreciated, net</u>	<u>10,929,961</u>	<u>275,649</u>	<u>(29,452)</u>	<u>11,176,158</u>
<u>TOTAL CAPITAL ASSETS, NET</u>	<u>\$ 11,300,334</u>	<u>\$ 786,881</u>	<u>\$ (329,750)</u>	<u>\$ 11,757,465</u>

Water District No. 49 of King County  
Notes to Financial Statements  
December 31, 2015

**NOTE 4 - CONSTRUCTION WORK-IN-PROGRESS**

Construction work-in-progress represents expenses to date on projects whose authorizations total \$1,739,625.

Construction work-in-progress is composed of the following at December 31, 2015:

Main Replacement Projects	Project Authorization	Expended to 12/31/15	Committed	Required Future Financing
Mapsheet 2F	\$708,000	\$13,051	\$694,949	\$ -
Phase 1 – Des Moines	275,000	159,084	115,916	-
Phase 2 – Des Moines	625,000	14,022	610,978	-
DE Manual Update	1,625	540	1,085	-
Reservoir	130,000	5,034	124,966	-
Water System Plan	-	58,996	58,996	-
<b>Total Capital Projects In Progress</b>	<b>\$1,739,625</b>	<b>\$250,727</b>	<b>\$1,606,890</b>	<b>\$ -</b>

Construction work-in-progress is composed of the following at December 31, 2014:

Main Replacement Projects	Project Authorization	Expended to 12/31/14	Committed	Required Future Financing
Mapsheet 2F	\$708,000	\$13,051	\$694,949	\$ -
16 <sup>th</sup> Ave Main	570,589	499,207	71,382	-
<b>Total Capital Projects In Process</b>	<b>\$1,278,589</b>	<b>\$512,258</b>	<b>\$766,331</b>	<b>\$ -</b>

Water District No. 49 of King County  
Notes to Financial Statements  
December 31, 2015

**NOTE 5 - LEASE COMMITMENTS**

Operating Leases

Water District No. 49 is committed under various leases for office equipment. These leases are considered operating leases for accounting purposes. Lease expenses for the year ended December 31, 2015 amounted to \$7,919. Lease expenses for the year ended December 31, 2014 amounted to \$10,622. Future minimum rental commitments for these leases are as follows:

Fiscal Year Ending December 31:

2016	\$	2,397
2017		<u>2,397</u>
Total		<u>\$ 4,794</u>

**NOTE 6 - LONG-TERM DEBT**

a. Public Works Trust Fund Loans

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

	<u>12/31/15</u>	<u>12/31/14</u>
2000 loan - payable at \$46,000 annually through the year 2020, plus interest at 1% per annum		
Original loan amount: \$1,261,170	\$ 229,998	\$ 275,998
2005 loan - payable at \$22,053 annually through the year 2025, plus interest at 4% per annum		
Original loan amount: \$419,000	<u>220,526</u>	<u>242,579</u>
	<u>\$ 450,524</u>	<u>\$ 518,577</u>

The debt is to be repaid only from utility revenues and general obligation revenues. Annual payments of principal and interest on these loans are scheduled as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 68,052	\$ 11,121	\$ 79,173
2017	68,052	9,779	77,831
2018	68,052	8,437	76,489
2019	68,052	7,095	75,147
2020	68,053	5,753	73,806
2021-2025	<u>110,263</u>	<u>13,232</u>	<u>123,495</u>
Totals	<u>\$ 450,524</u>	<u>\$ 55,417</u>	<u>\$ 505,941</u>

Water District No. 49 of King County  
Notes to Financial Statements  
December 31, 2015

NOTE 6 - LONG-TERM DEBT (Continued)

b. Revenue Bonds

A summary of bonds outstanding at December 31, 2015 and 2014 is as follows:

	<u>12/31/15</u>	<u>12/31/14</u>
2007 Water Revenue Bonds, 3.4% - 4.25%, maturing serially through 2027, insured by a third-party insurer.	<u>\$ 1,260,000</u>	<u>\$ 1,340,000</u>

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

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

The annual requirements to amortize revenue bonds outstanding as of December 31, 2015, including interest, are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 85,000	\$ 49,966	\$ 134,966
2017	85,000	46,736	131,736
2018	90,000	43,300	133,300
2019	95,000	39,600	134,600
2020	100,000	35,700	135,700
2021-2025	550,000	114,231	664,231
2026-2027	<u>255,000</u>	<u>10,944</u>	<u>265,944</u>
Totals	<u>\$ 1,260,000</u>	<u>\$ 340,477</u>	<u>\$ 1,600,477</u>

Water District No. 49 of King County  
Notes to Financial Statements  
December 31, 2015

NOTE 6 - LONG-TERM DEBT (Continued)

c. Changes in Long-Term Debt

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

	Balance <u>1/1/15</u>	<u>Additions</u>	<u>Reductions</u>	Balance <u>12/31/15</u>	Due Within <u>One Year</u>
Public Works Trust					
Fund Loans	\$ 518,577	\$ -	\$ (68,053)	\$ 450,524	\$ 68,052
Purveyor Balance					
Liability	89,152	-	(89,152)	-	-
Revenue Bonds					
Payable	1,340,000	-	(80,000)	1,260,000	85,000
Compensated					
Absences	95,651	-	(28,723)	66,928	-
Net Pension					
Liability	<u>-</u>	<u>525,625</u>	<u>-</u>	<u>525,625</u>	<u>-</u>
Total Long-Term					
Debt	<u>\$ 2,043,380</u>	<u>\$ 525,625</u>	<u>\$ (265,928)</u>	<u>\$ 2,303,077</u>	<u>\$ 153,052</u>

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

	Balance <u>1/1/14</u>	<u>Additions</u>	<u>Reductions</u>	Balance <u>12/31/14</u>	Due Within <u>One Year</u>
Public Works Trust					
Fund Loans	\$ 586,629	\$ -	\$ (68,052)	\$ 518,577	\$ 68,052
Purveyor Balance					
Liability	208,602	-	(119,450)	89,152	89,152
Revenue Bonds					
Payable	1,420,000	-	(80,000)	1,340,000	80,000
Compensated					
Absences	<u>83,068</u>	<u>12,583</u>	<u>-</u>	<u>95,651</u>	<u>-</u>
Total Long-Term					
Debt	<u>\$ 2,298,299</u>	<u>\$ 12,583</u>	<u>\$ (267,502)</u>	<u>\$ 2,043,380</u>	<u>\$ 237,204</u>



Water District No. 49 of King County  
Notes to Financial Statements  
December 31, 2015

NOTE 6 - LONG-TERM DEBT (Continued)

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

NOTE 7 - PENSION PLAN

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:

<b>Aggregate Pension Amounts - All Plans</b>	
Pension liabilities	\$525,625
Pension assets	\$-
Deferred outflows of resources	\$61,011
Deferred inflows of resources	\$81,053
Pension expense/expenditures	\$55,180

**State Sponsored Pension Plans-**

Substantially all District full-time and qualifying part-time employees participate in one of the following statewide retirement systems administered by the Washington State

Department of Retirement Systems, under cost-sharing, multiple-employer public employee defined benefit and defined contribution retirement plans.

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

The Department of Retirement Systems (DRS), a department within the primary government of the State of Washington, issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for each plan. The DRS CAFR may be obtained by writing to:

Department of Retirement Systems  
Communications Unit  
P.O. Box 48380  
Olympia, WA 98540-8380

Or the DRS CAFR may be downloaded from the DRS website at [www.drs.wa.gov](http://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

Water District No. 49 of King County  
Notes to Financial Statements  
December 31, 2015

NOTE 7 - PENSION PLAN (Continued)

pension plans for membership purposes. PERS plans 1 and 2 are defined benefit plans, and PERS plan 3 is a defined benefit plan with a defined contribution component.

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

Contributions

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

<b>PERS Plan 1</b>		
<b>Actual Contribution Rates:</b>	<b>Employer</b>	<b>Employee</b>
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 \$-0- 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

NOTE 7 - PENSION PLAN (Continued)

according to age for each year before age 65. PERS Plan 2/3 members who have 30 or more years of service credit and are at least 55 years old can retire under one of two provisions:

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

PERS Plan 2/3 members hired on or after May 1, 2013 have the option to retire early by accepting a reduction of five percent for each year of retirement before age 65. This option is available only to those who are age 55 or older and have at least 30 years of service credit.

PERS Plan 2/3 retirement benefits are also actuarially reduced to reflect the choice of a survivor benefit. Other PERS Plan 2/3 benefits include duty and non-duty disability payments, a cost-of-living allowance (based on the CPI), capped at three percent annually and a one-time duty related death benefit, if found eligible by the Department of Labor and Industries. PERS 2 members are vested after completing five years of eligible service. Plan 3 members are vested in the defined benefit portion of their plan after ten years of service; or after five years of service if 12 months of that service are earned after age 44.

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

Water District No. 49 of King County  
Notes to Financial Statements  
December 31, 2015

NOTE 7 - PENSION PLAN (Continued)

Contributions

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

<b>PERS Plan 2/3</b>	<b>Employer</b>	<b>Employee</b>
<b>Actual Contribution Rates:</b>	<b>2/3</b>	<b>2/3</b>
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 \$54,782 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.

NOTE 7 - PENSION PLAN (Continued)

- **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.

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

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

**Discount Rate**

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

To determine that rate, an asset sufficiency test included an assumed 7.7 percent long-term discount rate to determine funding liabilities for calculating future contribution rate requirements. Consistent with the long-term expected rate of return, a 7.5 percent future investment rate of return on invested assets was assumed for the test. Contributions

**NOTE 7 - PENSION PLAN (Continued)**

from plan members and employers are assumed to continue being made at contractually required rates (including PERS 2/3 employers, whose rates include a component for the PERS 1 plan liabilities). Based on these assumptions, the pension plans' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return of 7.5 percent was used to determine the total liability.

**Long-Term Expected Rate of Return**

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

**Estimated Rates of Return by Asset Class**

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

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

**Sensitivity of NPL**

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

Water District No. 49 of King County  
Notes to Financial Statements  
December 31, 2015

NOTE 7 - PENSION PLAN (Continued)

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
PERS 1	\$339,960	\$279,227	\$227,003
PERS 2/3	\$720,481	\$246,398	\$(116,589)

**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 \$525,625 for its proportionate share of the net pension liabilities as follows:

	Liability (or Asset)
PERS 1	\$279,227
PERS 2/3	\$246,398

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	.005219%	.005338%	.000119%
PERS 2/3	.006719%	.006896%	.000177%

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

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

Water District No. 49 of King County  
Notes to Financial Statements  
December 31, 2015

NOTE 7 - PENSION PLAN (Continued)

**Pension Expense**

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

	Pension Expense
PERS 1	\$23,121
PERS 2/3	\$31,017

**Deferred Outflows of Resources and Deferred Inflows of Resources**

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

PERS 1, 2, & 3	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$26,192	\$-
Net difference between projected and actual investment earnings on pension plan investments	\$-	\$81,053
Changes of assumptions	\$ 397	\$-
Changes in proportion and differences between contributions and proportionate share of contributions	\$ 5,695	\$-
Contributions subsequent to the measurement date	\$28,727	\$-
<b>TOTAL</b>	<b>\$61,011</b>	<b>\$81,053</b>

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	\$(5,921)
2017	\$(5,921)
2018	\$(5,921)
2019	\$2,487
2020	\$-
Thereafter	\$-



Water District No. 49 of King County  
Notes to Financial Statements  
December 31, 2015

NOTE 7 - PENSION PLAN (Continued)

Year ended December 31:	PERS 2 & 3
2016	\$(16,184)
2017	\$(16,184)
2018	\$(16,184)
2019	\$15,060
2020	\$-
Thereafter	\$-

NOTE 8 - RISK MANAGEMENT

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

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

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

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

NOTE 9 - USE OF ESTIMATES

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

NOTE 10 - CONTINGENT LIABILITIES

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

NOTE 11 - ACCOUNTING AND REPORTING CHANGES

The 2015 financial statements are presented in accordance with GASB statement No. 68 - Accounting and Financial Reporting for Pensions. This reporting change resulted in a change to the Net Position in the amount of \$548,107. GASB statement No. 68 was implemented effective January 1, 2015. Information was not available to restate the 2014 financial statement.

Water District No. 49 of King County  
 Schedule of Proportionate Share of the Net Pension Liability  
 PERS Pension Plan  
 As of June 30, 2015  
 Last 10 Fiscal Years

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PERS 1	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Employer's proportion of the net pension liability (asset)	% 0.005338%									
Employer's proportionate share of the net pension liability	\$ 279,227									
<b>TOTAL</b>	<b>\$ 279,227</b>									
Employer's covered employee payroll	\$ 0									
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	% 0.00%									
Plan fiduciary net position as a percentage of the total pension liability	% 59.10%									
PERS 2/3	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Employer's proportion of the net pension liability (asset)	% 0.006896%									
Employer's proportionate share of the net pension liability	\$ 246,398									
<b>TOTAL</b>	<b>\$ 246,398</b>									
Employer's covered employee payroll	\$ 578,786									
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	% 42.57%									
Plan fiduciary net position as a percentage of the total pension liability	% 89.20%									

Water District No. 49 of King County  
Notes to Schedule of Proportionate Share of the Net Pension Liability and  
Schedule of Employer Contributions  
PERS Pension Plan  
As of December 31, 2015  
Last 10 Fiscal Years

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PERS 1	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Statutorily or contractually required contributions	\$ 31,740									
Contributions in relation to the statutorily or contractually required contributions	\$ 31,740									
Contribution deficiency (excess)	\$ 0									
Covered employer payroll	\$ 0									
Contributions as a percentage of covered employee payroll	% 0.00%									
PER 2/3	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Statutorily or contractually required contributions	\$ 24,837									
Contributions in relation to the statutorily or contractually required contributions	\$ 24,837									
Contribution deficiency (excess)	\$ 0									
Covered employer payroll	\$ 578,786									
Contributions as a percentage of covered employee payroll	% 4.29%									

Water District No. 49 of King County  
Notes to Schedule of Proportionate Share of the Net Pension Liability and  
Schedule of Employer Contributions  
PERS Pension Plan  
As of December 31, 2015  
Last 10 Fiscal Years

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**Note 1**

These schedules will be built prospectively until they contain ten years of data.

**Note 2: Changes of Benefit Terms**

There were no changes of benefit terms for the Pension Plans.

**Note 3: Changes of Assumptions**

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

## ABOUT THE STATE AUDITOR'S OFFICE

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

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

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

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

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

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

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

<b>Contact information for the State Auditor's Office</b>	
<b>Public Records requests</b>	<a href="mailto:PublicRecords@sao.wa.gov">PublicRecords@sao.wa.gov</a>
<b>Main telephone</b>	(360) 902-0370
<b>Toll-free Citizen Hotline</b>	(866) 902-3900
<b>Website</b>	<a href="http://www.sao.wa.gov">www.sao.wa.gov</a>