



Office of the Washington State Auditor
Pat McCarthy

Financial Statements Audit Report
Valley View Sewer District
King County

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

Published April 20, 2017

Report No. 1018916





Office of the Washington State Auditor
Pat McCarthy

April 20, 2017

Board of Commissioners
Valley View Sewer District
Seattle, Washington

Report on Financial Statements

Please find attached our report on the Valley View Sewer District's financial statements.

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

Sincerely,

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**

**Valley View Sewer District
King County
January 1, 2014 through December 31, 2015**

Board of Commissioners
Valley View Sewer District
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 the Valley View Sewer District, King County, Washington, as of and for the years ended December 31, 2015 and 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated April 4, 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* and Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audits of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions 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.



Pat McCarthy

State Auditor

Olympia, WA

April 4, 2017

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Valley View Sewer District King County January 1, 2014 through December 31, 2015

Board of Commissioners
Valley View Sewer District
Seattle, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the Valley View Sewer District, King County, Washington, as of and for the years ended December 31, 2015 and 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed on page 9.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express 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 financial position of the Valley View Sewer 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* and Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 10 through 16 and pension plan information on pages 45 through 48 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 April 4, 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

April 4, 2017

FINANCIAL SECTION

**Valley View Sewer District
King County
January 1, 2014 through December 31, 2015**

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2015 and 2014

BASIC FINANCIAL STATEMENTS

Statement of Net Position – 2015 and 2014

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

Statement of Cash Flows – 2015 and 2014

Notes to Financial Statements – 2015 and 2014

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Proportionate Share of the Net Pension Liability – PERS 1 – 2015 and 2014

Schedule of Proportionate Share of the Net Pension Liability – PERS 2/3 – 2015 and
2014

Schedule of Employer Contributions – PERS 1 – 2015 and 2014

Schedule of Employer Contributions – PERS 2/3 – 2015 and 2014

**VALLEY VIEW SEWER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2015 and 2014**

INTRODUCTION

Valley View Sewer District was organized in 1946 to provide sewer services to customers residing within the District boundaries. Our mission is to provide our ratepayers with excellent customer service by offering safe, reliable and efficient sewer service and to provide our employees a working environment that protects their health and safety and encourages professional development. The District is dedicated to working toward a better environment.

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.

VALLEY VIEW SEWER 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 \$1,010,261. See Notes 1 and 8 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	\$ 35,249,528	\$ 35,791,681	\$ 36,053,388
Other assets	<u>8,983,533</u>	<u>8,732,323</u>	<u>9,843,960</u>
Total assets	<u>\$ 44,233,061</u>	<u>\$ 44,524,004</u>	<u>\$ 45,897,348</u>
Deferred outflows of resources	<u>\$ 150,723</u>	<u>\$ 62,148</u>	<u>\$ 16,783</u>
Long-term liabilities	\$ 9,218,354	\$ 9,754,770	\$ 10,089,726
Other liabilities	<u>1,290,839</u>	<u>1,281,821</u>	<u>1,383,385</u>
Total liabilities	<u>\$ 10,509,193</u>	<u>\$ 11,036,591</u>	<u>\$ 11,473,111</u>
Deferred inflows of resources	<u>\$ 157,353</u>	<u>\$ 323,072</u>	<u>\$ -</u>
Net investment in capital assets	\$ 26,090,038	\$ 25,783,793	\$ 24,049,723
Restricted for impaired investments and debt service	1,508,487	1,587,569	1,777,957
Unrestricted amounts	<u>6,118,713</u>	<u>5,855,127</u>	<u>8,613,340</u>
Total net position	<u>\$ 33,717,238</u>	<u>\$ 33,226,489</u>	<u>\$ 34,441,020</u>

(continued on next page)

**VALLEY VIEW SEWER 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	\$ 11,024,772	\$ 10,296,609	\$ 10,552,577
Other operating revenue	352,623	323,704	592,328
Total operating revenues	11,377,395	10,620,313	11,144,905
Operating costs	8,735,457	8,562,541	8,815,705
General and administrative expenses	1,716,574	1,541,036	1,441,455
Depreciation and amortization	1,172,649	1,144,501	1,128,722
Total operating expenses	11,624,680	11,248,078	11,385,882
Operating income (loss)	(247,285)	(627,765)	(240,977)
Non-operating revenue:			
Investment and interest income	139,491	127,795	148,295
Net gain on disposal of assets	83,735	1,000	-
Non-operating expenses:			
Net loss on disposal of assets	-	-	(10,650)
Interest and amortization	(155,970)	(165,658)	(184,465)
Income (loss) before capital contributions	(180,029)	(664,628)	(287,797)
Capital contributions and adjustments	670,778	460,358	(387,969)
Increase (decrease) in net position	\$ 490,749	\$ (204,270)	\$ (675,766)
Net position, January 1, as previously reported	33,226,489	34,441,020	35,116,786
Restatement - change in accounting principle	-	(1,010,261)	-
Net position, January 1, as restated	33,226,489	33,430,759	35,116,786
Net position, December 31	<u>\$ 33,717,238</u>	<u>\$ 33,226,489</u>	<u>\$ 34,441,020</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.

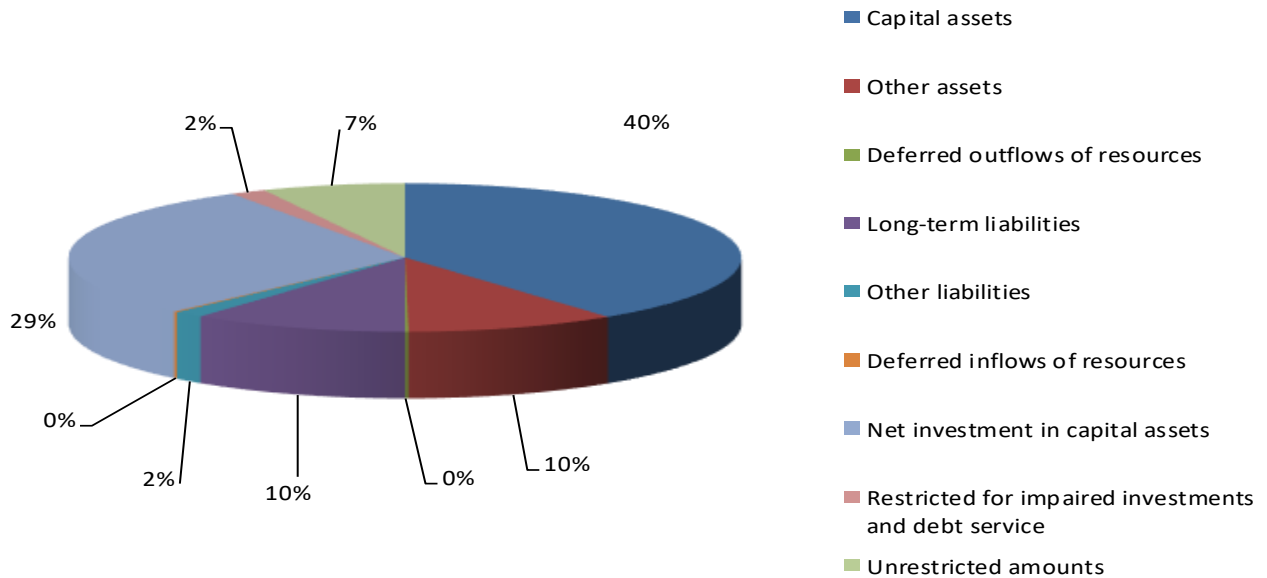
**VALLEY VIEW SEWER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2015 and 2014**

FINANCIAL POSITION

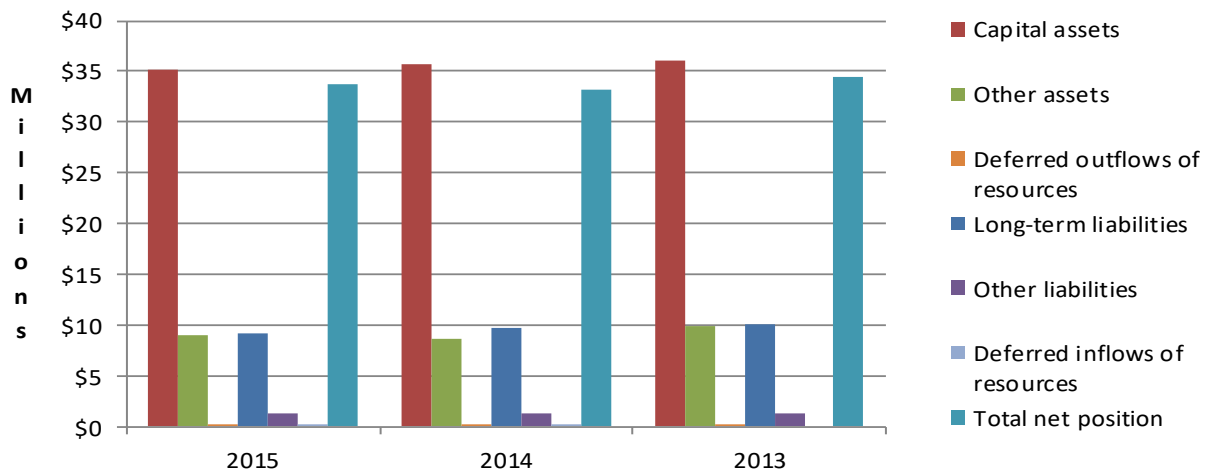
The District's overall financial position continues to be strong. The District is financed primarily by equity. Sufficient liquid assets are available to fund liabilities and construction. Capital assets decreased in 2015 and 2014 due to depreciation in excess of construction activity and donated systems.

The following charts indicate the components of financial position:

2015 STATEMENT OF NET POSITION



COMPARATIVE STATEMENT OF NET POSITION

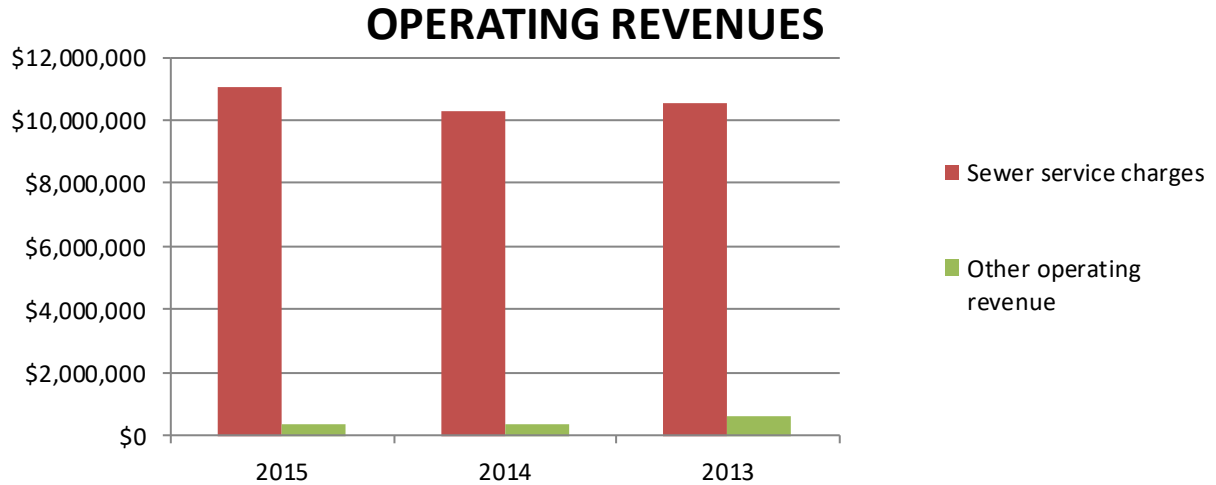


**VALLEY VIEW SEWER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2015 and 2014**

RESULTS OF OPERATIONS

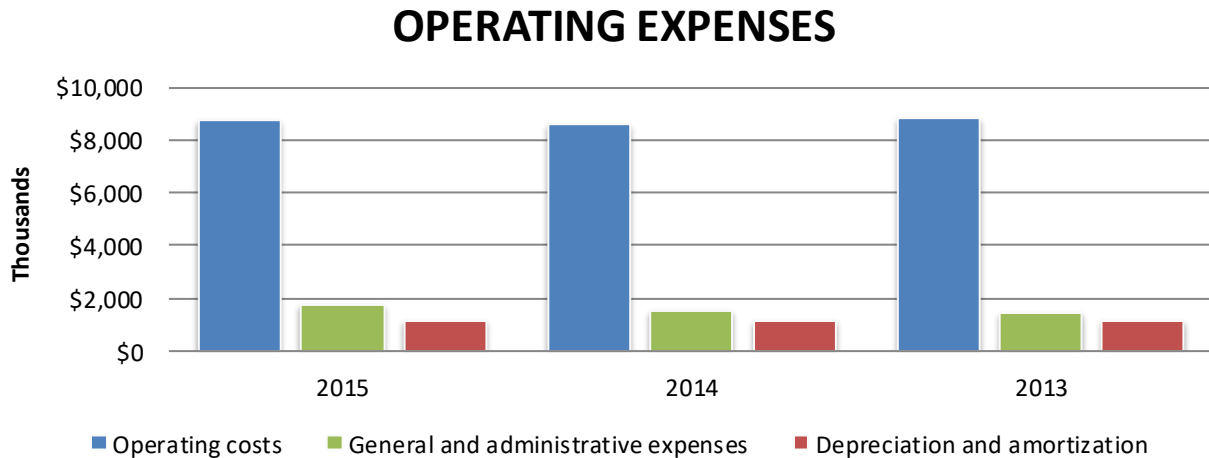
Operating revenues are received primarily from sewer service charges.

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



Operating revenues increased in 2015 due to an increase in consumption. Operating revenues decreased in 2014 due to decrease in consumption. The variances in consumption are caused primarily by changes in the amount of rainfall.

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

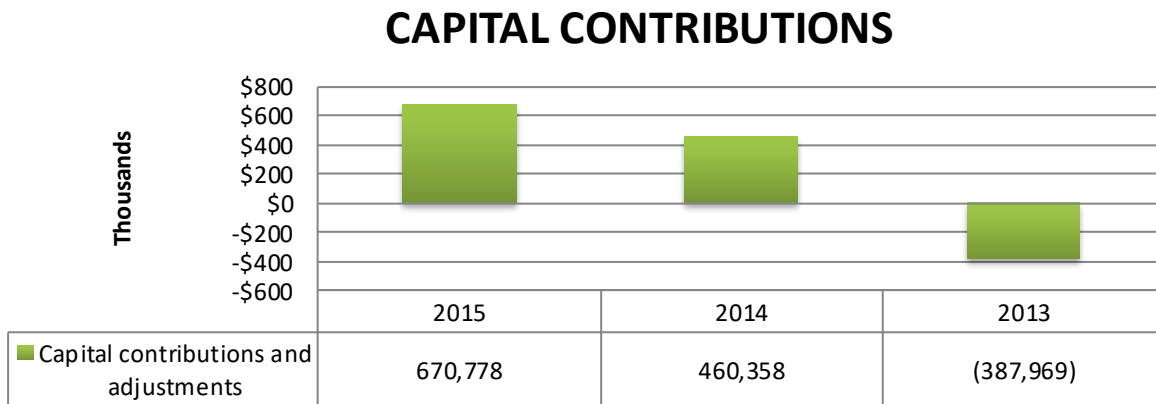


**VALLEY VIEW SEWER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2015 and 2014**

The increase in operating and general and administrative expenses in 2015 was primarily due to increased personnel costs and increased maintenance activities. The decrease in operating expenses in 2014 was primarily due to decreased costs from sewage treatment by King County Wastewater Treatment Division (KCWTD/METRO) directly related to the decrease in consumption as explained above regarding sewer revenue. The increase in general and administrative expenses in 2014 was primarily due to increased outside engineering expenses. The District's philosophy generally is not to provide for all depreciation through rates based on the principle that connection charges and other fees also contribute to the cost of the sewer system. Operating results are augmented by earnings on investments and other non-operating revenues and capital contributions.

The District collects capital contributions from new customers. These contributions consist of connection charges, grants, ULID assessments and donated systems.

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



The contributions are indicative of the growth of the District and include donated systems totaling \$59,210, \$157,002 and \$-0- for the years ended December 31, 2015, 2014 and 2013, respectively. The negative amount in 2013 is due to an adjustment in the amount of \$962,198 to remove a receivable for a previously billed contribution which was determined to be uncollectable in 2013.

**VALLEY VIEW SEWER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2015 and 2014**

CAPITAL ASSETS AND LONG-TERM DEBT

The capital assets of the District decreased in 2015 and 2014 due to depreciation in excess of construction activity and donated systems.

Significant capital asset additions during 2015 and 2014 included the following:

2015		2014	
S 133rd St. I & I	\$ 91,055	S 133rd St. I & I	\$ 239,515
The Loop	68,564	CDBG 10th Ave S Extension Phase II	259,380
West of Military Road Project	45,103	West of 33rd Ave S Extension	88,601
40/42 Wastewater Bypass	62,997	Donated systems	157,002
Maintenance Office Paving Parking Lot	52,995		
SRF Application	110,181		
Donated systems	59,210		

The decrease in long-term debt in 2015 and 2014 was due to principal payments made by the District in excess of new borrowings.

See notes 4, 5, 6 and 7 in the financial statements for detail activity in capital assets and long-term debt.

On March 3, 2016, the District issued \$1,013,087 of Sewer Revenue Refunding Bonds to advance refund \$1,020,000 of outstanding 2006 bonds. See note 14 in the financial statements for more details.

ADDITIONAL COMMENTS

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

VALLEY VIEW SEWER DISTRICT
STATEMENT OF NET POSITION
December 31, 2015 and 2014

ASSETS	2015	Restated 2014
<i>Current assets:</i>		
Unrestricted:		
Cash and cash equivalents	\$ 4,538,747	\$ 4,183,082
Accounts receivable - users	806,413	913,032
Accounts receivable - other	117,300	127,158
Unbilled utility service receivable	844,817	689,566
Interest receivable	79,485	71,352
Prepaid expenses	89,233	79,542
Contracts receivable - current portion	89,135	92,392
Grant receivable	-	34,990
	<u>6,565,130</u>	<u>6,191,114</u>
Restricted:		
Cash and cash equivalents	419,597	307,377
Interest receivable	185	123
Assessments receivable - current portion	185,449	187,867
	<u>605,231</u>	<u>495,367</u>
Total current assets	<u>7,170,361</u>	<u>6,686,481</u>
<i>Non-current assets:</i>		
Unrestricted:		
Contracts receivable, less current portion	812,835	822,155
Preliminary surveys and investigations	80,714	113,011
Prepaid bond insurance	6,907	7,905
	<u>900,456</u>	<u>943,071</u>
Restricted:		
Assessments receivable, less current portion	912,716	1,102,771
Capital assets not being depreciated:		
Land and land rights	628,310	638,520
Construction work in progress	288,903	1,133,913
Capital assets being depreciated:		
Plant in service	56,113,100	54,681,835
Less accumulated depreciation	<u>(21,780,785)</u>	<u>(20,662,587)</u>
Net capital assets	<u>35,249,528</u>	<u>35,791,681</u>
Total non-current assets	<u>37,062,700</u>	<u>37,837,523</u>
Total assets	<u>44,233,061</u>	<u>44,524,004</u>
DEFERRED OUTFLOWS OF RESOURCES		
Deferred loss on refunding of debt	8,950	12,555
Deferred outflows related to pensions	141,773	49,593
Total deferred outflows of resources	<u>150,723</u>	<u>62,148</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u><u>\$ 44,383,784</u></u>	<u><u>\$ 44,586,152</u></u>
See accompanying notes to the financial statements		

**VALLEY VIEW SEWER 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	\$ 122,296	\$ 41,218
Side sewer deposits payable	19,179	2,097
Compensated absences	130,100	119,300
Retainage payable	601	50,895
Accrued interest	15,747	17,167
Long-term debt - current maturities	641,986	684,105
	<u>929,909</u>	<u>914,782</u>
 Payable from restricted assets:		
Accrued interest	9,460	10,569
Long-term debt - current maturities	351,470	356,470
	<u>360,930</u>	<u>367,039</u>
 Total current liabilities	<u>1,290,839</u>	<u>1,281,821</u>
 <i>Non-current liabilities:</i>		
Long-term debt payable from unrestricted assets, net of current maturities	5,602,227	6,053,829
Long-term debt payable from restricted assets, net of current maturities	2,579,664	2,933,944
Compensated absences	64,238	62,048
Net pension liability	972,225	704,949
	<u>9,218,354</u>	<u>9,754,770</u>
 Total non-current liabilities	<u>9,218,354</u>	<u>9,754,770</u>
 Total liabilities	<u>10,509,193</u>	<u>11,036,591</u>
 DEFERRED INFLOWS OF RESOURCES		
Deferred inflows related to pensions	157,353	323,072
	<u>157,353</u>	<u>323,072</u>
 Total liabilities and deferred inflows of resources	<u>10,666,546</u>	<u>11,359,663</u>
 NET POSITION		
Net investment in capital assets	26,090,038	25,783,793
Restricted for debt service	1,495,693	1,571,556
Restricted for impaired investments	12,794	16,013
Unrestricted	6,118,713	5,855,127
Total net position	<u>33,717,238</u>	<u>33,226,489</u>
 TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES AND NET POSITION	<u>\$ 44,383,784</u>	<u>\$ 44,586,152</u>

See accompanying notes to the financial statements

VALLEY VIEW SEWER 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:		
Commercial and apartments	\$ 6,506,707	\$ 5,977,517
Residential	4,518,065	4,319,092
Total service charges	11,024,772	10,296,609
Late charges	184,268	119,172
Permit fees	14,106	19,654
Flush truck services	853	635
Miscellaneous	153,396	184,243
	<u>11,377,395</u>	<u>10,620,313</u>
<i>Operating expenses:</i>		
Collection and transmission	8,473,430	8,376,287
Pumping	262,027	186,254
General and administrative	1,716,574	1,541,036
Depreciation	1,172,649	1,144,501
	<u>11,624,680</u>	<u>11,248,078</u>
<i>Operating loss</i>	<u>(247,285)</u>	<u>(627,765)</u>
<i>Non-operating revenue:</i>		
Investment income, net of service fees and amount capitalized	26,912	33,437
Interest on assessments	60,562	69,971
Interest on contracts	52,017	24,387
Net gain on disposal of assets	83,735	1,000
	<u>223,226</u>	<u>128,795</u>
<i>Non-operating expense:</i>		
Interest on long-term debt - net of amount capitalized	154,176	163,661
Amortization of bond insurance, (premiums) and refunding loss	1,794	1,997
	<u>155,970</u>	<u>165,658</u>
Loss before capital contributions	(180,029)	(664,628)
Capital contributions and adjustments	670,778	460,358
Change in net position	<u>490,749</u>	<u>(204,270)</u>
Net position, January 1	33,226,489	34,441,020
Restatement - change in accounting principle	-	(1,010,261)
Net position, January 1, as restated	<u>33,226,489</u>	<u>33,430,759</u>
Net position, December 31	<u>\$ 33,717,238</u>	<u>\$ 33,226,489</u>

See accompanying notes to the financial statements

VALLEY VIEW SEWER 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	\$ 11,338,622	\$ 11,257,900
Cash paid to vendors	(8,674,324)	(8,737,304)
Cash paid to and for employees and commissioners	(1,689,468)	(1,503,685)
Issuance of side sewer contracts receivable	(4,380)	(12,472)
Collections on side sewer contracts receivable	16,099	34,554
Interest received	5,580	11,219
Net cash provided by operating activities	<u>992,129</u>	<u>1,050,212</u>
<i>Cash flows from capital financing activities:</i>		
Capital contributions	543,528	244,644
Collections on ULID assessments receivable	192,473	202,826
Collections on contracts receivable	97,091	250,603
Interest received on contracts and assessments	96,503	117,736
Expenditures for plant in service and construction	(604,633)	(730,248)
Proceeds from sale of assets	104,599	1,000
Proceeds from issuance of long-term debt	202,282	-
Payment on long-term debt	(1,052,474)	(1,035,576)
Interest paid on long-term debt (net of amount capitalized)	<u>(156,705)</u>	<u>(165,286)</u>
Net cash used in capital financing activities	<u>(577,336)</u>	<u>(1,114,301)</u>
<i>Cash flows from investing activities:</i>		
Collections on contract with City of Tukwila	26,051	26,052
Interest received on investments and city contract	<u>27,041</u>	<u>34,078</u>
Net cash provided by investing activities	<u>53,092</u>	<u>60,130</u>
Net increase (decrease) in cash and cash equivalents	467,885	(3,959)
Cash and cash equivalents at January 1	<u>4,490,459</u>	<u>4,494,418</u>
Cash and cash equivalents at December 31	<u><u>\$ 4,958,344</u></u>	<u><u>\$ 4,490,459</u></u>
Cash and cash equivalents balance is comprised of the following at December 31:		
Cash and cash equivalents - current assets	\$ 4,538,747	\$ 4,183,082
Cash and cash equivalents - restricted current assets	<u>419,597</u>	<u>307,377</u>
	<u><u>\$ 4,958,344</u></u>	<u><u>\$ 4,490,459</u></u>

See accompanying notes to the financial statements

VALLEY VIEW SEWER 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 loss to net cash provided by operating activities:</i>		
Operating loss	\$ (247,285)	\$ (627,765)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation	1,172,649	1,144,501
(Increase) decrease in assets and deferred outflows of resources:		
Accounts receivable	(38,774)	637,588
Prepaid expenses	(9,691)	(3,224)
Side sewer contracts	(5,363)	19,845
Deferred outflows related to pensions	(92,180)	(4,203)
Increase (decrease) in liabilities and deferred inflows of resources:		
Accounts payable	75,564	(106,117)
Side sewer deposits payable	17,082	2,097
Compensated absences	12,990	3,901
Net pension liability	267,276	(350,702)
Deferred inflows related to pensions	(165,719)	323,072
Interest income	5,580	11,219
Net cash provided by operating activities	<u>\$ 992,129</u>	<u>\$ 1,050,212</u>
<i>Supplemental schedule of significant non-cash financing and investing activities:</i>		
Contract assessments	\$ 103,030	\$ 83,890
Increase (decrease) in additional dwelling unit billings receivable	-	(11,050)
Utility plant donations received	59,210	157,002
Decrease in grant receivable	(34,990)	(14,128)

See accompanying notes to the financial statements

**VALLEY VIEW SEWER 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 - Valley View Sewer District, a municipal corporation organized under the laws of the state of Washington, was created for the purpose of constructing, maintaining and operating a sewer system within its boundaries, which encompass a portion of the cities of SeaTac, Burien and Tukwila, Washington and surrounding unincorporated areas. The District is governed by an elected three member board and has no component units.

Basis of presentation and 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 \$1,010,261 reduction of net position as of January 1, 2014 as a result of recognizing the beginning net pension liability of \$1,055,651 and beginning deferred outflows of resources related to pensions of \$45,390 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 \$704,949, deferred outflows related to pensions in the amount of \$49,593, deferred inflows of resources related to pensions in the amount of \$323,072 and increase (decrease) previously recorded pension expense in the amount of \$(31,833).

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. Generally, 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.

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. 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.

**VALLEY VIEW SEWER 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 (continued) - When capital assets are retired or otherwise disposed of, the cost and accumulated depreciation are 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:

	Estimated useful lives
Sewer mains and extensions	50 years
Sewer structures and intangibles	5 - 50 years
Equipment	3 - 10 years
Office building	5 - 40 years

Interest capitalization - Interest costs incurred for the construction of capital assets are subject to capitalization.

Total interest cost incurred for the years ended December 31, 2015 and 2014 was \$159,053 and \$174,133, respectively. Interest capitalized in 2015 and 2014 was \$4,877 and \$10,472, respectively.

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 losses on refunding of debt, contributions to pension plans subsequent to the June 30 measurement date and the District's proportionate share of deferred outflows related to those plans. The deferred loss on refunding of debt results from a difference in the carrying value of refunded debt and its reacquisition price. Losses on refunding of debt are amortized by the interest method over the life of the refunded or refunding debt, whichever is shorter. 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. 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 - Employees earn vacation and sick leave based upon date of hire and years of service. Unused vacation and sick leave at retirement or normal termination is considered vested and payable to the employee at 100% of vacation (up to 576 hours) and 50% of accrued sick leave for retirement or 25% of accrued sick leave for normal termination. Vacation and the vested portion of sick leave, 50% based on historical turnover, which is earned but not used at December 31 each year is accrued as a liability of the District.

**VALLEY VIEW SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
(CONTINUED)
DECEMBER 31, 2015 AND 2014**

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

Long-term debt - Long-term debt is reported net of premiums and discounts. Premiums and discounts on long-term debt are amortized by the interest method over the period the related debt is outstanding.

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.

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).

**VALLEY VIEW SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
(CONTINUED)
DECEMBER 31, 2015 AND 2014**

2. DEPOSITS AND INVESTMENTS (continued)

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	\$4,910,028	0.93 years
Impaired pool	12,794	
2014:		
King County Investment Pool:		
Main pool	\$4,227,031	1.23 years
Impaired pool	16,013	

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 \$20,385 and \$26,479 at December 31, 2015 and 2014, respectively. The District's unrealized loss for these investments is \$7,591 and \$10,466 at December 31, 2015 and 2014, respectively.

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 notes (rated at least "A" by two NRSROs), municipal securities (rated at least "A" by two NRSROs), commercial paper (rated at least the equivalent of "A-1" by two NRSROs), certificates of deposits issued by qualified public depositories, repurchase agreements, and the Local Government Investment Pool managed by the Washington State Treasurer's office.

**VALLEY VIEW SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
(CONTINUED)
DECEMBER 31, 2015 AND 2014**

3. RESTRICTED ASSETS

In accordance with the bond resolutions and other agreements, separate restricted accounts are required to be established. The assets held in these accounts are restricted for specific uses, including construction, debt service and other requirements. Restricted assets are as follows:

	<u>Cash & cash equivalents</u>	<u>Interest receivable</u>	<u>Current assessments receivable</u>	<u>Long-term assessments receivable</u>
<i>December 31, 2015:</i>				
Impaired investment pool	\$ 12,794			
Revenue bond reserve account	359,930			
Revenue bond fund debt service account	<u>46,873</u>	<u>\$185</u>	<u>\$185,449</u>	<u>\$ 912,716</u>
	<u>\$419,597</u>	<u>\$185</u>	<u>\$185,449</u>	<u>\$ 912,716</u>
<i>December 31, 2014:</i>				
Impaired investment pool	\$ 16,013			
Revenue bond reserve account	291,364			
Revenue bond fund debt service account		<u>\$123</u>	<u>\$187,867</u>	<u>\$1,102,771</u>
	<u>\$307,377</u>	<u>\$123</u>	<u>\$187,867</u>	<u>\$1,102,771</u>

Terms of the revenue bond issues require the District to establish and maintain a reserve account. The reserve account is to provide security for bond holders. The amount to be reserved is the lesser of the maximum annual debt service, 125% of average annual debt service or 10% of the proceeds of the bonds. As of December 31, 2015 and 2014, the required reserve is \$359,930 and \$378,713, respectively. As of December 31, 2015, the reserve account was fully funded. As of December 31, 2014, the reserve account was not fully funded.

**VALLEY VIEW SEWER 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 being depreciated:				
Land, land rights and other	\$ 638,520		\$ (10,210)	\$ 628,310
Construction in progress	1,133,913	\$ 477,500	(1,322,510)	288,903
	<u>1,772,433</u>	<u>477,500</u>	<u>(1,332,720)</u>	<u>917,213</u>
Capital assets being depreciated:				
Sewer mains and extensions	45,290,845	1,376,227		46,667,072
Sewer structures and intangibles	3,532,679	11,708		3,544,387
Equipment	1,481,875	40,167		1,522,042
Office building	4,376,436	60,345	(57,182)	4,379,599
	<u>54,681,835</u>	<u>1,488,447</u>	<u>(57,182)</u>	<u>56,113,100</u>
Accumulated depreciation				
Sewer mains and extensions	(16,113,075)	(919,442)		(17,032,517)
Sewer structures and intangibles	(2,258,705)	(59,010)		(2,317,715)
Equipment	(1,196,000)	(80,477)		(1,276,477)
Office building	(1,094,807)	(113,720)	54,451	(1,154,076)
	<u>(20,662,587)</u>	<u>(1,172,649)</u>	<u>54,451</u>	<u>(21,780,785)</u>
Net capital assets	<u>\$ 35,791,681</u>	<u>\$ 793,298</u>	<u>\$ (1,335,451)</u>	<u>\$ 35,249,528</u>

**VALLEY VIEW SEWER 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 being depreciated:				
Land, land rights and other	\$ 638,520			\$ 638,520
Construction in progress	890,693	\$ 596,639	\$ (353,419)	1,133,913
	<u>1,529,213</u>	<u>596,639</u>	<u>(353,419)</u>	<u>1,772,433</u>
Capital assets being depreciated:				
Sewer mains and extensions	44,768,506	522,339		45,290,845
Sewer structures and intangibles	3,529,452	3,227		3,532,679
Equipment	1,388,366	114,008	(20,499)	1,481,875
Office building	4,376,436			4,376,436
	<u>54,062,760</u>	<u>639,574</u>	<u>(20,499)</u>	<u>54,681,835</u>
Accumulated depreciation				
Sewer mains and extensions	(15,212,619)	(900,456)		(16,113,075)
Sewer structures and intangibles	(2,195,944)	(62,761)		(2,258,705)
Equipment	(1,147,447)	(69,052)	20,499	(1,196,000)
Office building	(982,575)	(112,232)		(1,094,807)
	<u>(19,538,585)</u>	<u>(1,144,501)</u>	<u>20,499</u>	<u>(20,662,587)</u>
Net capital assets	<u>\$ 36,053,388</u>	<u>\$ 91,712</u>	<u>\$ (353,419)</u>	<u>\$ 35,791,681</u>

**VALLEY VIEW SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
(CONTINUED)
DECEMBER 31, 2015 AND 2014**

5. LONG-TERM DEBT PAYABLE FROM UNRESTRICTED ASSETS

Long-term debt payable from unrestricted assets outstanding at December 31 consisted of the following Public Works Trust Fund Loans, secured by the revenue of the sewer system, issued for utility construction:

	<u>2015</u>	<u>2014</u>
1995 \$494,569 loan: payable \$25,834 annually through the year 2015, plus interest at 1 annual percentage rate.	\$ -	\$ 25,834
1995 \$535,481 loan: payable \$28,183 annually through the year 2015, plus interest at 1 annual percentage rate.	-	28,183
1997 \$124,334 loan: payable \$6,621 annually through the year 2017, plus interest at 1 annual percentage rate.	13,241	19,862
1998 \$257,040 loan: payable \$13,782 annually through the year 2018, plus interest at 1 annual percentage rate.	41,346	55,128
2001 \$1,394,170 loan: payable \$73,581 annually through the year 2021, plus interest at .50 annual percentage rate. 441,487	515,069	
2002 \$1,908,250 loan: payable \$101,025 annually through the year 2022, plus interest at .50 annual percentage rate. 707,175	808,200	
2003 \$1,280,058 loan: payable \$68,755 annually through the year 2023, plus interest at .50 annual percentage rate. 550,037	618,792	
2004 \$88,230 loan: payable \$4,780 annually through the year 2023, plus interest at .50 annual percentage rate.	38,244	43,023
2004 \$1,609,050 loan: payable \$85,185 annually through the year 2024, plus interest at .50 annual percentage rate.	766,665	851,850
2006 \$3,320,632 loan: payable \$185,219 annually through the year 2026, plus interest at .50 annual percentage rate. 2,037,4142,222,634		
2012 loan: \$1,950,000 authorized, \$1,891,238 drawn to December 31, 2015. Based on draws to December 31, 2015, payable \$103,038 annually through the year 2031, plus interest at .50 annual percentage rate.	<u>1,648,604</u>	<u>1,549,359</u>
	6,244,213	6,737,934
Less current maturities	<u>641,986</u>	<u>684,105</u>
	<u>\$5,602,227</u>	<u>\$6,053,829</u>

**VALLEY VIEW SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
(CONTINUED)
DECEMBER 31, 2015 AND 2014**

5. LONG-TERM DEBT PAYABLE FROM UNRESTRICTED ASSETS (continued)

Long-term debt service requirements to maturity, payable by the District from unrestricted assets, are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 641,986	\$ 31,494	\$ 673,480
2017	641,986	28,182	670,168
2018	635,366	24,870	660,236
2019	621,583	21,624	643,207
2020	621,583	18,517	640,100
2021-2025	2,278,262	50,054	2,328,316
2026-2030	700,409	11,230	711,639
2031	<u>103,038</u>	<u>515</u>	<u>103,553</u>
	<u>\$6,244,213</u>	<u>\$186,486</u>	<u>\$6,430,699</u>

6. LONG-TERM DEBT PAYABLE FROM RESTRICTED ASSETS

Long-term debt, payable from restricted assets, outstanding at December 31 consisted of the following:

	<u>2015</u>	<u>2014</u>
Revenue Bonds:		
\$2,605,000 issued February 1, 2006 for utility construction and refunding, due serially through the year 2022, with interest payable semi-annually at 4.25 annual percentage rate	\$1,020,000	\$1,195,000
\$1,835,000 issued September 18, 2008 for utility construction, due serially through the year 2023, with interest payable semi-annually at 3.875 to 4.30 annual percentage rates	1,105,000	1,220,000
\$981,000 issued May 1, 2012 for utility construction, due annually through the year 2027, with interest payable semi-annually at 3.00 annual percentage rate	<u>797,643</u>	<u>864,114</u>
	2,922,643	3,279,114
Less current maturities	(351,470)	(356,470)
Plus unamortized discounts	<u>8,491</u>	<u>11,300</u>
	<u>\$2,579,664</u>	<u>\$2,933,944</u>

**VALLEY VIEW SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
(CONTINUED)
DECEMBER 31, 2015 AND 2014**

6. LONG-TERM DEBT PAYABLE FROM RESTRICTED ASSETS (continued)

Long-term debt service requirements to maturity, payable by the District from restricted assets, are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 351,470	\$113,519	\$ 464,989
2017	361,470	99,863	461,333
2018	371,470	85,643	457,113
2019	371,470	71,012	442,482
2020	366,470	55,988	422,458
2021-2025	967,352	100,673	1,068,025
2026-2027	<u>132,941</u>	<u>5,982</u>	<u>138,923</u>
	<u>\$2,922,643</u>	<u>\$532,680</u>	<u>\$3,455,323</u>

7. CHANGES IN LONG-TERM LIABILITIES

Changes in long-term liabilities was as follows:

	<u>Balance, beginning of year</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance, end of year</u>	<u>Amounts due within one year</u>
<i>2015:</i>					
<i>Long-term debt payable from unrestricted assets:</i>					
Public Works Trust Fund Loan:					
1995	\$ 25,834		\$ 25,834	\$ -	
1995	28,183		28,183	-	
1997	19,862		6,621	13,241	\$ 6,621
1998	55,128		13,782	41,346	13,782
2001	515,069		73,582	441,487	73,581
2002	808,200		101,025	707,175	101,025
2003	618,792		68,755	550,037	68,755
2004	43,023		4,779	38,244	4,780
2004	851,850		85,185	766,665	85,185
2006	2,222,634		185,220	2,037,414	185,219
2012	<u>1,549,359</u>	<u>\$202,283</u>	<u>103,038</u>	<u>1,648,604</u>	<u>103,038</u>
	<u>\$6,737,934</u>	<u>\$202,283</u>	<u>\$696,004</u>	<u>\$6,244,213</u>	<u>\$641,986</u>
<i>Long-term debt payable from restricted assets:</i>					
2006 Revenue Bonds	\$1,195,000		\$175,000	\$1,020,000	\$165,000
2008 Revenue Bonds	1,220,000		115,000	1,105,000	120,000
2012 Revenue Bonds	<u>864,114</u>	<u>\$ -</u>	<u>66,471</u>	<u>797,643</u>	<u>66,470</u>
	<u>\$3,279,114</u>	<u>\$ -</u>	<u>\$356,471</u>	<u>\$2,922,643</u>	<u>\$351,470</u>
<i>Compensated absences</i>	<u>\$ 181,348</u>	<u>\$126,717</u>	<u>\$113,727</u>	<u>\$ 194,338</u>	<u>\$130,100</u>
<i>Net pension liability</i>	<u>\$ 704,949</u>	<u>\$369,472</u>	<u>\$102,196</u>	<u>\$ 972,225</u>	

**VALLEY VIEW SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
(CONTINUED)
DECEMBER 31, 2015 AND 2014**

7. CHANGES IN LONG-TERM LIABILITIES (continued)

	Balance, beginning of year	Additions	Reductions	Balance, end of year	Amounts due within one year
<i>2014:</i>					
<i>Long-term debt payable from unrestricted assets:</i>					
<i>Public Works Trust Fund Loan:</i>					
1995	\$ 51,669		\$ 25,835	\$ 25,834	\$ 25,834
1995	56,367		28,184	28,183	28,183
1997	26,483		6,621	19,862	6,621
1998	68,910		13,782	55,128	13,782
2001	588,650		73,581	515,069	73,581
2002	909,225		101,025	808,200	101,025
2003	687,547		68,755	618,792	68,755
2004	47,803		4,780	43,023	4,780
2004	937,035		85,185	851,850	85,185
2006	2,407,853		185,219	2,222,634	185,220
2012	<u>1,640,498</u>	<u>\$ -</u>	<u>91,139</u>	<u>1,549,359</u>	<u>91,139</u>
	<u>\$7,422,040</u>	<u>\$ -</u>	<u>\$684,106</u>	<u>\$6,737,934</u>	<u>\$684,105</u>
<i>Long-term debt payable from restricted assets:</i>					
2006 Revenue Bonds	\$1,370,000		\$175,000	\$1,195,000	\$175,000
2008 Revenue Bonds	1,330,000		110,000	1,220,000	115,000
2012 Revenue Bonds	<u>930,584</u>	<u>\$ -</u>	<u>66,470</u>	<u>864,114</u>	<u>66,470</u>
	<u>\$3,630,584</u>	<u>\$ -</u>	<u>\$351,470</u>	<u>\$3,279,114</u>	<u>\$356,470</u>
<i>Compensated absences</i>	<u>\$ 177,447</u>	<u>\$123,152</u>	<u>\$119,251</u>	<u>\$ 181,348</u>	<u>\$119,300</u>
<i>Net pension liability</i>	<u>\$1,055,651</u>	<u>\$ -</u>	<u>\$350,702</u>	<u>\$ 704,949</u>	

8. 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	\$972,225	\$704,949
Pension assets	\$ -	\$ -
Deferred outflows of resources	\$141,773	\$ 49,593
Deferred inflows of resources	\$157,353	\$323,072
Pension expense	\$128,512	\$ 65,295

**VALLEY VIEW SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
(CONTINUED)
DECEMBER 31, 2015 AND 2014**

8. PENSION PLAN (continued)

State Sponsored Pension Plans - Substantially all of the District's full-time and qualifying part-time employees participate in one of the following statewide retirement systems administered by the Washington State Department of Retirement Systems, under cost-sharing, multiple-employer public employee defined benefit and defined contribution retirement plans. The state Legislature establishes, and amends, laws pertaining to the creation and administration of all public retirement systems.

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

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

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

Public Employees Retirement System (PERS)

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

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

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.

**VALLEY VIEW SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
(CONTINUED)
DECEMBER 31, 2015 AND 2014**

8. PENSION PLAN (continued)

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 \$51,240 and \$42,553 for the year ended December 31, 2015 and 2014, respectively.

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.

**VALLEY VIEW SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
(CONTINUED)
DECEMBER 31, 2015 AND 2014**

8. 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 \$67,895 and \$54,575 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%

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.

**VALLEY VIEW SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
(CONTINUED)
DECEMBER 31, 2015 AND 2014**

8. PENSION PLAN (continued)

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

- The OSA updated demographic assumptions, consistent with the changes from the *2007-2012 Experience Study Report*, used when valuing the PERS 1 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.

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.

**VALLEY VIEW SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
(CONTINUED)
DECEMBER 31, 2015 AND 2014**

8. PENSION PLAN (continued)

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>	

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.

	<u>1% Decrease (6.5%)</u>	<u>Current Discount Rate (7.5%)</u>	<u>1% Increase (8.5%)</u>
2015:			
PERS 1	\$ 628,814	\$516,479	\$ 419,880
PERS 2/3	\$1,332,625	\$455,746	\$(215,647)
2014:			
PERS 1	\$ 572,930	\$464,815	\$ 372,009
PERS 2/3	\$1,001,648	\$240,134	\$(341,522)

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>	
	<u>2015</u>	<u>2014</u>
PERS 1	\$516,479	\$464,815
PERS 2/3	455,746	240,134
Total	<u>\$972,225</u>	<u>\$704,949</u>

**VALLEY VIEW SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
(CONTINUED)
DECEMBER 31, 2015 AND 2014**

8. 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	\$464,815	\$516,479	\$ 51,664
PERS 2/3	\$240,134	\$455,746	\$215,612
	<u>Proportionate Share 6/30/13</u>	<u>Proportionate Share 6/30/14</u>	<u>Change in Proportion</u>
PERS 1	\$535,003	\$464,815	\$ (70,188)
PERS 2/3	\$520,648	\$240,134	\$(280,514)

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	\$ 67,177	\$28,777
PERS 2/3	59,232	34,620
Expenses	<u>2,103</u>	<u>1,898</u>
Total	<u>\$128,512</u>	<u>\$65,295</u>

**VALLEY VIEW SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
(CONTINUED)
DECEMBER 31, 2015 AND 2014**

8. 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	-	28,257
Changes of assumptions	-	-
Changes in proportion and differences between contributions and proportionate share of contributions	-	-
Contributions subsequent to the measurement date	27,939	-
Total	<u>\$ 27,939</u>	<u>\$ 28,257</u>
PERS 2/3		
Differences between expected and actual experience	\$ 48,446	\$ -
Net difference between projected and actual investment earnings on pension plan investments	-	121,663
Changes of assumptions	734	-
Changes in proportion and differences between contributions and proportionate share of contributions	28,164	7,433
Contributions subsequent to the measurement date	36,490	-
Total	<u>\$113,834</u>	<u>\$129,096</u>
Total all plans	<u>\$141,773</u>	<u>\$157,353</u>

**VALLEY VIEW SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
(CONTINUED)
DECEMBER 31, 2015 AND 2014**

8. 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	-	58,122
Changes of assumptions	-	-
Changes in proportion and differences between contributions and proportionate share of contributions	-	-
Contributions subsequent to the measurement date	<u>22,077</u>	<u>-</u>
Total	<u>\$ 22,077</u>	<u>\$ 58,122</u>
PERS 2/3		
Differences between expected and actual experience	\$ -	\$ -
Net difference between projected and actual investment earnings on pension plan investments	-	254,544
Changes of assumptions	-	-
Changes in proportion and differences between contributions and proportionate share of contributions	-	10,406
Contributions subsequent to the measurement date	<u>27,516</u>	<u>-</u>
Total	<u>\$ 27,516</u>	<u>\$264,950</u>
Total all plans	<u>\$ 49,593</u>	<u>\$323,072</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	\$(10,951)	\$(27,722)
2017	(10,951)	(27,722)
2018	(10,951)	(26,235)
2019	4,596	29,927
2020	-	-
Total	<u>\$(28,257)</u>	<u>\$(51,752)</u>

**VALLEY VIEW SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
(CONTINUED)
DECEMBER 31, 2015 AND 2014**

9. DEFERRED COMPENSATION PLAN

The District offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. This plan is with Aetna Life Insurance and Annuity Company and the State of Washington. The plan, available to all eligible employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to the employees until termination, retirement, death or unforeseeable emergency. The District made no contributions to the plan in 2015 or 2014.

10. RISK MANAGEMENT

Valley View Sewer District is a member of Enduris. Chapter 48.62 RCW provides the exclusive source of local government entity authority to individually or jointly self-insure risks, jointly purchase insurance or reinsurance, and to contract for risk management, claims, and administrative services. Enduris was formed July 10, 1987 pursuant to the provisions of Chapter 48.62 RCW, Chapter 200-100 WAC, and Chapter 39.34 RCW. Two (2) counties and two (2) cities in the State of Washington joined together by signing an interlocal governmental agreement to fund their self-insured losses and jointly purchase insurance and administrative services. As of August 31, 2015, there are 507 Enduris members representing a broad array of special purpose districts throughout the state. Enduris provides property and liability coverage as well as risk management services and other related administrative services.

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

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

Enduris acquires reinsurance from unrelated insurance companies on a "per occurrence" basis to cover all losses over the deductibles as shown on the policy maximum limits. Liability coverage is for all lines of liability coverage including Public Official's Liability. The Property coverage is written on an "all risk", blanket basis using current Statement of Values.

The Property coverage includes but is not limited to mobile equipment, boiler and machinery, electronic data processing equipment, business interruption, course of construction and additions, property in transit, fine arts, and automobile physical damage to insured vehicles. Liability coverage limit is \$10 million per occurrence and property coverage limit is \$1 billion per occurrence. Enduris offers crime coverage up to a limit of \$1 million per occurrence.

**VALLEY VIEW SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
(CONTINUED)
DECEMBER 31, 2015 AND 2014**

10. RISK MANAGEMENT (continued)

Since Enduris is a cooperative program, there is a joint liability among the participating members.

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

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

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

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.

11. HEALTH & WELFARE

Valley View Sewer District is a member of the Association of Washington Cities Employee Benefit Trust Health Care Program (AWC Trust HCP). Chapter 48.62 RCW provides that two or more local government entities may, by Interlocal agreement under Chapter 39.34 RCW, form together or join a pool or organization for the joint purchasing of insurance, and/or joint self-insurance, to the same extent that they may individually purchase insurance, or self-insure.

An agreement to form a pooling arrangement was made pursuant to the provisions of Chapter 39.34 RCW, the Interlocal Cooperation Act. The AWC Trust HCP was formed on January 1, 2014 when participating cities, towns, and non-city entities of the AWC Employee Benefit Trust in the State of Washington joined together by signing an Interlocal Governmental Agreement to jointly self-insure certain health benefit plans and programs for participating employees, their covered dependents and other beneficiaries through a designated account within the Trust.

As of December 31, 2015, 261 cities/towns/non-city entities participate in the AWC Trust HCP.

The AWC Trust HCP allows members to establish a program of joint insurance and provides health and welfare services to all participating members. The AWC Trust HCP pools claims without regard to individual member experience. The pool is actuarially rated each year with the assumption of projected claims run-out for all current members. The AWC Trust HCP includes medical insurance through Group Health, Regence BlueShield and Asuris Northwest Health, dental insurance through Delta Dental of Washington, and vision insurance through Vision Service Plan. Eligible members are cities and towns within the state of Washington. Non-City Entities (public agency, public corporation, intergovernmental agency, or political subdivision within the state of Washington) are eligible to apply for coverage into the AWC Trust HCP, submitting application to the Board of Trustees for review as required in the Trust Agreement.

**VALLEY VIEW SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
(CONTINUED)
DECEMBER 31, 2015 AND 2014**

11. HEALTH & WELFARE (continued)

Participating employers pay monthly premiums to the AWC Trust HCP. The AWC Trust HCP is responsible for payment of all covered claims. The AWC Trust HCP purchases stop loss insurance for Regence/Asuris plans at an Individual Stop Loss (ISL) of \$1.5 million through Life Map, and Group Health ISL at \$750,000 through Sun Life. The aggregate policy is for 200% of expected medical claims.

Participating employers contract to remain in the AWC HCP for a minimum of three years. Participating employers with over 250 employees must provide written notice of termination of all coverage a minimum of 12 months in advance of the termination date, and participating employers with under 250 employees must provide written notice of termination of all coverage a minimum of 6 months in advance of termination date. When all coverage is being terminated, termination will only occur on December 31. Participating employers terminating a group or line of coverage must notify the HCP a minimum of 60 days prior to termination. A participating employer's termination will not obligate that member to past debts, or further contributions to the HCP. Similarly, the terminating member forfeits all rights and interest to the HCP Account.

The operations of the Health Care Program are managed by the Board of Trustees or its delegates. The Board of Trustees is comprised of four regionally elected officials from Trust member cities or towns, the Employee Benefit Advisory Committee Chair and Vice Chair, and two appointed individuals from the AWC Board of Directors, who are from Trust member cities or towns. The Trustees or its appointed delegates review and analyze Health Care Program related matters and make operational decisions regarding premium contributions, reserves, plan options and benefits in compliance with Chapter 48.62 RCW.

The Board of Trustees has decision authority consistent with the Trust Agreement, Health Care Program policies, Chapter 48.62 RCW and Chapter 200-110-WAC.

The accounting records of the Trust HCP are maintained in accordance with methods prescribed by the State Auditor's office under the authority of Chapter 43.09 RCW. The Trust HCP also follows applicable accounting standards established by the Governmental Accounting Standards Board ("GASB"). Year-end financial reporting is done on an accrual basis and submitted to the Office of the State Auditor as required by Chapter 200-110 WAC. The audit report for the AWC Trust HCP is available from the Washington State Auditor's office.

In 2015 and 2014, there were no claim settlements, per occurrence or in aggregate, that have exceeded the coverage provided by stop loss contracts.

**VALLEY VIEW SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
(CONTINUED)
DECEMBER 31, 2015 AND 2014**

12. COMMITMENTS

Joint administration building:

On August 14, 2005, the District entered into an agreement with Water District No. 125 of King County for the construction and operation of a joint administration building on property owned by Water District No. 125. The building was completed and occupied in 2007. The Districts are tenants in common, each having a 50% interest in the shared parcel and are operating under a condominium agreement. Details of the agreements are available in the District office.

13. 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.

14. SUBSEQUENT EVENTS

On March 3, 2016, the District issued \$1,013,087 of Sewer Revenue Refunding Bonds with interest rates of 1.89% to advance refund \$1,020,000 of outstanding 2006 bonds with interest rates of 4.25%. The net proceeds of refunding bonds, plus \$46,187 of cash on hand, totaling \$1,040,956 including \$7,503 representing accrued interest to the refunding date, were used to purchase U.S. Government securities to provide the beginning escrow balance. The securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the refunded bonds. As a result, the refunded bonds are considered to be extinguished and the liability for those bonds will not be included in future financial statements.

Although the advance refunding resulted in an accounting loss of \$20,819 (which will be amortized over the shorter of the life of the refunded or refunding bonds), the District in effect reduced its aggregate debt service payments by \$101,668 through December 1, 2022 and obtained an economic gain (difference between the present values of the old and new debt service payments) of \$49,595.

The 2016 bonds are dated March 3, 2016 and are due serially through the year 2022, with interest payable semi-annually at an annual percentage rate of 1.89.

As a result of the issuance of the 2016 bonds and the advance refunding, long-term debt service requirements to maturity, payable by the District from restricted assets, will be as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 369,344	\$ 84,423	\$ 453,767
2017	367,042	79,216	446,258
2018	373,136	68,903	442,039
2019	369,037	58,371	427,408
2020	359,979	47,405	407,384
2021-2025	944,253	93,624	1,037,877
2026-2027	<u>132,939</u>	<u>5,984</u>	<u>138,923</u>
	<u>\$2,915,730</u>	<u>\$437,926</u>	<u>\$3,353,656</u>

VALLEY VIEW SEWER 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)	0.009874%	0.009227%	0.009156%
Employer's proportionate share of the net pension liability	\$ 516,479	\$ 464,815	\$ 535,003
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.

VALLEY VIEW SEWER 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>2013</u>
Employer's proportion of the net pension liability (asset)	0.012755%	0.011880%	0.012193%
Employer's proportionate share of the net pension liability	\$ 455,746	\$ 240,134	\$ 520,648
Employer's covered employee payroll	\$ 1,137,451	\$ 1,060,628	\$ 1,026,904
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	40.07%	22.64%	50.70%
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.

VALLEY VIEW SEWER 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	\$ 51,240	\$ 42,553	\$ 32,399
Contributions in relation to the statutorily or contractually required contributions	<u>(51,240)</u>	<u>(42,553)</u>	<u>(32,399)</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.

VALLEY VIEW SEWER 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	\$ 67,895	\$ 54,575	\$ 50,690
Contributions in relation to the statutorily or contractually required contributions	<u>(67,895)</u>	<u>(54,575)</u>	<u>(50,690)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered employer payroll	\$ 1,171,860	\$ 1,060,538	\$ 1,015,617
Contributions as a percentage of covered employee payroll	5.79%	5.15%	4.99%

Notes to Schedule:

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

ABOUT THE STATE AUDITOR'S OFFICE

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

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

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

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

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

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

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

Contact information for the State Auditor's Office	
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