



Office of the Washington State Auditor
Pat McCarthy

Financial Statements Audit Report
Northeast Sammamish Sewer and
Water District

King County

For the period January 1, 2016 through December 31, 2016

Published January 22, 2018

Report No. 1020649





Office of the Washington State Auditor
Pat McCarthy

January 22, 2018

Board of Commissioners
Northeast Sammamish Sewer and Water District
Sammamish, Washington

Report on Financial Statements

Please find attached our report on the Northeast Sammamish Sewer and Water 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**

**Northeast Sammamish Sewer and Water District
King County
January 1, 2016 through December 31, 2016**

Board of Commissioners
Northeast Sammamish Sewer and Water District
Sammamish, 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 Northeast Sammamish Sewer and Water District, King County, Washington, as of and for the year ended December 31, 2016, 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, 2018.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of the District's compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

PURPOSE OF THIS REPORT

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.



Pat McCarthy

State Auditor

Olympia, WA

January 11, 2018

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Northeast Sammamish Sewer and Water District King County January 1, 2016 through December 31, 2016

Board of Commissioners
Northeast Sammamish Sewer and Water District
Sammamish, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the Northeast Sammamish Sewer and Water District, King County, Washington, as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed on page 9.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor

considers internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Northeast Sammamish Sewer and Water District, as of December 31, 2016, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplementary information listed on page 9 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, 2018 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 that reads "Pat McCarthy". The signature is written in a cursive, flowing style.

Pat McCarthy

State Auditor

Olympia, WA

January 11, 2018

FINANCIAL SECTION

**Northeast Sammamish Sewer and Water District
King County
January 1, 2016 through December 31, 2016**

REQUIRED SUPPLEMENTARY INFORMATION

Management Discussion and Analysis – 2016

BASIC FINANCIAL STATEMENTS

Statement of Net Position – 2016

Statement of Revenues, Expenses and Changes in Net Position – 2016

Statement of Cash Flows – 2016

Notes to Financial Statements – 2016

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Proportionate Share of Net Pension Liability – PERS 1 – 2016

Schedule of Proportionate Share of Net Pension Liability – PERS 2/3 – 2016

Schedule of Employer Contributions – PERS 1 – 2016

Schedule of Employer Contributions – PERS 2/3 – 2016

NORTHEAST SAMMAMISH SEWER AND WATER DISTRICT

December 31, 2016

Management Discussion and Analysis

Annual Financial Statements

The annual financial statements include a statement of net position, a statement of revenues, expenses and changes in net position and a statement of cash flows. The statement of net position provides information on all of the District's assets, liabilities and deferred inflows and outflows, with the difference between assets and deferred outflows of resources, and liabilities and deferred inflows or resources called net position. The statement of revenues, expenses and changes in net position shows the annual change in net position based on the excess of revenues over expenses under the accrual basis. The statement of cash flows details cash inflow and outflow from operating, investing, non-capital financing and capital financing activities. It also reconciles operating income to net cash provided by operating activities.

Condensed Financial Information and Financial Analysis

Table 1 summarizes significant asset, deferred outflows, liability, deferred inflows and net position categories and compares the current year to the prior year.

Total Assets

Total assets increased in 2016 by \$2,678,989. Of this amount, current assets increased by \$3,847,308 and capital assets decreased by \$1,168,319.

The increase in current assets is largely due to an increase in cash of \$3,640,808 and an increase in accounts receivable of \$221,896.

In 2016 the District issued \$6,070,000 in revenue and refunding bonds. Proceeds of the issue were used to refund \$3,385,000 in existing bonds, finance future capital projects and pay bond issue costs. The proceeds for future capital project financing amounted to \$3,009,453 and represents most of the increase in cash. The advance refunding resulted in an economic gain of \$354,937. The other increases in cash are from rate increases and decreased debt payments.

The increase in accounts receivable results from cellular antenna lease income and the sale of water to a neighboring water association.

The decrease in capital assets is due to a net increase in accumulated depreciation.

Total Liabilities

Total liabilities increased by \$2,787,731 in 2016. Current liabilities increased by \$95,431 and non-current liabilities increased by \$2,692,300.

The increase in current liabilities is mainly due to an increase in accounts payable of \$36,403, an increase in the current portion of long-term debt of \$31,598 and unearned revenue of \$34,164. The unearned revenue was from a cellular phone company paying 2017 lease payments in 2016.

The increase in non-current liabilities is mainly from the previously discussed bond issue. Revenue and refunding bonds were issued in 2016. \$6,070,000 in new revenue bonds were issued and \$3,385,000 of existing revenue bonds were refunded.

Net Position

Net position is the difference between total assets and total liabilities discussed above and the difference between deferred inflows and outflows related to pensions. Net position increased \$183,657 in 2016 as shown in Table 2.

Operating Revenue

Operating revenue increased by \$63,013 or slightly over one percent. Sewer operating revenue increased by \$49,919 because of a 3% increase in the District's sewer rate and no increase in King County's rate for sewage treatment. Water revenue increased in 2016 by \$13,094. This was due to the sale of water to a neighboring water utility offset by a decrease in district water sales due to a decrease in water consumption.

Operating Expenses

Operating expenses increased by about \$312,277 or approximately 5.7%. This is mainly due to a \$56,570 increase in collection and transmission repair and maintenance for raising manholes after road repaving, \$114,400 purchase of water filtration media, an increase in field labor of \$43,547 and an increase in general and administrative costs of \$96,890. The increase in general and administrative costs was due to rising compensation and benefit costs and general inflation.

Non-Operating Revenue/Expense

Total Non-Operating Revenue/Expense increased \$3,216. This is mostly due to bond issue costs of \$90,674 related to the bond issue previously discussed offset by a decrease in interest expense of \$71,878.

Developer Contributions

Developer contributions decreased \$101,650. Developer contributions consist of general facility connection charges and donated plant. Generally, developer contributions are a reflection of the amount of new development in the District. Developer contributions will, therefore, vary annually as new developments are permitted. However, the District is near build-out and the extent of new development over the long term is anticipated to decrease unless there is a change in zoning.

Table 1 – Net Position

		<u>2016</u>		<u>2015</u>
<u>Assets</u>				
Current Assets	\$	12,094,468	\$	8,247,160
Capital Assets, net of Depreciation	\$	26,421,621	\$	27,589,940
Total Assets	\$	38,516,089	\$	35,837,100
 <u>Deferred Outflows of Resources</u>				
Deferred Outflows – Bond Refunding	\$	115,832		
Deferred Outflows – Pensions	\$	169,069	\$	64,717
Total Deferred Outflows	\$	284,901	\$	64,717
 <u>Liabilities</u>				
Current Liabilities	\$	1,062,993	\$	967,562
Non-Current Liabilities	\$	9,740,681	\$	7,048,381
Total Liabilities	\$	1 0,803,674	\$	8,015,943
 <u>Deferred Inflows of Resources</u>				
Deferred Inflows - Pensions	\$	16,665	\$	88,880
Total Deferred Inflows	\$	16,665	\$	88,880
 <u>Net Position</u>				
Net Investment in Capital Assets	\$	19,682,888	\$	20,452,181
Restricted for Debt Service	\$	488,703	\$	503,633
Unrestricted	\$	7,809,060	\$	6,841,180
Total Net Position	\$	27,980,651	\$	27,796,994

Table 2 – Changes in Net Position

	<u>2016</u>	<u>2015</u>
<u>Operating Revenue</u>		
Sewer System	\$ 3,846,479	\$ 3,796,560
Water System	\$ 2,183,469	\$ 2,170,375
Total Operating Revenue	\$ 6,029,948	\$ 5,966,935
<u>Operating Expenses</u>		
Sewer System	\$ 3,947,553	\$ 3,768,361
Water System	\$ 1,820,010	\$ 1,686,925
Total Operating Expenses	\$ 5,767,563	\$ 5,455,286
<u>Non Operating Revenue/Expenses</u>		
Interest Income	\$ 44,535	\$ 27,040
Interest Expense	\$ (113,456)	\$ (185,334)
Other	\$ (4,083)	\$ (8,600)
Bond Issue Costs	\$ (90,674)	
Total Non Operating Revenue/(Expense)	\$ (163,678)	\$ (166,894)
Developer Contributions	\$ 84,950	\$ 186,600
Change in Net Position	\$ 183,657	\$ 531,355

Summary

The District's financial position remains in strong condition.

In 2016, the district was able to take advantage of a favorable bond market and issue \$6,070,000 in revenue and refunding bonds. The advance refunding resulted in an economic gain of \$354,937. The issue provided the District with just over \$3 million to finance future capital projects.

Northeast Sammamish Sewer and Water District

Statement of Net Position

As of December 31, 2016

	Total 12/31/16
ASSETS	
Current Assets	
Cash and Cash Equivalents	\$9,541,365
Cash and Cash Equivalents - Rate Stabilization Account	\$300,000
Cash and Cash Equivalents - Restricted for Debt Service	\$488,703
Accounts Receivable	\$1,704,741
Other Current Assets	\$59,659
Total Current Assets	\$12,094,468
Non-Current Assets	
Capital Assets	
Plant in Service being Depreciated	\$51,686,036
Less Accumulated Depreciation	(\$26,333,642)
	\$25,352,394
Land and Land Rights	\$1,000,369
Construction in Progress	\$68,858
Total Capital Assets	\$26,421,621
Total Assets	\$38,516,089
DEFERRED OUTFLOWS OF RESOURCES	
Deferred Outflows - Pensions	\$115,832
Deferred Outflow - Bond Refunding	\$169,069
Total Deferred Outflows of Resources	\$284,901
LIABILITIES	
Current Liabilities	
Accounts Payable	\$131,451
Deposits	\$62,037
Current Portion of Accrued Leave Payable	\$54,222
Current Portion of Long-Term Debt	\$715,207
Developer Deposits	\$37,438
Accrued Interest Payable	\$28,474
Unearned Revenue	\$34,164
Total Current Liabilities	\$1,062,993
Non-Current Liabilities	
Non-Current Portion of Accrued Leave Payable	\$35,973
Net Pension Liability	\$671,731
Sewer/Water Bonds	\$6,619,533
Public Works Trust Fund Loans	\$2,413,444
Total Non-Current Liabilities	\$9,740,681
Total Liabilities	\$10,803,674
DEFERRED INFLOWS OF RESOURCES	
Deferred Inflows - Pensions	\$16,665
Total Deferred Inflows of Resources	\$16,665
NET POSITION	
Net Investment in Capital Assets	\$ 19,682,888
Restricted for Debt Service	\$488,703
Unrestricted	\$ 7,809,060
Total Net Position	\$ 27,980,651

NORTHEAST SAMMAMISH SEWER AND WATER DISTRICT
Statement of Revenues, Expenses and Changes in Net Position
For the Year Ended December 31, 2016

	<u>Sewer</u> <u>12/31/16</u>	<u>Water</u> <u>12/31/16</u>	<u>Construction</u> <u>Fund</u> <u>12/31/16</u>	<u>Bond</u> <u>Fund</u> <u>12/31/16</u>	<u>Total</u> <u>12/31/16</u>
Operating Revenue					
Service to Customers	\$3,802,249	\$2,055,134			\$5,857,383
Street lights		\$50,522			\$50,522
Less Power		(\$43,763)			(\$43,763)
Other Income	\$44,231	\$121,576			\$165,806
Total Operating Income	\$3,846,479	\$2,183,469	\$0	\$0	\$6,029,948
Operating Expenses					
Collection, Transmission, Distrib.:					
Repairs and Maintenance	\$72,806	\$15,131			\$87,937
Supplies and Other Expense	\$2,153	\$2,831			\$4,984
Water Sampling		\$12,431			\$12,428
Total Collection and Transmission	\$74,959	\$30,393	\$0	\$0	\$105,349
Pumping:					
Repairs and Maintenance	\$31,454	\$25,469			\$56,923
Supplies and Other Expense	\$3,365	\$3,764			\$7,129
Station Utilities	\$51,390	\$105,839			\$157,229
Water Filtration Media		\$114,400			\$114,400
Total Pumping	\$86,209	\$249,472	\$0	\$0	\$335,681
Field Labor	\$198,791	\$197,513			\$396,304
Sewage Treatment - King County	\$2,423,450				\$2,423,450
General & Administrative	\$557,645	\$670,747			\$1,228,392
Depreciation	\$606,501	\$671,886			\$1,278,387
Total Operating Expenses	\$3,947,554	\$1,820,010	\$0	\$0	\$5,767,563
Income (Loss) From Operations	(\$101,075)	\$363,459	\$0	\$0	\$262,385
Non-Operating Revenue/(Expense)					
Interest Income	\$21,631	\$15,369	\$5,938	\$1,598	\$44,535
Gain/(Loss) on Disposition of Assets	(\$1,232)	(\$2,851)			(\$4,083)
Interest Expense	(\$4,992)	(\$11,079)		(\$97,385)	(\$113,456)
Bond Issue Costs				(\$90,674)	(\$90,674)
Total Non-Operating Revenue/(Expense)	\$15,407	\$1,438	\$5,938	(\$186,460)	(\$163,678)
Inc/(Loss) Before Capital Contributions	(\$85,668)	\$364,898	\$5,938	(\$186,460)	\$98,707
Developer Contributions	\$34,423	\$50,527			\$84,950
Increase (Decrease) in Net Position	(\$51,246)	\$415,425	\$5,938	(\$186,460)	\$183,657
Net Position					
Balance January 1	\$18,825,796	\$13,355,571	\$1,423,022	(\$5,807,395)	\$27,796,994
Ending Net Position	\$18,774,550	\$13,770,996	\$1,428,960	(\$5,993,855)	\$27,980,651

NORTHEAST SAMMAMISH SEWER AND WATER DISTRICT
Statement of Cash Flows
For the Year Ended December 31, 2016

	Sewer 12/31/16	Water 12/31/16	Construction Fund 12/31/16	Bond Fund 12/31/16	Total 12/31/16
Cash Flows From Operating Activities					
Cash Received from Customers	\$ 3,798,443	\$ 1,878,187			\$ 5,676,630
Cash Payments to Suppliers, Employees, etc.	\$ (3,301,986)	\$ (1,158,493)	\$ (6,402)		\$ (4,466,882)
Other Operating Revenues	\$ 44,231	\$ 121,576			\$ 165,807
Net Cash Provided by Oper. Activities	\$ 500,465	\$ 646,648	\$ (83,033)	\$ 311,475	\$ 1,375,555
Cash Flows From Investing Activities					
Interest and Dividends	\$ 21,631	\$ 15,369	\$ 5,938	\$ 1,598	\$ 44,536
Net Cash Prov. by Investing Activities	\$ 21,631	\$ 15,369	\$ 5,938	\$ 1,598	\$ 44,536
Cash Flows From Noncapital Financing Activities					
Net Cash Prov. From Noncap. Financing	\$ -	\$ -	\$ -	\$ -	\$ -
Cash Flows From Capital and Related Financing Activities					
Proceeds from Bonds/Loans			\$ 3,009,453		\$ 3,009,453
Principal Payment on Long-Term Debt	\$ (187,690)	\$ (233,239)		\$ (220,000)	\$ (640,929)
Interest Paid on Long-Term Debt	\$ (5,631)	\$ (11,662)		\$ (91,475)	\$ (108,768)
Reserve Account Contribution to Bond Issue				\$ (16,528)	\$ (16,528)
Developer Deposits/Retainage	\$ (3,250)	\$ (4,990)			\$ (8,240)
Contributions in Aid of Construction	\$ 34,423	\$ 50,527			\$ 84,950
Utility Plant	\$ (46,768)	\$ (79,560)	\$ 12,177		\$ (114,151)
Net Cash Used by Capital and Financing Activities	\$ (208,916)	\$ (278,924)	\$ 3,021,630	\$ (328,003)	\$ 2,205,787
Increase (Decrease) in Cash Equivalents	\$ 313,180	\$ 383,093	\$ 2,944,535	\$ (14,930)	\$ 3,625,878
Beginning Cash Equivalent Balance	\$ 3,650,868	\$ 1,231,170	\$ 1,318,519	\$ 503,633	\$ 6,704,190
Ending Cash Equivalent Balance	\$ 3,964,049	\$ 1,614,263	\$ 4,263,054	\$ 488,703	\$ 10,330,068
Operating Income (Loss)	\$ (101,075)	\$ 363,459	\$ -	\$ -	\$ 262,385
Adjustment to Reconcile Oper. Income to Net Cash Provided by Oper. Activities					
Depreciation	\$ 606,501	\$ 671,886			\$ 1,278,385
Amortization					\$ -
Change in Deferred Outflows/Inflows & Net Pension Liability	\$ (6,981)	\$ (7,292)			\$ (14,274)
Decrease (Increase) in Assets:					
Accounts Receivable	\$ (4,025)	\$ (217,870)			\$ (221,895)
Other Current Assets	\$ 219	\$ 248			\$ 467
Increase (Decrease) in Liabilities:					
Accounts Payable	\$ 46,089	\$ (3,282)	\$ (6,402)		\$ 36,403
Accrued Benefits	\$ (40)	\$ (40)			\$ (80)
Unearned Revenue	\$ 34,164	\$ 34,164			\$ 34,164
Total Adjustments	\$ 601,541	\$ 283,192	\$ (83,033)	\$ 311,475	\$ 1,113,170
Net Cash Provided by Oper. Activities	\$ 500,466	\$ 646,651	\$ (83,033)	\$ 311,475	\$ 1,375,555
Non-cash Investing, Capital and Financing Activities					
Non-Cash Capital Contributions	\$ -	\$ -	\$ -	\$ -	\$ -

The accompanying notes are an integral part of this financial statement.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the district have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The significant accounting policies are described below.

A. Reporting Entity

The Northeast Sammamish Sewer and Water District was incorporated in 1969 and operates under the laws of the state of Washington applicable to sewer and water districts. It is governed by an elected three-member board. As required by generally accepted accounting principles, management has considered all potential component units in defining the reporting entity. The Northeast Sammamish Sewer and Water District has no component units.

B. Basis of Accounting and Presentation

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

The District statements are reported using the economic resources measurement focus and full-accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when liability is incurred regardless of the timing of cash flows. Capital asset purchases are capitalized and long-term liabilities are accounted for in the appropriate funds. Unbilled utility service receivables are recorded at year-end. Income includes gains and losses from the sale of utility plant.

The District distinguishes between operating revenues and expenses from nonoperating ones. Operating revenues and expenses result from providing services and producing and delivering goods in connection with the District's principal ongoing operations. The principal operating revenues of the District are charges to customers for water and sewer service. Operating expenses include the cost of services, administrative expenses, and depreciation. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

C. Assets, Liabilities, Net Position

1. Cash and Cash Equivalents

It is the District's policy to invest all temporary cash surpluses.

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

2. Investments

See Note 2.

3. Receivables

Accounts Receivable represents the amount of services and goods provided for which payment has not yet been received. Since the District has the power to terminate service, lien and foreclose, all receivables are considered collectible. Unbilled sewer and water service receivable are recorded at year end.

4. Restricted Assets

In accordance with bond resolutions, separate restricted funds are required to be established. The assets held in these funds are restricted for debt service.

5. Capital Assets

See Note 3.

6. Compensated Absences

Compensated absences are absences for which employees will be paid, such as vacation and sick leave. The District records unpaid leave for compensated absences as an expense and liability when incurred. Vacation pay, which may be accumulated up to 320 hours, is payable upon resignation, retirement, or death. Compensatory time, which may be accumulated up to 240 hours, is also payable upon resignation, retirement, or death. Sick leave may accumulate up to 1,000 hours. Upon resignation, accumulated sick leave may be cashed out at 25% of the straight time rate of pay. Cash outs of vacation and sick leave are in the form of a cash contribution to the employee's Health Reimbursement Arrangement account, except that if the termination is due to the employee's death then the cash out is in the form of a cash payment to the employee's estate. The current and non-current portion of leave is shown below:

	<u>Current</u>	<u>Non-Current</u>
Vacation	\$46,579	\$ 1,947
Sick Leave	\$ 7,643	\$17,143
Compensatory Time	<u> </u>	<u>\$16,883</u>
	\$54,222	\$35,973

7. Long-Term Debt.

See note 5.

8. Restricted Component of Net Position

The statement of net position reports \$488,703 of restricted component of net position which is restricted by enabling legislation.

9. 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.

10. Unearned Revenue

This account includes amount received but not revenue because the revenue recognition criteria have not been met.

NOTE 2 - DEPOSITS AND INVESTMENTS

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

In accordance with State 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).

As of December 31, 2016, the district had the following investments:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Effective Duration</u>
King County Investment Pool	\$10,117,182	1.10 years

Impaired Investments. As of December 31, 2016, all impaired commercial paper investments have completed enforcement events. The King County impaired investment pool (Impaired Pool) held one commercial paper asset where the Impaired Pool accepted an exchange offer and is

receiving the cash flows from the investment's underlying securities. The Impaired Pool also held the residual investments in one commercial paper assets that were part of completed enforcement events, where the Impaired Pool accepted the cash-out option. The District's share of the impaired investment pool principal is \$21,012. and the district's fair value of these investments is \$13,052.

Interest Rate Risk. As of December 31, 2016, the Pool's average duration was 1.10 years. As a means of limiting its exposure to rising interest rates, securities purchased in the Pool must have a final maturity, or weighted average life, no longer than five years. While the Pool's market value is calculated on a monthly basis, unrealized gains and losses are not distributed to participants. The Pool distributes earnings monthly using an amortized cost methodology.

Credit Risk. As of December 31, 2016, 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.

NOTE 3 – CAPITAL ASSETS

Expenses of \$500 or more 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.

Utility plant in service and other capital assets are recorded at cost. Where historical cost is not known, assets are recorded at fair market value. Donations by developers and customers are recorded at the donor's cost or appraised value.

The original cost of operating property retired or otherwise disposed of charged to accumulated depreciation and the net gain or loss on disposition is credited or charged to income.

Depreciation is computed on the straight-line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Years</u>
Pumping	5-45
Source of Supply	5-40
Collection Transmission & Distribution	5-45
Treatment	35
General Plant	5-10

Intangible assets are amortized over 5 to 40 years.

Costs relating to projects ultimately constructed or completed are transferred to utility plant; charges that relate to abandoned projects are expensed.

Capital assets activity for the year ended December 31, 2016 was as follows:

	Balance 12/31/2015	2016 Increase	2016 Decrease	Balance 12/31/2016
Utility not Being Depreciated				
Land & Land Rights	\$ 1,000,369	\$	\$	\$ 1,000,369
Construction In Process	\$ 81,035	\$ 3,446	\$ 15,623	\$ 68,858
Total Plant not Depreciated	\$ 1,081,404	\$ 3,446	\$ 15,623	\$ 1,069,227
Utility Plant Being Depreciated				
Intangible Assets	\$ 1,371,953	\$ 9,574	\$ -	\$ 1,381,527
Pumping	\$13,698,618	\$ 3,903	\$ 1,418	\$13,701,103
Source of Supply	\$12,934,831	\$ 32,008	\$ -	\$12,966,839
Collection, Transmission & Distribution	\$22,959,537	\$ 17,843	\$ 5,272	\$22,972,108
Treatment	\$ 19,909	\$ -	\$ -	\$ 19,909
General Plant	\$ 581,550	\$ 63,000	\$ -	\$ 644,550
Total Utility Plant Being Depreciated	\$51,566,398	\$ 126,328	\$ 6,690	\$51,686,036
Less Accumulated Depreciation for:				
Intangible Assets	\$ 1,260,050	\$ 65,188	\$ -	\$ 1,325,238
Pumping	\$ 6,341,335	\$ 298,562	\$ 186	\$ 6,639,711
Source of Supply	\$ 4,382,920	\$ 354,298	\$ -	\$ 4,737,218
Collection, Transmission & Distribution	\$12,526,416	\$ 529,888	\$ 2,422	\$13,053,882
Treatment	\$ 38,476	\$ 569	\$ -	\$ 39,045
General Plant	\$ 508,665	\$ 29,883	\$ -	\$ 538,548
Total Accumulated Depreciation	\$25,057,862	\$ 1,278,388	\$ 2,608	\$26,333,642
Total Utility Plant Being Depreciated, Net	\$26,508,536	\$(1,152,060)	\$ 4,082	\$25,352,394
Total Plant, Net	\$27,589,940	\$(1,148,614)	\$ 19,705	\$26,421,621

NOTE 4 - CONSTRUCTION IN PROGRESS

Construction in progress represents expenses on the following projects as of December 31, 2016:

		<u>2016</u>
Inflow/Infiltration	\$	48,044
Emergency Chlorination	\$	10,515
Well 7 Meter Upgrade	\$	5,286
Well 4 Meter Upgrade	\$	4,577
Sahalee Way Water Main Replacement	\$	218
Sahalee Dr. West Water Main Replacement	\$	218
Total	\$	68,858

These construction projects are funded by District reserves and bond proceeds.

NOTE 5 - LONG-TERM DEBT

The district issues revenue bonds to finance capital projects.

During the year ended December 31, 2016, the following changes occurred in long-term liabilities.

	Beginning Outstanding Debt 1/1/2016	Amount Increased	Amount Decreased	Ending Outstanding Debt 12/31/2016	Due Within One-Year
<u>Revenue Bonds</u>					
2005 Sewer and Water Revenue Bonds	\$ 439,937	\$ -	\$439,937	\$ -	\$ -
2007 Sewer and Water Revenue Bonds	\$2,189,599	\$ -	\$2,189,599	\$ -	\$ -
2011 Sewer and Water Revenue Bonds	\$1,252,921	\$ -	\$1,058,908	\$194,013	\$61,376
2016 Sewer and Water Revenue Bonds	\$ -	\$6,728,023	\$8,225	\$6,719,798	\$232,901
Total Bonds	\$3,882,457	\$6,728,023	\$3,696,669	\$6,913,811	\$294,277

Public Works Trust Funds**Loans**

Lift Station 3 Replacement Loan #2	\$203,227	\$ -	\$67,743	\$135,484	\$67,743
Lift Station 3 Replacement Loan #3	\$719,684	\$ -	\$119,947	\$599,737	\$119,948
Well 3/4 Treatment Plant and Storage	\$2,332,394	\$ -	\$233,239	\$2,099,155	\$233,239
Total Loans	\$3,255,305	\$ -	\$420,929	\$2,834,376	\$420,930

<u>Compensated Absences</u>	\$31,557	\$ 4,416		\$35,973	
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<u>Net Pension Liability</u>	\$562,674	\$ 109,057	\$ -	\$671,731	
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Total Long-Term Liabilities	\$7,731,993	\$6,841,496	\$4,117,598	\$10,455,891	\$715,207
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In 2016, the District issued \$6,070,000 in revenue and refunding bonds. \$3,385,000 in existing bonds were refunded. A portion of the proceeds was used to purchase U.S. Government and State and Local Government Series securities that were placed in an irrevocable trust for the purpose of generating resources for all future debt service payments on the refunded debt. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the statement of net position. The advance refunding was undertaken to reduce total debt service payments and resulted in an economic gain of \$354,937. The remaining proceeds will be used for capital improvements.

Bonds are presented net of premium or discount. Annual interest expense is decreased by amortization of debt premium.

The annual debt service requirements to maturity for revenue bond debt outstanding as of December 31, 2016, including interest, are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	260,000	228,895	488,895
2018	285,000	199,250	484,250
2019	290,000	192,575	482,575
2020	300,000	185,475	485,475
2021	310,000	176,475	486,475
2022-26	1,640,000	719,075	2,359,075
2027-31	1,650,000	427,125	2,077,125
2032- 35	1,525,000	135,800	1,660,800

There is \$488,703 in restricted assets for reserve requirements as contained in the various indentures. A rate stabilization account was authorized by Resolution No. 3426 in 2006. The rate stabilization account is to help alleviate the need for short-term rate adjustments. The District may make payments into the rate stabilization account from the maintenance funds at any time. Money in the rate stabilization account may be withdrawn at any time and used for the purposes for which the gross revenue of the system may be used. There is \$300,000 in the fund.

The District is required to maintain gross revenues of at least 1.25 of annual debt service. There are a number of other limitations and restrictions contained in the various bond indentures. The District is in compliance with all significant limitations and restrictions.

In 1998 the District entered into a Public Works Trust Fund Loan with the Washington State Department of Community, Trade and Economic Development. The District entered into additional loans in 2001 and 2005. The loan purposes and amounts are as listed below:

Replacement of Lift Station 3 (1998)	\$1,249,000
Replacement of Lift Station 3 (2001)	\$2,279,000
Wells 3 and 4 Treatment Plant and Storage (2005)	<u>\$4,154,970</u>
Total Loans	\$7,682,970

As of December 31, 2016, principal payments had reduced the total amount of loans outstanding to \$2,834,376. The interest rate on the Lift Station 3 (1998) loan is one percent. The interest rate on the 2001 Lift Station 3 Loan and the Well 3 and 4 Treatment Plant and Storage loan (2005) is half a percent. The loan repayment period is 20 years.

The estimated annual requirements to repay the above described loans are as follows:

<u>Years ending December 31:</u>			
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	420,930	14,849	435,779
2018	420,930	11,729	432,659
2019	353,187	9,963	363,150
2020	353,187	8,197	361,384
2021	353,187	6,431	359,618
2022-2025	932,957	11,662	944,619

NOTE 6 - Pension Plans

The following table represents the aggregate pension amounts for all plans subject to the requirements of the GASB Statement 68, *Accounting and Financial Reporting for Pensions* for the year 2016:

Aggregate Pension Amounts – All Plans	
Pension liabilities	\$ 671,731
Pension assets	\$
Deferred outflows of resources	\$ 115,832
Deferred inflows of resources	\$ 16,665
Pension expense/expenditures	\$ 63,677

State Sponsored Pension Plans

Substantially all 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. The PERS Plan 1 required contribution rates (expressed as a percentage of covered payroll) for 2016 were as follows:

PERS Plan 1		
Actual Contribution Rates:	Employer	Employee*
PERS Plan 1	6.23%	6.00%
PERS Plan 1 UAAL	4.77%	6.00%
Administrative Fee	0.18%	
Total	11.18%	6.00%

* For employees participating in JBM, the contribution rate was 12.26%.

PERS Plan 2/3 provides retirement, disability and death benefits. Retirement benefits are determined as two percent of the member's average final compensation (AFC) times the member's years of service for Plan 2 and 1 percent of AFC for Plan 3. The AFC is the average of the member's 60 highest-paid consecutive service months. There is no cap on years of service credit. Members are eligible for retirement with a full benefit at 65 with at least five years of service credit. Retirement before age 65 is considered an early retirement. PERS Plan 2/3 members who have at least 20 years of service credit and are 55 years of age or older, are eligible for early retirement with a benefit that is reduced by a factor that varies according to age for each year before age 65. PERS Plan 2/3 members who have 30 or more years of service credit and are at least 55 years old can retire under one of two provisions:

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

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

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

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

Contributions

The **PERS Plan 2/3** employer and employee contribution rates are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. The Plan 2/3 employer rates include a component to address the PERS Plan 1 UAAL and an administrative expense that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 2 employer and employee contribution rates and Plan 3 contribution rates. The PERS Plan 2/3 required contribution rates (expressed as a percentage of covered payroll) for 2016 were as follows:

PERS Plan 2/3		
Actual Contribution Rates:	Employer 2/3	Employee 2*
PERS Plan 2/3	6.23%	6.12%
PERS Plan 1 UAAL	4.77%	
Administrative Fee	0.18%	
Employee PERS Plan 3		varies
Total	11.18%	6.12%

* For employees participating in JBM, the contribution rate was 15.30%.

The District's actual PERS plan contributions were \$33,803 to PERS Plan 1 and \$44,149 to PERS Plan 2/3 for the year ended December 31, 2016.

Actuarial Assumptions

The total pension liability (TPL) for each of the DRS plans was determined using the most recent actuarial valuation completed in 2016 with a valuation date of June 30, 2015. 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 2015 actuarial valuation report. The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2016. Plan liabilities were rolled forward from June 30, 2015, to June 30, 2016, reflecting each plan's normal cost (using the entry-age cost method), assumed interest and actual benefit payments.

- **Inflation:** 3.0% total economic inflation; 3.75% salary inflation
- **Salary increases:** In addition to the base 3.75% salary inflation assumption, salaries are also expected to grow by promotions and longevity.
- **Investment rate of return:** 7.5%

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

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

- For all systems, except LEOFF Plan 2, the assumed valuation interest rate was lowered from 7.8% to 7.7%. Assumed administrative factors were updated.
- Valuation software was corrected on how the nonduty disability benefits for LEOFF Plan 2 active members is calculated.
- New LEOFF Plan 2 benefit definitions were added within the OSA valuation software to model legislation signed into law during the 2015 legislative session.

Discount Rate

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

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

Long-Term Expected Rate of Return

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

Estimated Rates of Return by Asset Class

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2016, are summarized in the table below. The inflation component used to create the table is 2.2 percent and represents the WSIB's most recent long-term estimate of broad economic inflation.

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

Sensitivity of the Net Pension Liability/(Asset)

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

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
PERS 1	\$ 367,786	\$ 304,989	\$ 250,948
PERS 2/3	\$ 675,241	\$ 366,744	\$ (190,011)

Pension Plan Fiduciary Net Position

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

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

At June 30, 2016, the district reported a total pension liability of \$671,731 for its proportionate share of the net pension liabilities as follows:

	Liability (or Asset)
PERS 1	\$ 304,987
PERS 2/3	\$ 366,744

At June 30, the (city/county/district's) proportionate share of the collective net pension liabilities was as follows:

	Proportionate Share 6/30/15	Proportionate Share 6/30/16	Change in Proportion
PERS 1	.005715%	.005679%	(.000036)%
PERS 2/3	.007381%	.007284%	(.000097)%

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* for all plans except LEOFF 1.

The collective net pension liability (asset) was measured as of June 30, 2016, and the actuarial valuation date on which the total pension liability (asset) is based was as of June 30, 2015, with update procedures used to roll forward the total pension liability to the measurement date.

Pension Expense

For the year ended December 31, 2016, the district recognized pension expense as follows:

	Pension Expense
PERS 1	\$ 14,209
PERS 2/3	\$ 49,468

Deferred Outflows of Resources and Deferred Inflows of Resources

At December 31, 2016, the (city/county/district) reported deferred outflows of resources and deferred inflows of resources related to pensions from the following :

PERS 1	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$	\$
Net difference between projected and actual investment earnings on pension plan investments	\$ 7,679	\$
Changes of assumptions	\$	\$
Changes in proportion and differences between contributions and proportionate share of contributions	\$	\$
Contributions subsequent to the measurement date	\$ 17,326	\$
TOTAL	\$ 25,005	\$

PERS 2/3	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 19,529	\$ 12,105
Net difference between projected and actual investment earnings on pension plan investments	\$ 44,878	\$
Changes of assumptions	\$ 3,791	\$
Changes in proportion and differences between contributions and proportionate share of contributions	\$	\$ 4,560
Contributions subsequent to the measurement date	\$ 22,630	\$
TOTAL	\$ 90,827	\$16,665

Deferred outflows of resources related to pensions resulting from the district's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2017. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31:	PERS 1
2017	\$ (1,891)
2018	\$ (1,891)
2019	\$ 7,052
2020	\$ 4,408
2021	\$
Thereafter	\$

Year ended December 31:	PERS 2
2017	\$ (1,328)
2018	\$ (1,328)
2019	\$ 33,109
2020	\$ 21,079
2021	\$
Thereafter	\$

NOTE 7 – Risk Management

The Northeast Sammamish Sewer and Water 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 62 members. The Pool's fiscal year is November 1st through October 31st.

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

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

TYPE OF COVERAGE	MEMBER DEDUCTIBLE	SELF-INSURED RETENTION/GR OUP	EXCESS LIMITS
Property Loss:			
Buildings and Contents	\$1,000 - \$25,000 and See (C) below	\$25,000	\$1,000,000,000
Flood	See (A) below	See (A) below	\$50,000,000
Earthquake	See (B) below	See (B) below	\$110,000,000 (\$75,000,000 shared by all members, \$25,000,000 dedicated to Alderwood, \$5,000,000 dedicated to Sammamish Plateau, and \$5,000,000 dedicated

			to Cascade Water Alliance)
Terrorism	\$1,000 - \$25,000	\$25,000 Primary layer	\$100,000,000 Primary layer
Boiler & Machinery	\$1,000 - \$350,000 depending on object	\$25,000 - \$350,000 depending on object	\$100,000,000
Auto - Physical Damage	\$1,000-\$25,000	\$25,000	\$10,000,000
Liability:			
Commercial General Liability	\$1,000 - \$25,000	\$200,000	\$10,000,000
Auto Liability	\$1,000 - \$25,000	\$200,000	\$10,000,000
Public Officials Errors and Omissions	\$1,000 - \$25,000	\$200,000	\$10,000,000
Employment Practices	\$1,000 - \$25,000	\$200,000	\$10,000,000
Other:			
Public Officials Bonds	Various	N/A	Various
Crime	\$1,000 - \$25,000	\$25,000	\$2,000,000
Identity Fraud	\$0	\$0	\$25,000
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. The deductible will apply per occurrence on a per unit basis, as defined in the policy form, subject to the stated minimum.			
C. Member deductible for Cyber liability is \$100,000 and where applicable the dollar amount of the business interruption loss during the policy's required 8 hour waiting period			

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

Upon joining, the members contract to remain in the Pool for one full policy period. Following completion of one full policy period, members must give six months notice before terminating participation (e.g. to withdraw from the Pool on November 1, 2017, written notice must be in possession of the Pool by April 30, 2017). 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.

NORTHEAST SAMMAMISH SEWER AND WATER DISTRICT

Schedule of Proportionate Share of the Net Pension Liability

PERS 1

As of June 30, 2016

Last 10 Fiscal Years *

	<u>2015</u>	<u>2016</u>	<u>20XX</u>	<u>20XX</u>	<u>20XX</u>	<u>20XX</u>	<u>20XX</u>	<u>20XX</u>	<u>20XX</u>
Employer's proportion of the net pension liability (asset)	0.005715%	0.005679%							
Employer's proportionate share of the net pension liability	\$ 298,948	\$ 304,989							
Employer's covered employee payroll	672,149	708,648							
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	44.48%	43.04%							
Plan fiduciary net position as a percentage of the total pension liability	59.10%	57.03%							

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

NORTHEAST SAMMAMISH SEWER AND WATER DISTRICT

Schedule of Proportionate Share of the Net Pension Liability

PERS 2/3

As of June 30, 2016

Last 10 Fiscal Years*

	<u>2015</u>	<u>2016</u>	<u>20XX</u>	<u>20XX</u>	<u>20XX</u>	<u>20XX</u>	<u>20XX</u>	<u>20XX</u>
Employer's proportion of the net pension liability (asset) %	0.007381%	0.007284%						
Employer's proportionate share of the net pension liability \$	263,727	366,744						
Employer's covered employee payroll \$	672,149	708,648						
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll %	39.24%	51.75%						
of the total pension liability %	89.20%	85.82%						

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

NORTHEAST SAMMAMISH SEWER AND WATER DISTRICT

Schedule of Employer Contributions

PERS 1

As of December 31, 2016

Last 10 Fiscal Years*

	<u>2015</u>	<u>2016</u>	<u>20XX</u>	<u>20XX</u>	<u>20XX</u>	<u>20XX</u>	<u>20XX</u>	<u>20XX</u>
Statutorily or contractually required contributions	\$ 28,752	\$ 33,803						
Contributions in relation to the statutorily or contractually required contributions	\$ (28,752)	\$ (33,803)						
Contribution deficiency (excess)	\$ -	\$ -						
Covered employer payroll	\$ 672,149	\$ 708,648						
Contributions as a percentage of covered employee payroll	4.28%	4.77%						

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

NORTHEAST SAMMAMISH SEWER AND WATER DISTRICT

Schedule of Employer Contributions

PERS 2/3

As of December 31, 2016

Last 10 Fiscal Years*

	<u>2015</u>	<u>2016</u>	<u>20XX</u>	<u>20XX</u>	<u>20XX</u>	<u>20XX</u>	<u>20XX</u>	<u>20XX</u>	<u>20XX</u>
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Statutorily or contractually required contributions	\$	36,910	\$	44,149					
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Contributions in relation to the statutorily or contractually required contributions	\$	(36,910)	\$	(44,149)					
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Contribution deficiency (excess)	\$	-	\$	-					
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Covered employer payroll	\$	672,149	\$	708,648					
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Contributions as a percentage of covered employee payroll		5.49%		6.23%					
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* Until a full 10-year trend is compiled, 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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