



Office of the Washington State Auditor
Pat McCarthy

Financial Statements Audit Report
Ronald Wastewater District
King County

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

Published January 19, 2017

Report No. 1018441





**Office of the Washington State Auditor
Pat McCarthy**

January 19, 2017

Board of Commissioners
Ronald Wastewater District
Shoreline, Washington

Report on Financial Statements

Please find attached our report on the Ronald Wastewater District's financial statements.

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

Sincerely,

A handwritten signature in cursive script that reads "Pat McCarthy".

Pat McCarthy
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**

**Ronald Wastewater District
King County
January 1, 2014 through December 31, 2015**

Board of Commissioners
Ronald Wastewater District
Shoreline, 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 Ronald Wastewater 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 January 11, 2017. 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 "Pat McCarthy". The signature is written in a cursive style with a large, stylized "P" and "M".

Pat McCarthy

State Auditor

Olympia, WA

January 11, 2017

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Ronald Wastewater District King County January 1, 2014 through December 31, 2015

Board of Commissioners
Ronald Wastewater District
Shoreline, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying basic financial statements of the Ronald Wastewater 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 opinions 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 opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of basic of the Ronald Wastewater District, as of December 31, 2015 and 2014, and the respective 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 44 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 January 11, 2017 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.

A handwritten signature in black ink, reading "Pat McCarthy". The signature is written in a cursive, flowing style.

Pat McCarthy

State Auditor

Olympia, WA

January 11, 2017

FINANCIAL SECTION

**Ronald Wastewater 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 Fund 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 – PERS 1

Schedule of Proportionate Share of Net Pension Liability – PERS 2/3

Schedule of Employer Contributions – PERS 1

Schedule of Employer Contributions – PERS 2/3

**RONALD WASTEWATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2015 and 2014**

INTRODUCTION

Ronald Wastewater District was incorporated in 1951 to provide sewer services to customers residing within the District's boundaries. Our mission is to provide safe, efficient and reliable wastewater collection services.

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of management's discussion and analysis presents our review of the District's financial position as of December 31, 2015 and 2014 and our financial performance for the years then ended. Please read these comments in conjunction with the District's financial statements, which follow this section.

OVERVIEW OF THE FINANCIAL STATEMENTS

The financial statements include a statement of net position, statement of revenues, expenses and changes in fund net position, statement of cash flows and notes to the financial statements.

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

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

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

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

**RONALD WASTEWATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2015 and 2014**

Effective January 1, 2014, the District implemented Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*. Implementation of these standards required the District to recognize significant deferred outflows and inflows related to pensions, the related net pension liability and a decrease in 2014 beginning net position in the amount of \$954,729. See Notes 1 and 6 in the financial statements for more information.

CONDENSED STATEMENTS OF NET POSITION AT DECEMBER 31

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Capital assets	\$ 22,408,476	\$ 21,873,750	\$ 20,986,255
Other assets	<u>5,783,711</u>	<u>5,968,032</u>	<u>7,283,553</u>
Total assets	<u>\$ 28,192,187</u>	<u>\$ 27,841,782</u>	<u>\$ 28,269,808</u>
Deferred outflows of resources	<u>\$ 99,419</u>	<u>\$ 58,869</u>	<u>\$ -</u>
Long-term liabilities	\$ 904,256	\$ 764,159	\$ 119,324
Other liabilities	<u>838,436</u>	<u>898,147</u>	<u>785,079</u>
Total liabilities	<u>\$ 1,742,692</u>	<u>\$ 1,662,306</u>	<u>\$ 904,403</u>
Deferred inflows of resources	<u>\$ 147,560</u>	<u>\$ 311,222</u>	<u>\$ -</u>
Net investment in capital assets	\$ 22,408,476	\$ 21,873,750	\$ 20,986,255
Restricted for impaired investments	22,139	27,716	33,122
Unrestricted amounts	<u>3,970,739</u>	<u>4,025,657</u>	<u>6,346,028</u>
Total net position	<u>\$ 26,401,354</u>	<u>\$ 25,927,123</u>	<u>\$ 27,365,405</u>

(continued on next page)

**RONALD WASTEWATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2015 and 2014**

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

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Sewer service charges	\$ 14,465,436	\$ 13,447,288	\$ 13,723,283
Other operating revenue	270,893	255,984	278,364
Total operating revenues	<u>14,736,329</u>	<u>13,703,272</u>	<u>14,001,647</u>
Maintenance and operation expenses	10,944,604	10,389,634	10,420,445
General and administrative expenses	2,575,010	2,830,137	2,737,980
Depreciation	1,033,210	1,054,752	1,013,663
Total operating expenses	<u>14,552,824</u>	<u>14,274,523</u>	<u>14,172,088</u>
Operating income (loss)	183,505	(571,251)	(170,441)
Non-operating revenue:			
Interest	27,229	42,435	61,320
Net gain on disposal of assets	-	10,175	-
Miscellaneous	8,487	33,143	4,356
Non-operating expenses:			
Net loss on disposal of assets	(2,819)	-	-
Private property improvements	(50,151)	(177,313)	(284,604)
Income (loss) before capital contributions	166,251	(662,811)	(389,369)
Capital contributions	307,980	179,258	881,386
Increase (decrease) in net position	<u>\$ 474,231</u>	<u>\$ (483,553)</u>	<u>\$ 492,017</u>
Net position, January 1, as previously reported	25,927,123	27,365,405	26,873,388
Restatement - change in accounting principle	-	(954,729)	-
Net position, January 1, as restated		<u>26,410,676</u>	
Net position, December 31	<u>\$ 26,401,354</u>	<u>\$ 25,927,123</u>	<u>\$ 27,365,405</u>

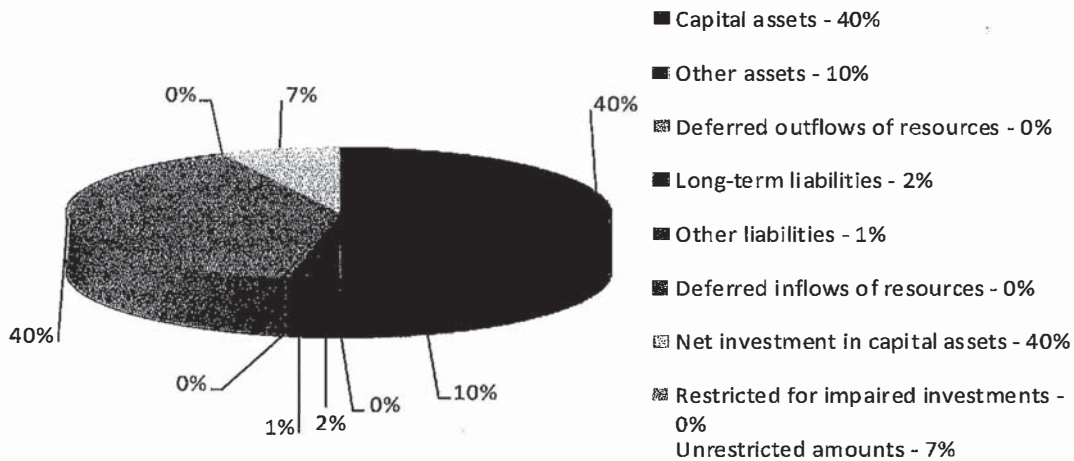
Note: Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68* were implemented effective January 1, 2014. Information was not available to restate the 2013 condensed financial statements.

**RONALD WASTEWATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2015 and 2014**

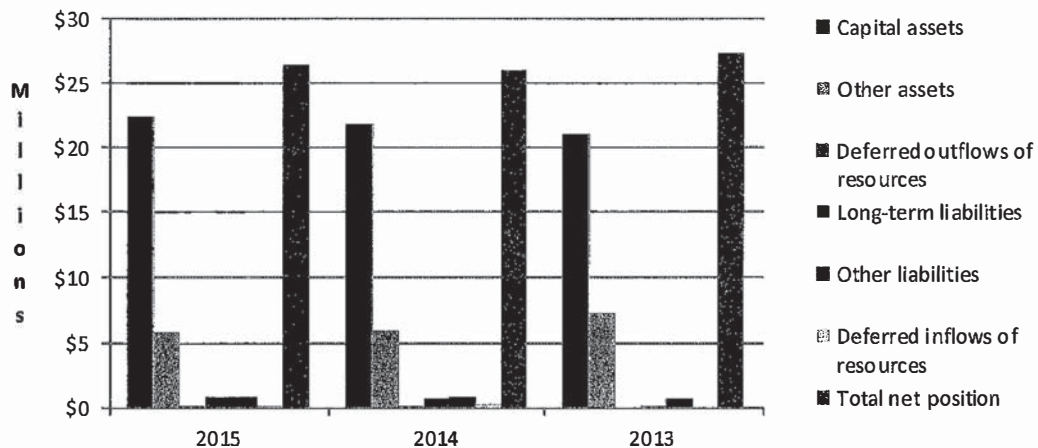
FINANCIAL POSITION

The District's overall financial position at December 31, 2015 and 2014 is strong. The District is financed primarily by equity. Substantial liquid assets are currently available to fund liabilities and construction. Capital assets increased in 2015 and 2014 due to growth in the customer base and construction activity to upgrade the system. The following charts indicate the components of financial position:

2015 STATEMENT OF NET POSITION



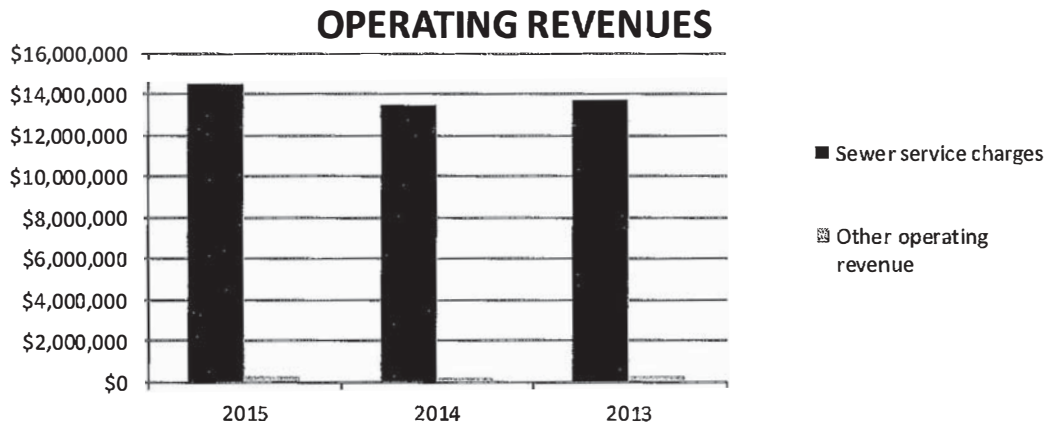
COMPARATIVE STATEMENT OF NET POSITION



**RONALD WASTEWATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2015 and 2014**

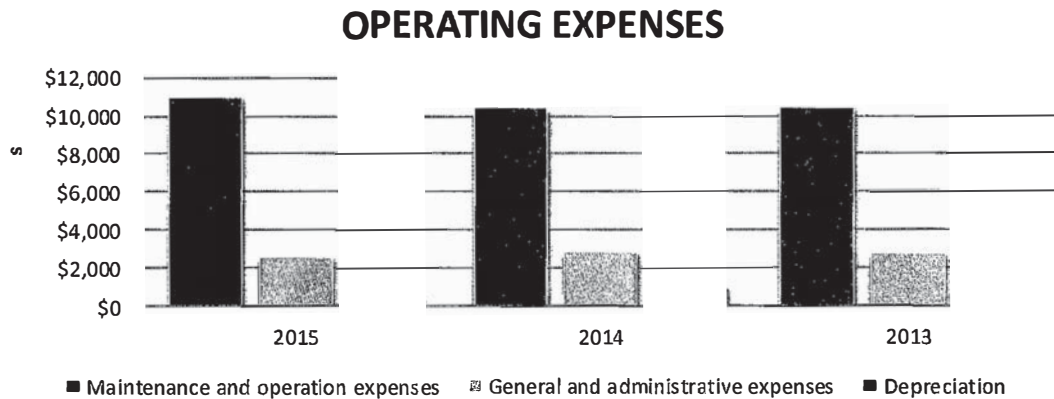
RESULTS OF OPERATIONS

Operating revenues are received primarily from sewer service charges. The following chart indicates operating revenue over the last three years:



The increase in revenues in 2015 was primarily due to a rate increase. The decrease in revenue in 2014 was primarily due to District rate decreases.

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



Maintenance and operation expenses increased in 2015 primarily due to a rate increase for sewage treatment. General and administrative expenses decreased in 2015 primarily as a result of the District settling a dispute with the Department of Revenue in 2014.

**RONALD WASTEWATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2015 and 2014**

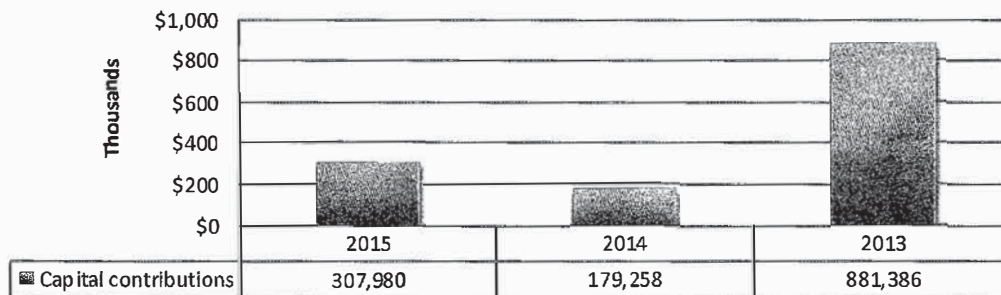
Operating expenses in 2014 were comparable to 2013. The District operated at a profit in 2015 and a loss in 2014 and 2013. The District's general philosophy is to provide for all depreciation through rates based on the principle that current users should pay all costs associated with the sewer system as it is being used, however, the operating losses in 2014 and 2013 were mainly due to the District not providing for the full amount of depreciation in its rates.

Operating income is augmented by earnings on investments and other non-operating revenues, net of other non-operating expenses and capital contributions.

The District collects capital contributions from new customers and other grantors. These contributions consist of connection charges and donated systems.

The following chart indicates capital contributions over the past three years:

CAPITAL CONTRIBUTIONS



The contributions are indicative of the growth of the District and include donated systems totaling \$43,800, \$117,686 and \$-0- for the years ended December 31, 2015, 2014 and 2013.

**RONALD WASTEWATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2015 and 2014**

CAPITAL ASSETS AND LONG-TERM DEBT

The capital assets of the District increased in 2015 and 2014 due to growth in the customer base and construction activity to upgrade the system.

Significant capital asset additions during the years included the following:

2015		2014	
Edmonds Treatment Plant		Edmonds Treatment Plant	
Projects	\$ 185,207	Projects	\$ 136,473
Hydraulic Capital Improvement		Hydraulic Capital Improvement	
Project 1	1,057,491	Project 1	211,369
Lift Station 17 Flood Rehabilitation	48,890	Ridgecrest Phase 1	455,417
Lift Station 3 Replacement	48,964	Ridgecrest Phase 2	472,466
Repair of Force Main Between Lift		Repair of Force Main Between Lift	
Stations #1 & #2	194,112	Stations #1 & #2	31,338
Donated Systems	43,800	North 152nd Street Sanitary Sewer	
		Replacement Project	52,231
		Carlyle Hall Road Sanitary Sewer	
		Improvements Project	258,717
		Donated Systems	117,686

See Notes 4 and 5 in the financial statements for detail activity in capital assets and long-term liabilities. The District had no long-term debt in 2015 and 2014.

ADDITIONAL COMMENTS

The District is dependent on King County Wastewater Treatment Division (KCWTD/METRO) and the City of Edmonds for the treatment of sewage collected by the District. The cost for this service by KCWTD charged to the District continues to increase. The District's practice is to adjust treatment rates to compensate for increases in its direct treatment cost.

The District has entered into an interlocal agreement with the City of Shoreline which allows the City to assume the District at the end of the agreement. As of December 31, 2015, the City has indicated it intends to assume the District in October 2017. The District is also committed under various agreements to pay certain costs to third parties including its portion of City of Edmonds projects related to the City of Edmonds Treatment Plant. The District owns 9.488% of the capacity of the City of Edmonds Treatment Plant. During 2012, the District was notified of potential cost contributions to the City of Seattle in an amount currently estimated at approximately \$13,625,000. This contribution, along with all of the other required commitments of the District, are substantially in excess of liquid assets on hand and will require the District to seek additional funds likely through additional debt. See Note 9 in the financial statements for additional details regarding the District's commitments and contingencies.

**RONALD WASTEWATER DISTRICT
STATEMENT OF NET POSITION
DECEMBER 31, 2015 AND 2014**

ASSETS	2015	Restated 2014
<i>Current assets:</i>		
Unrestricted:		
Cash and cash equivalents	\$ 3,940,584	\$ 4,359,216
Accounts receivable - users	1,225,741	1,210,765
Accounts receivable - other	136,404	35,622
Interest receivable	2,789	2,658
Prepaid expenses	81,139	46,579
Notes receivable - current portion	42,476	40,397
	<u>5,429,133</u>	<u>5,695,237</u>
Restricted:		
Cash and cash equivalents	22,139	27,716
	<u>22,139</u>	<u>27,716</u>
Total current assets	<u>5,451,272</u>	<u>5,722,953</u>
<i>Non-current assets:</i>		
Unrestricted:		
Notes receivable, less current portion	332,439	245,079
	<u>332,439</u>	<u>245,079</u>
Capital assets not being depreciated:		
Land, land rights and other	564,588	564,588
Construction in progress	371,907	613,235
Capital assets being depreciated:		
Plant in service	42,044,958	40,261,094
Less accumulated depreciation	<u>(20,572,977)</u>	<u>(19,565,167)</u>
Net capital assets	<u>22,408,476</u>	<u>21,873,750</u>
Total non-current assets	<u>22,740,915</u>	<u>22,118,829</u>
Total assets	<u>28,192,187</u>	<u>27,841,782</u>
DEFERRED OUTFLOWS OF RESOURCES		
Deferred outflows related to pensions	99,419	58,869
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u><u>\$ 28,291,606</u></u>	<u><u>\$ 27,900,651</u></u>

See accompanying notes to the financial statements
and Independent Accountant's Review Report.

**RONALD WASTEWATER DISTRICT
STATEMENT OF NET POSITION
(CONTINUED)
DECEMBER 31, 2015 AND 2014**

LIABILITIES	2015	Restated 2014
<i>Current liabilities:</i>		
Payable from unrestricted assets:		
Accounts payable	\$ 217,250	\$ 259,050
Accrued salaries and benefits	52,444	64,779
Compensated absences	90,000	160,000
Utility service revenue billed in advance	383,498	379,854
Retainage payable	3,722	8,757
Developer advances and deposits	91,522	25,707
Total current liabilities	<u>838,436</u>	<u>898,147</u>
<i>Non-current liabilities:</i>		
Compensated absences	34,678	62,466
Net pension liability	869,578	701,693
Total non-current liabilities	<u>904,256</u>	<u>764,159</u>
Total liabilities	<u>1,742,692</u>	<u>1,662,306</u>
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows related to pensions	147,560	311,222
Total liabilities and deferred inflows of resources	<u>1,890,252</u>	<u>1,973,528</u>
NET POSITION		
Net investment in capital assets	22,408,476	21,873,750
Restricted for impaired investments	22,139	27,716
Unrestricted	3,970,739	4,025,657
Total net position	<u>26,401,354</u>	<u>25,927,123</u>
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES AND NET POSITION	<u><u>\$ 28,291,606</u></u>	<u><u>\$ 27,900,651</u></u>

See accompanying notes to the financial statements
and Independent Accountant's Review Report.

RONALD WASTEWATER DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

	2015	Restated 2014
<i>Operating revenue:</i>		
Service charges:		
Residential	\$ 2,234,733	\$ 1,996,317
Commercial, condominiums and apartments	1,361,458	1,206,736
Other municipalities	33,837	33,552
Metro - treatment	10,038,683	9,458,506
Edmonds - treatment	796,725	752,167
Surcharges	-	10
Total service charges	14,465,436	13,447,288
Permit fees	27,975	24,100
Penalties and lien fees	242,918	231,884
	<u>14,736,329</u>	<u>13,703,272</u>
<i>Operating expenses:</i>		
Maintenance and operation	10,944,604	10,389,634
General and administrative	2,575,010	2,830,137
Depreciation	1,033,210	1,054,752
	<u>14,552,824</u>	<u>14,274,523</u>
Operating income (loss)	<u>183,505</u>	<u>(571,251)</u>
<i>Non-operating revenue:</i>		
Investment income, net of service fees	22,652	38,909
Interest on notes receivable	4,577	3,462
Other interest	-	64
Net gain on disposal of assets	-	10,175
Miscellaneous income	8,487	33,143
	<u>35,716</u>	<u>85,753</u>
<i>Non-operating expense:</i>		
Net loss on disposal of assets	2,819	-
Private property improvements	50,151	177,313
	<u>52,970</u>	<u>177,313</u>
Income (loss) before capital contributions	166,251	(662,811)
Capital contributions	307,980	179,258
Change in net position	<u>474,231</u>	<u>(483,553)</u>
Net position, January 1, as previously reported	25,927,123	27,365,405
Restatement - change in accounting principle	-	(954,729)
Net position, January 1, as restated	<u>25,927,123</u>	<u>26,410,676</u>
Net position, December 31	<u>\$ 26,401,354</u>	<u>\$ 25,927,123</u>

See accompanying notes to the financial statements
and Independent Accountant's Review Report.

**RONALD WASTEWATER DISTRICT
STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014**

	2015	Restated 2014
<i>Cash flows from operating activities:</i>		
Cash received from customers	\$ 14,741,757	\$ 13,845,639
Cash paid to suppliers	(12,050,640)	(11,470,608)
Cash paid to and for employees and commissioners	(1,667,224)	(1,698,695)
Cash paid for private property improvements	(50,151)	(177,313)
Collections on notes receivable for private property improvements	8,538	5,046
Interest received	493	438
Net cash provided by operating activities	<u>982,773</u>	<u>504,507</u>
<i>Cash flows from capital financing activities:</i>		
Capital contributions	120,326	61,572
Collections on notes issued for capital contributions	36,537	27,958
Interest received on notes issued for capital contributions	3,163	1,848
Proceeds from sale of assets	-	10,175
Acquisition and construction of capital assets	(1,599,790)	(1,707,628)
Net cash used in capital financing activities	<u>(1,439,764)</u>	<u>(1,606,075)</u>
<i>Cash flows from investing activities:</i>		
Collections on Lake Forest Park note	9,340	9,281
Interest received on investments and Lake Forest Park note	23,442	40,675
Net cash provided by investing activities	<u>32,782</u>	<u>49,956</u>
Net decrease in cash and cash equivalents	(424,209)	(1,051,612)
Cash and cash equivalents, beginning of year	<u>4,386,932</u>	<u>5,438,544</u>
Cash and cash equivalents, end of year	<u>\$ 3,962,723</u>	<u>\$ 4,386,932</u>
Cash and cash equivalents balance is comprised of the following at December 31:		
Cash and cash equivalents - unrestricted	\$ 3,940,584	\$ 4,359,216
Cash and cash equivalents - restricted	22,139	27,716
	<u>\$ 3,962,723</u>	<u>\$ 4,386,932</u>

See accompanying notes to the financial statements
and Independent Accountant's Review Report.

**RONALD WASTEWATER DISTRICT
STATEMENT OF CASH FLOWS
(CONTINUED)
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014**

	<u>2015</u>	<u>Restated 2014</u>
<i>Reconciliation of operating income (loss) to net cash provided by operating activities:</i>		
Operating income (loss)	\$ 183,505	\$ (571,251)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation	1,033,210	1,054,752
(Increase) decrease in assets and deferred outflows of resources:		
Receivables	(115,758)	221,136
Prepaid expenses	(34,560)	(37)
Collection on notes issued for private property improvements	8,538	5,046
Deferred outflows related to pensions	(40,550)	(15,894)
Increase (decrease) in liabilities and deferred inflows of resources:		
Accounts payable and accrued expenses	(84,123)	(86,937)
Utility service revenue billed in advance	3,644	26,035
Developer advances	65,815	178
Net pension liability	167,885	(296,011)
Deferred inflows related to pensions	(163,662)	311,222
Private property improvements	(50,151)	(177,313)
Miscellaneous income	8,487	33,143
Other interest income	493	438
Net cash provided by operating activities	<u>\$ 982,773</u>	<u>\$ 504,507</u>
<i>Supplemental schedule of significant non-cash financing and investing activities:</i>		
Utility plant donations received	\$ 43,800	\$ 117,686
Notes receivable issued for capital contributions	\$ 143,854	\$

See accompanying notes to the financial statements
and Independent Accountant's Review Report.

**RONALD WASTEWATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014**

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

Description of business, nature of operations and reporting entity - Ronald Wastewater District, a municipal corporation organized under the laws of the State of Washington, was created for the purpose of constructing, maintaining and operating a sanitary sewer system within its boundaries which encompass an area located almost entirely within the City of Shoreline. The District is governed by an elected five member board and has no component units.

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

Change in accounting principle - The District implemented Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*. These statements establish accounting and financial reporting standards that require recognition of the net pension liabilities, deferred outflows of resources and deferred inflows of resources related to pensions and adjust pension expense, which was previously recorded based on contributions due to the related plans.

The cumulative impact of implementation of GASB 68 and 71 resulted in a \$954,729 reduction of net position as of January 1, 2014 as a result of recognizing the beginning net pension liability of \$997,704 and beginning deferred outflows of resources related to pensions of \$42,975 for contributions to the plan made between June 30, 2013 (the measurement date) and December 31, 2013. It was not practicable to determine any other deferred outflows or deferred inflows of resources as of January 1, 2014 as the information was not available and, accordingly, no amounts for these items were recorded.

The 2014 financial statements have been restated to recognize the net pension liability in the amount of \$701,693, deferred outflows related to pensions in the amount of \$58,869, deferred inflows of resources related to pensions in the amount of \$311,222 and increase (decrease) previously recorded pension expense in the amount of \$(683).

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

Accounts receivable - The District utilizes the allowance method of accounting for doubtful accounts. However, all accounts receivable are considered fully collectible since nonpayment of an account can result in a lien assessment filed against the property. Therefore, no allowance for doubtful accounts has been provided in the financial statements.

**RONALD WASTEWATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
(CONTINUED)
DECEMBER 31, 2015 AND 2014**

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

Capital assets - Capital assets are stated at cost and include the capitalized portion of District employees' wages and related overhead costs. For sewer systems installed by developers or customers and conveyed to the District by bill of sale, the District records the cost of the system at the contributing party's cost as certified by the contributor. Major expenses for capital assets, including capital leases and major repairs that increase useful lives, are capitalized. Maintenance, repairs, and minor renewals are accounted for as expenses when incurred. When capital assets are retired or otherwise disposed of, the cost and accumulated depreciation is removed from the accounts and any resulting gain or loss is recognized in income for the period. Depreciation on capital assets is computed using the straight-line method over the following estimated useful lives:

	<u>Estimated useful lives</u>
Sewer systems and pumping stations	8 - 51 years
Office building	8 - 50 years
Equipment	5 - 20 years
Other miscellaneous assets	10 - 50 years

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.

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. Deferred outflows of resources consist of contributions to pension plans subsequent to the June 30 measurement date and the District's proportionate share of deferred outflows related to those plans. Pension plan contributions subsequent to the measurement date are recognized as a reduction of the net pension liability in the following year. The remaining deferred outflows related to pensions are amortized over the average expected service lives of all employees provided with pensions through each plan.

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.

**RONALD WASTEWATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
(CONTINUED)
DECEMBER 31, 2015 AND 2014**

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

Deferred outflows/inflows of resources (continued) - Deferred inflows of resources consist of the District's proportionate share of deferred inflows related to pension plans. The deferred inflows related to pensions are amortized over a closed five-year period.

Compensated absences - The District accrues accumulated unpaid vacation and sick leave benefit amounts as earned. District employees accumulate vacation hours for subsequent use or for payment upon termination, retirement or death. The amount of vacation pay employees may carry over each year is limited to 80 hours unless approved in writing by the District Manager. The amount of sick leave employees may accumulate is not limited; however, at death or retirement as defined by PERS, the payout amount for sick leave is limited to 960 hours.

Net position - Net position is classified in the following three components: 1) Net investment in capital assets - This component of net position consists of capital assets, net of accumulated depreciation, and capital-related deferred outflows of resources reduced by the outstanding balances of any capital-related borrowings and deferred inflows of resources. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of net investment in capital assets. Rather, that portion of the debt is included in the same net position component as the unspent proceeds. 2) Restricted - This component of net position consists of assets restricted by external creditors (such as through debt covenants), grantors, contributors or others reduced by related liabilities and deferred inflows of resources. 3) Unrestricted net position - This component of net position consists of all net position that does not meet the definition of "restricted" or "net investment in capital assets."

The District applies unrestricted and restricted resources to purposes for which both unrestricted and restricted net resources are available based on management's discretion.

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

Capital contributions - Grants, ULID assessments and contributions in aid of construction from property owners are recorded as capital contribution revenue.

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

**RONALD WASTEWATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
(CONTINUED)
DECEMBER 31, 2015 AND 2014**

2. DEPOSITS AND INVESTMENTS

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

Investments - In accordance with State law, the District's governing body has entered into a formal interlocal agreement with the District'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). Investments in the Pool are stated at the fair value of the Pool's underlying assets. The stated value per share is \$1. The King County Executive Finance Committee provides oversight of the Pool.

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

<u>Investment type</u>	<u>Fair value</u>	<u>Average effective duration</u>
2015:		
King County Investment Pool		
Main Pool	\$ 3,920,866	0.93 years
Impaired Pool	22,139	
2014:		
King County Investment Pool		
Main Pool	\$ 4,338,053	1.23 years
Impaired Pool	27,716	

Impaired investments - As of December 31, 2015 and 2014, all impaired commercial paper investments had completed enforcement events. The King County Impaired Investment Pool (Impaired Pool) held one commercial paper asset where the Impaired Pool accepted an exchange offer and is receiving the cash flows from the investment's underlying securities. The Impaired Pool also held the residual investments in 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 was \$35,274 and \$45,780 at December 31, 2015 and 2014, respectively. The District's unrealized loss for these investments is \$13,135 and \$18,064 at December 31, 2015 and 2014, respectively.

**RONALD WASTEWATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
(CONTINUED)
DECEMBER 31, 2015 AND 2014**

2. DEPOSITS AND INVESTMENTS (continued)

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

Credit risk - As of December 31, 2015 and 2014, 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 note (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.

3. RESTRICTED ASSETS

In accordance with certain agreements, separate restricted accounts are required to be established. The assets held in these accounts are restricted for specific uses. Restricted assets are as follows:

	<u>Impaired investment pool</u>
<i>December 31, 2015:</i>	
Current restricted assets:	
Cash and cash equivalents	<u>\$22.139</u>
 <i>December 31, 2014:</i>	
Current restricted assets:	
Cash and cash equivalents	<u>\$27.716</u>

**RONALD WASTEWATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
(CONTINUED)
DECEMBER 31, 2015 AND 2014**

4. CAPITAL ASSETS

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

	Balance, beginning of year	Increases	Decreases	Balance, end of year
2015:				
Capital assets not being depreciated:				
Land and land rights	\$ 564,588			\$ 564,588
Construction in progress	613,235	\$ 1,574,977	\$(1,816,305)	371,907
	<u>1,177,823</u>	<u>1,574,977</u>	<u>(1,816,305)</u>	<u>936,495</u>
Capital assets being depreciated:				
Sewer systems and pumping stations	34,978,317	1,801,301	(9,108)	36,770,510
Office building	2,282,926			2,282,926
Equipment	1,893,432	10,782	(19,111)	1,885,103
Other miscellaneous assets	1,106,419			1,106,419
	<u>40,261,094</u>	<u>1,812,083</u>	<u>(28,219)</u>	<u>42,044,958</u>
Accumulated depreciation:				
Sewer systems and pumping stations	(16,397,814)	(924,837)	7,000	(17,315,651)
Office building	(496,428)	(48,626)		(545,054)
Equipment	(1,648,654)	(49,841)	18,400	(1,680,095)
Other miscellaneous assets	(1,022,271)	(9,906)		(1,032,177)
	<u>(19,565,167)</u>	<u>(1,033,210)</u>	<u>25,400</u>	<u>(20,572,977)</u>
Net capital assets	<u>\$21,873,750</u>	<u>\$2,353,850</u>	<u>\$(1,819,124)</u>	<u>\$22,408,476</u>

**RONALD WASTEWATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
(CONTINUED)
DECEMBER 31, 2015 AND 2014**

4. CAPITAL ASSETS (continued)

	Balance, beginning of year	Increases	Decreases	Balance, end of year
2014:				
Capital assets not being depreciated:				
Land and land rights	\$ 564,588			\$ 564,588
Construction in progress	440,163	\$ 1,712,616	\$(1,539,544)	613,235
	<u>1,004,751</u>	<u>1,712,616</u>	<u>(1,539,544)</u>	<u>1,177,823</u>
Capital assets being depreciated:				
Sewer systems and pumping stations	33,283,059	1,695,258		34,978,317
Office building	2,282,926			2,282,926
Equipment	1,921,094	73,918	(101,580)	1,893,432
Other miscellaneous assets	1,106,419			1,106,419
	<u>38,593,498</u>	<u>1,769,176</u>	<u>(101,580)</u>	<u>40,261,094</u>
Accumulated depreciation:				
Sewer systems and pumping stations	(15,454,707)	(943,107)		(16,397,814)
Office building	(447,757)	(48,671)		(496,428)
Equipment	(1,702,703)	(47,531)	101,580	(1,648,654)
Other miscellaneous assets	(1,006,827)	(15,444)		(1,022,271)
	<u>(18,611,994)</u>	<u>(1,054,753)</u>	<u>101,580</u>	<u>(19,565,167)</u>
Net capital assets	<u>\$20,986,255</u>	<u>\$2,427,039</u>	<u>\$(1,539,544)</u>	<u>\$21,873,750</u>

5. CHANGES IN LONG-TERM LIABILITIES

Changes in long-term liabilities were as follows:

	Balance, beginning of year	Additions	Reductions	Balance, end of year	Amounts due within one year
2015:					
Compensated absences	<u>\$222,466</u>	<u>\$ 93,442</u>	<u>\$191,230</u>	<u>\$124,678</u>	<u>\$ 90,000</u>
Net pension liability	<u>\$701,693</u>	<u>\$259,288</u>	<u>\$ 91,403</u>	<u>\$869,578</u>	

**RONALD WASTEWATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
(CONTINUED)
DECEMBER 31, 2015 AND 2014**

5. CHANGES IN LONG-TERM LIABILITIES (continued)

	Balance, beginning of year	Additions	Reductions	Balance, end of year	Amounts due within one year
2014:					
Compensated absences	<u>\$289,324</u>	<u>\$101,713</u>	<u>\$168,571</u>	<u>\$ 222,466</u>	<u>\$160,000</u>
Net pension liability	<u>\$954,729</u>	<u>\$ 0</u>	<u>\$253,036</u>	<u>\$701,693</u>	

6. PENSION PLAN

The following table represents the aggregate pension amounts for all plans subject to the requirements of the GASB Statement 68, *Accounting and Financial Reporting for Pensions* as of and for the years ended December 31, 2015 and 2014:

Aggregate Pension Amounts – All Plans		
	2015	2014
Pension liabilities	\$869,578	\$701,693
Pension assets	\$ -	\$ -
Deferred outflows of resources	\$ 99,419	\$ 58,869
Deferred inflows of resources	\$147,560	\$311,222
Pension expense	\$ 56,158	\$ 97,740

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

**RONALD WASTEWATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
(CONTINUED)
DECEMBER 31, 2015 AND 2014**

6. PENSION PLAN (continued)

Public Employees Retirement System (PERS)

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

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

Contributions - The PERS Plan 1 member contribution rate is established by State statute at 6 percent. The employer contribution rate is developed by the Office of the State Actuary and includes an administrative expense component that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates.

The PERS Plan 1 required contribution rates (expressed as a percentage of covered payroll) were as follows:

PERS Plan 1 Actual Contribution Rates

	<u>Employer</u>	<u>Employee</u>
2015:		
January through June	9.21%	6.00%
July through December	11.18%	6.00%
2014:		
January through December	9.21%	6.00%

The District's actual contributions to the plan were \$39,819 and \$43,125 for the year ended December 31, 2015 and 2014, respectively.

**RONALD WASTEWATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
(CONTINUED)
DECEMBER 31, 2015 AND 2014**

6. PENSION PLAN (continued)

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 one 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.

**RONALD WASTEWATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
(CONTINUED)
DECEMBER 31, 2015 AND 2014**

6. PENSION PLAN (continued)

Contributions - The PERS Plan 2/3 employer and employee contribution rates are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. The Plan 2/3 employer rates include a component to address the PERS Plan 1 unfunded actuarially accrued liability (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) were as follows:

PERS Plan 2/3 Actual Contribution Rates

	<u>Employer 2/3</u>	<u>Employee 2</u>	<u>Employee 3</u>
2015:			
January through June	9.21%	4.92%	Varies
July through December	11.18%	6.12%	Varies
2014:			
January through December	9.21%	4.92%	Varies

The District's actual contributions to the plan were \$52,666 and \$55,298 for the year ended December 31, 2015 and 2014, respectively.

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%

**RONALD WASTEWATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
(CONTINUED)
DECEMBER 31, 2015 AND 2014**

6. PENSION PLAN (continued)

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

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

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

Discount Rate

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

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

**RONALD WASTEWATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
(CONTINUED)
DECEMBER 31, 2015 AND 2014**

6. PENSION PLAN (continued)

Long-Term Expected Rate of Return

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

Estimated Rates of Return by Asset Class

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation, 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.

As of June 30, 2015 and 2014:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Percent Long-Term Expected Real Rate of Return Arithmetic</u>
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%
	<u>100%</u>	

**RONALD WASTEWATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
(CONTINUED)
DECEMBER 31, 2015 AND 2014**

6. PENSION PLAN (continued)

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%)
2015:			
PERS 1	\$ 562,543	\$462,046	\$ 375,629
PERS 2/3	\$1,191,644	\$407,532	\$(192,834)
2014:			
PERS 1	\$ 570,284	\$462,668	\$ 370,291
PERS 2/3	\$ 997,022	\$239,025	\$(339,945)

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 December 31, 2015 and 2014, the District reported a total pension liability (asset) for its proportionate share of the net pension liabilities as follows (measured as of June 30, 2015 and 2014):

	<u>Liability (Asset)</u>	
	2015	2014
PERS 1	\$462,046	\$462,668
PERS 2/3	407,532	239,025
Total	<u>\$869,578</u>	<u>\$701,693</u>

**RONALD WASTEWATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
(CONTINUED)
DECEMBER 31, 2015 AND 2014**

6. PENSION PLAN (continued)

The District's proportionate share of the collective net pension liabilities was as follows:

	<u>Proportionate Share 6/30/14</u>	<u>Proportionate Share 6/30/15</u>	<u>Change in Proportion</u>
PERS 1	\$462,668	\$462,046	\$ (622)
PERS 2/3	\$239,025	\$407,532	\$168,507
	<u>Proportionate Share 6/30/13</u>	<u>Proportionate Share 6/30/14</u>	<u>Change in Proportion</u>
PERS 1	\$505,635	\$462,668	\$ (42,967)
PERS 2/3	\$492,069	\$239,025	\$(253,044)

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.

Pension Expense

For the year ended December 31, 2015 and 2014, the District recognized pension expense as follows:

	<u>2015</u>	<u>2014</u>
PERS 1	\$ 7,400	\$55,540
PERS 2/3	48,758	42,200
Total	<u>\$56,158</u>	<u>\$97,740</u>

**RONALD WASTEWATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
(CONTINUED)
DECEMBER 31, 2015 AND 2014**

6. PENSION PLAN (continued)

Deferred Outflows of Resources and Deferred Inflows of Resources

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

2015:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
PERS 1		
Differences between expected and actual experience	\$ -	\$ -
Net difference between projected and actual investment earnings on pension plan investments	-	25,279
Changes of assumptions	-	-
Changes in proportion and differences between contributions and proportionate share of contributions	-	-
Contributions subsequent to the measurement date	<u>20,977</u>	<u>-</u>
Total	<u>\$ 20,977</u>	<u>\$ 25,279</u>
PERS 2/3		
Differences between expected and actual experience	\$ 43,321	\$ -
Net difference between projected and actual investment earnings on pension plan investments	-	108,792
Changes of assumptions	656	-
Changes in proportion and differences between contributions and proportionate share of contributions	7,143	13,489
Contributions subsequent to the measurement date	<u>27,322</u>	<u>-</u>
Total	<u>\$ 78,442</u>	<u>\$122,281</u>
Total all plans	<u>\$ 99,419</u>	<u>\$147,560</u>

**RONALD WASTEWATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
(CONTINUED)
DECEMBER 31, 2015 AND 2014**

6. PENSION PLAN (continued)

2014:

	Deferred Outflows of Resources	Deferred Inflows of Resources
PERS 1		
Differences between expected and actual experience	\$ -	\$ -
Net difference between projected and actual investment earnings on pension plan investments	-	57,854
Changes of assumptions	-	-
Changes in proportion and differences between contributions and proportionate share of contributions	-	-
Contributions subsequent to the measurement date	21,755	-
Total	<u>\$ 21,755</u>	<u>\$ 57,854</u>
PERS 2/3		
Differences between expected and actual experience	\$ -	\$ -
Net difference between projected and actual investment earnings on pension plan investments	-	253,368
Changes of assumptions	-	-
Changes in proportion and differences between contributions and proportionate share of contributions	10,000	-
Contributions subsequent to the measurement date	27,114	-
Total	<u>\$ 37,114</u>	<u>\$253,368</u>
Total all plans	<u>\$ 58,869</u>	<u>\$311,222</u>

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 following year. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ending December 31	PERS 1	PERS 2/3
2016	\$(9,797)	\$(30,648)
2017	(9,797)	(30,648)
2018	(9,797)	(32,076)
2019	4,112	22,211
2020	-	-
Total	<u>\$(25,279)</u>	<u>\$(71,161)</u>

**RONALD WASTEWATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
(CONTINUED)
DECEMBER 31, 2015 AND 2014**

7. DEFERRED COMPENSATION PLAN

The District offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan assets are invested with the Washington State Deferred Compensation Program. The plan, available to all employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency. The District made no contributions to this plan in 2015 or 2014.

8. RISK MANAGEMENT

Ronald Wastewater District is a member of the Water and Sewer Risk Management Pool (Pool). Chapter 48.62 RCW authorizes the governing body of any one or more governmental entities to form together into or join a pool or organization for the joint purchasing of insurance, and/or joint self-insuring, and/or joint hiring or contracting for risk management services to the same extent that they may individually purchase insurance, self-insurance, or hire or contract for risk management services. An agreement to form a pooling arrangement was made pursuant to the provisions of Chapter 39.34 RCW, the Interlocal Cooperation Act. The Pool was formed in November 1987 when water and sewer districts in the State of Washington joined together by signing an Interlocal Governmental Agreement to pool their self-insured losses and jointly purchase insurance and administrative services. The Pool currently has 66 members. The Pool's fiscal year is November 1st through October 31st.

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

**RONALD WASTEWATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
(CONTINUED)
DECEMBER 31, 2015 AND 2014**

8. RISK MANAGEMENT (continued)

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

TYPE OF COVERAGE	MEMBER DEDUCTIBLE	SELF-INSURED RETENTION/GROUP	EXCESS LIMITS
Property Loss:			
Buildings and Contents	\$5,000 and See (C) below	\$25,000	\$1,000,000,000
Flood	See (A) below	See (A) below	\$50,000,000
Earthquake	See (B) below	See (B) below	\$75,000,000 (\$50,000,000 shared by all members and \$25,000,000 dedicated to Alderwood)
Terrorism	\$5,000	\$25,000 Primary layer	\$100,000,000 Primary layer
Boiler & Machinery	\$5,000 - \$350,000 depending on object	\$25,000 - \$350,000 depending on object	\$100,000,000
Auto - Physical Damage	\$5,000	\$25,000	\$10,000,000
Liability:			
Commercial General Liability	\$5,000	\$200,000	\$10,000,000
Auto Liability	\$5,000	\$200,000	\$10,000,000
Public Officials Errors and Omissions	\$5,000	\$200,000	\$10,000,000
Employment Practices	\$5,000	\$200,000	\$10,000,000
Other:			
Public Officials Bonds	Various	N/A	Various
Crime	\$5,000	\$25,000	\$2,000,000
Identity Fraud	\$0	\$25,000	\$0

- A. \$100,000 member deductibles, per occurrence, in Flood Zones except Zones A&V; \$250,000 member deductible per occurrence, in Flood Zones A&V.
- B. Member deductible for earthquakes is 5% subject to \$100,000 minimum Earthquake Shock. If the stated deductible is on a percentage basis, the deductible will apply per occurrence on a per unit basis, as defined in the policy form, subject to the stated minimum.
- C. Member deductible for Cyber liability is \$100,000 and where applicable the dollar amount of the business interruption loss during the policy's required 8 hour waiting period.

**RONALD WASTEWATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
(CONTINUED)
DECEMBER 31, 2015 AND 2014**

8. RISK MANAGEMENT (continued)

Pool members are responsible for a deductible on each coverage and the Pool is responsible for the remainder of the self-insured retention listed in the table above except where noted as follows. The insurance carriers then cover the loss to the maximum limit of the policy. Each member is responsible for the full deductible applicable to the perils of earthquake and flood (the Pool is not responsible for any deductible or self-insured retention for earthquake and flood claims). Each member is also responsible for the full deductible applicable to the Cyber Liability, and that part of a Boiler & Machinery deductible, which exceeds \$25,000.

Upon joining, the members contract to remain in the Pool for one full policy period. Following completion of one full policy period, members must give six months notice before terminating participation (e.g. to withdraw from the Pool on November 1, 2016, written notice must be in possession of the Pool by April 30, 2016). The Interlocal Governmental Agreement is renewed automatically each year. Even after termination of relationship with the Pool, a member is still responsible for contributions to the Pool for any unresolved, unreported, and in process claims, for the period that the District was a signatory to the Interlocal Governmental Agreement.

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

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

In the past three years (2015, 2014, and 2013), there have been no claim settlements, per occurrence or in aggregate, that have exceeded the coverage provided by excess/reinsurance contracts.

9. COMMITMENTS AND CONTINGENCIES

During 2002, the District entered into an interlocal operating agreement with the City of Shoreline for a term of 15 years which may be extended for another 5 years at the City's option. During the term of the agreement, the City has agreed not to assume jurisdiction over the District.

**RONALD WASTEWATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
(CONTINUED)
DECEMBER 31, 2015 AND 2014**

9. COMMITMENTS AND CONTINGENCIES (continued)

As of December 31, 2015, the City has indicated it intends to assume the District in October of 2017. In consideration, the District is committed to pay an annual operating agreement fee to the City. The fees for the years ended December 31, 2015 and 2014 were \$832,000 and \$808,000, respectively. Future minimum amounts payable under this agreement are as follows:

2016	\$ 857,000
2017	<u>883,000</u>
	<u>\$1,740,000</u>

The Snohomish County Boundary Review Board has determined that the portion of the District residing in Snohomish County cannot be assumed by the City of Shoreline upon the City's assumption of the District. As of December 31, 2015, the District has not determined if it will contest the decision.

The District owns 9.488% of the capacity of the City of Edmonds Treatment Plant. Accordingly, the District is obligated to the City of Edmonds to pay for a portion of certain City projects related to the Edmonds Treatment Plant. The District's share of the projects is currently estimated as follows:

2016	\$ 294,647
2017	222,599
2018	70,242
2019	70,295
2020	84,569
2021	<u>113,083</u>
	<u>\$ 855,435</u>

The District is obligated to the City of Seattle to pay for a portion of costs related to upgrade of the mainline through which District sewage is transported. The District's share of the costs is currently estimated at approximately \$13,625,000.

The District may have some responsibility for various abandoned lines and facilities. Although the District has not been notified of any obligation, it is possible that the District could perform work on these lines and facilities to secure and/or remove them.

As of December 31, 2015, the District is obligated under a construction contract totaling \$701,484 of which \$91,671 has been expended.

10. MAJOR SUPPLIER

Sewage collected by the District is treated by other entities. King County Wastewater Treatment Division (KCWTD/METRO) provides approximately 97% of the District's sewage treatment.

RONALD WASTEWATER DISTRICT
SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
PERS 1
As of June 30 (Measurement Date)
Last 10 Fiscal Years*

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Employer's proportion of the net pension liability (asset)	0.008833%	0.009184%	0.008653%
Employer's proportionate share of the net pension liability	\$ 462,046	\$ 462,668	\$ 505,635
Employer's covered employee payroll	\$ -	\$ -	\$ -
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	N/A	N/A	N/A
Plan fiduciary net position as a percentage of the total pension liability	59.10%	61.19%	

Notes to Schedule:

* Information is presented only for those years for which information is available.

See Independent Accountant's Review Report.

RONALD WASTEWATER DISTRICT
SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
PERS 2/3
As of June 30 (Measurement Date)
Last 10 Fiscal Years*

	<u>2015</u>	<u>2014</u>	<u>2014</u>
Employer's proportion of the net pension liability (asset)	0.011406%	0.011825%	0.011524%
Employer's proportionate share of the net pension liability	\$ 407,532	\$ 239,025	\$ 492,069
Employer's covered employee payroll	\$ 1,012,219	\$ 1,011,715	\$ 953,314
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	40.26%	23.63%	51.62%
Plan fiduciary net position as a percentage of the total pension liability	89.20%	93.29%	

Notes to Schedule:

* Information is presented only for those years for which information is available.

See Independent Accountant's Review Report.

**RONALD WASTEWATER DISTRICT
SCHEDULE OF EMPLOYER CONTRIBUTIONS
PERS 1
As of December 31 (Employer Reporting Date)
Last 10 Fiscal Years***

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Statutorily or contractually required contributions	\$ 39,819	\$ 43,125	\$ 30,842
Contributions in relation to the statutorily or contractually required contributions	<u>(39,819)</u>	<u>(43,125)</u>	<u>(30,842)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered employer payroll	\$ -	\$ -	\$ -
Contributions as a percentage of covered employee payroll	N/A	N/A	N/A

Notes to Schedule:

* Information is presented only for those years for which information is available.

See Independent Accountant's Review Report.

**RONALD WASTEWATER DISTRICT
SCHEDULE OF EMPLOYER CONTRIBUTIONS
PERS 2/3
As of December 31 (Employer Reporting Date)
Last 10 Fiscal Years***

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Statutorily or contractually required contributions	\$ 52,666	\$ 55,298	\$ 48,344
Contributions in relation to the statutorily or contractually required contributions	<u>(52,666)</u>	<u>(55,298)</u>	<u>(48,344)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered employer payroll	\$ 917,012	\$ 1,068,658	\$ 974,951
Contributions as a percentage of covered employee payroll	5.74%	5.17%	4.96%

Notes to Schedule:

* Information is presented only for those years for which information is available.

See Independent Accountant's Review 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.

Contact information for the State Auditor's Office	
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