Office of the Washington State Auditor
Pat McCarthy

Financial Statements Audit Report

# Douglas County Sewer District No. 1

For the period January 1, 2015 through December 31, 2016

Published April 19, 2018

Report No. 1021110

# Office of the Washington State Auditor
# Pat McCarthy

April 19, 2018

Board of Commissioners
Douglas County Sewer District No. 1
East Wenatchee, Washington

## Report on Financial Statements

Please find attached our report on Douglas County Sewer District No. 1’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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**Douglas County Sewer District No. 1**
**Douglas County**
**January 1, 2015 through December 31, 2016**

Board of Commissioners
Douglas County Sewer District No. 1
East Wenatchee, 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 Douglas County Sewer District No. 1, Washington, as of and for the years ended December 31, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated March 23, 2018. As discussed in Note 1 to the financial statements, during the year ended December 31, 2015, the District implemented Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*.

## INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

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

In addition, we noted certain matters that we have reported to the management of the District in a separate letter dated March 28, 2018.

## 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

March 23, 2018

# INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

**Douglas County Sewer District No. 1**
**January 1, 2015 through December 31, 2016**

Board of Commissioners
Douglas County Sewer District No. 1
East Wenatchee, Washington

## REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of Douglas County Sewer District No. 1, Washington, as of and for the years ended December 31, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed on page 10.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

## Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Douglas County Sewer District No. 1, as of December 31, 2016 and 2015, and the changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## Matters of Emphasis

As discussed in Note 1 to the financial statements, in 2015, the District adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*. Our opinion is not modified with respect to this matter.

## Other Matters

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplementary information listed on page 10 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 March 23, 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.

Pat McCarthy

State Auditor

Olympia, WA

March 23, 2018

# FINANCIAL SECTION

**Douglas County Sewer District No. 1**
**January 1, 2015 through December 31, 2016**

## REQUIRED SUPPLEMENTARY INFORMATION



## BASIC FINANCIAL STATEMENTS



## REQUIRED SUPPLEMENTARY INFORMATION

# Douglas County Sewer District No. 1
## MANAGEMENT'S DISCUSSION AND ANALYSIS
### For the Year Ended December 31, 2016

The mission of the Board of Commissioners and the Employees of the Douglas County Sewer District is to provide efficient, effective and timely wastewater collection and treatment and excellent customer service while effectively managing the District's infrastructure in order to maintain a reliable wastewater collection and treatment system for today's, as well as tomorrow's, customers.

The following statements report the net position of the District, and changes to them. Analysis of the District's net position - the difference between assets and liabilities - is a way to measure financial health or financial position. Over time, increases or decreases in the District's net position are one indicator of whether the financial health of the District is improving or deteriorating. However, you will need to also consider other non-financial factors such as changes in economic conditions, customer growth, and legislative mandates.

**DISCUSSION OF FINANCIAL STATEMENTS**

The District's basic financial statements consist of the following:

1 Management's Discussion and Analysis
2 Financial Statements
3 Notes to Financial Statements
4 Required Supplemental Schedules

The District is a single enterprise fund providing wastewater collection and treatment services. The financial statements of the District report information about the District using accounting methods similar to those used by private sector companies, reflecting short- and long-term financial information about its activities.

The financial statements include a Statement of Net Position; Statement of Revenues, Expenses and Changes in Net Position; Statement of Cash Flows; and Notes to the Financial Statements.

The Statement of Net Position provides a record, or snap shot, of the assets and deferred outflows; and liabilities and deffered inflows of the District at the close of the year. It provides information about the nature and amounts invested in resources (assets) and the obligations to District creditors (liabilities), and provides the basis for evaluating the capital structure, and assessing the liquidity and financial flexibility, of the District.

The Statement of Revenues, Expenses and Changes in Net Position presents the results of business activities over the course of the year. The information is used to determine whether the District has successfully recovered all of the costs through its user fees and charges, profitability and credit worthiness.

The Cash Flow Statement 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 was generated and what is was used for.

The Notes to the Financial Statements and Required Supplemental Schedules 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.

### CONDENSED STATEMENT OF NET POSITION AT DECEMBER 31

| | 12/31/2016 | 12/31/2015 | Difference | Percentage of Change |
|---|---|---|---|---|
| CURRENT AND OTHER ASSETS | $ 12,174,949 | $ 10,494,361 | $ 1,680,587 | 16.01% |
| CAPITAL ASSETS, NET | $ 37,667,035 | $ 35,256,582 | $ 2,410,453 | 6.84% |
| DEFERRED OUTFLOWS | $ 156,902 | $ 67,185 | $ 89,717 | 133.54% |
| TOTAL ASSETS & DEFERRED OUTFLOWS | $ 49,998,885 | $ 45,818,128 | $ 4,180,757 | 9.12% |
| | | | | |
| TOTAL LIABILITIES | $ 17,243,482 | $ 13,695,118 | $ 3,548,364 | 25.91% |
| DEFERRED INFLOWS | $ 13,001 | $ 80,428 | $ (67,427) | -83.84% |
| TOTAL LIABILITIES & DEFERRED INFLOWS | $ 17,256,483 | $ 13,775,546 | $ 3,480,937 | 25.27% |
| | | | | |
| NET INVESTMENT IN CAPITAL ASSETS | $ 23,022,888 | $ 22,644,072 | $ 378,816 | 1.67% |
| RESTRICTED | $ 4,266,577 | $ 1,925,187 | $ 2,341,390 | 121.62% |
| UNRESTRICTED | $ 5,452,938 | $ 7,473,323 | $ (2,020,385) | -27.03% |
| TOTAL NET POSITION | $ 32,742,402 | $ 32,042,582 | $ 699,820 | 2.18% |

## Douglas County Sewer District No. 1
## MANAGEMENT'S DISCUSSION AND ANALYSIS
### For the Year Ended December 31, 2016

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

| | 12/31/2016 | 12/31/2015 | Difference | Percentage of |
|---|---|---|---|---|
| OPERATING REVENUE | $ 4,109,972 | $ 4,186,996 | $ (77,024) | -1.84% |
| NON-OPERATING REVENUE | $ 35,689 | $ 2,361 | $ 33,328 | 1411.66% |
| ULID ASSESSMENTS | | | | |
| INTEREST EARNED | $ 51,651 | $ 20,782 | $ 30,870 | 148.54% |
| TOTAL REVENUE | $ 4,197,312 | $ 4,210,139 | $ (12,826) | -0.30% |
| PLANT OPERATIONS | $ 2,031,148 | $ 1,940,849 | $ 90,300 | 4.65% |
| MAINTENANCE | $ 90,844 | $ 137,030 | $ (46,186) | -33.71% |
| DEPRECIATION | $ 1,232,022 | $ 1,215,190 | $ 16,832 | 1.39% |
| INTEREST EXPENSES | $ 619,525 | $ 447,157 | $ 172,367 | 38.55% |
| LOSS ON INVESTMENTS REALIZED | $ 43,265 | | $ 43,265 | |
| TOTAL EXPENSES | $ 4,016,804 | $ 3,740,226 | $ 276,578 | 7.39% |
| INCOME BEFORE CAPITAL CONTRIBUTIONS AND EXTRAORDINARY ITEMS | $ 180,508 | $ 469,912 | $ (289,404) | -61.59% |
| CAPITAL CONTRIBUTIONS | $ 519,313 | $ 610,633 | $ (91,320) | -14.95% |
| INCOME (LOSS) BEFORE EXTRAORDINARY ITEMS | $ 699,821 | $ 1,080,546 | $ (380,724) | -35.23% |
| EXTRAORDINARY ITEMS | | | | |
| CHANGE IN NET POSITION | $ 699,821 | $ 1,080,546 | $ (380,724) | -35.23% |
| BEGINNING NET POSITION | $ 32,042,583 | $ 31,516,882 | $ 525,701 | 1.67% |
| APPLICATION OF NEW ACCOUNTING-GASB | $ - | $ (554,845) | $ 554,845 | |
| ENDING NET POSITION | $ 32,742,404 | $ 32,042,583 | $ 699,822 | 2.18% |

**OVERALL ANALYSIS OF FINANCIAL POSITION AND RESULT OF OPERATIONS**

The District's financial position continues to strengthen and improve over the year ended December 31, 2016.

Total assets and deferred outflows increased by $4,180,758 or 9.124% ($45,818,128 for 2015 vs. $49,998,885 for 2016). Net Capital Assets increased by $2,410,454 or 6.84% ($35,256,582 for 2015 vs. $37,667,035 for 2016) including land, plant and buildings, collections system, vehicles and construction in progress.

Total net position increased by $699,821 or 2.184% ($32,042,582 for 2015 vs. $32,742,402 for 2016). This increase is due to Developer Contributed Line/Contributions in Aid of Construction of $519,314, and increased cash balances due to bond proceeds. Effective in 2015, new accounting procedures include adjusting net position to account for pension liability and deferred pension inflows and outflows.

Total liabilities and deferred inflows increased by $3,480,938 or 25.27% ($13,775,546 for 2015 vs. $17,256,483 for 2016). This is largely due to new money bond proceeds of $4,200,000.

## Douglas County Sewer District No. 1
## MANAGEMENT'S DISCUSSION AND ANALYSIS
### For the Year Ended December 31, 2016

Operating revenues decreased by -$77,023 or -1.84% ($4,186,996 for 2015 vs. $4,109,972 for 2016). The sewer service component of operating revenues increased by 9.74% ($339,995) over 2015 due to the implementation of a multi-year rate increase schedule adopted in June of 2015. Effective on October 1, 2016, sewer rates increased by 7.575% from $33.00 per Equivalent Residential Unit (ERU) to $35.50 per ERU. The General Facilities Charge (Connection Fee) component of operating revenues decreased by 60.2% ($397,047) over 2015. Effective on October 1, 2015, the connection fee per ERU increased from $2,642 to $5,448. Developers with Developer Extension Agreements in place prior to October 1, 2015, were allowed to prepay connection fees for connections anticipated to occur within 365 days at the rate of $2,642, which resulted in increased connection fee income in 2015 of approximately $70,000. Approximately $30,000 of connection fee income was refunded in 2016 for permits that didn't result in connection to the sewer system within one year. When the parcels associated with the refunded permits subsequently connected after October 1, 2015, they were paid at the new, increased rate of $5,448 in place at the time of connection.

Operating expenses increased by $60,948 or 1.85% ($3,293,067 for 2015 vs. $3,354,015 for 2016), made up largely from an increase in Pension Expense. Additional increases over 2015 for audit and chemical costs, excise tax, and salaries and benefits were offset by decreases in engineering services, and repair and maintenance.

### CAPITAL ASSETS AND LONG-TERM DEBT

The following table summarized the District's capital assets, net of accumulated depreciation for the years ended

**NET CAPITAL ASSETS**

| | 12/31/2016 | 12/31/2015 | Difference | Percentage of Change |
|---|---|---|---|---|
| NET CAPITAL ASSETS: | | | | |
| LAND | $ 75,731 | $ 75,731 | $ - | 0.00% |
| COLLECTION SYSTEM | $ 17,843,200 | $ 15,027,188 | $ 2,816,012 | 18.74% |
| PLANT BUILDINGS & STRUCTURES | $ 19,098,418 | $ 19,053,984 | $ 44,434 | 0.23% |
| MACHINERY & EQUIPMENT | $ 377,909 | $ 431,282 | $ (53,373) | -12.38% |
| CONSTRUCTION IN PROGRESS | $ 271,776 | $ 668,395 | $ (396,619) | -59.34% |
| TOTAL CAPITAL ASSETS, NET | $ 37,667,035 | $ 35,256,582 | $ 2,410,453 | 6.84% |

Major additions for 2016 include:

| | |
|---|---|
| Kentucky View Lift Station & 4th St Extension | $ 2,405,346 |
| Headworks Screens & Non-pot Improvements | $ 600,736 |
| Painting Clarifiers Project | $ 309,546 |
| Developer Contributed Lines | $ 519,313 |
| Clearwater Alley Sewer Main Replacement | $ 155,025 |
| 4th Street SE Oversize (Maryhill Estates) | $ 31,666 |
| Total | $ 4,021,632 |

## Douglas County Sewer District No. 1
## MANAGEMENT'S DISCUSSION AND ANALYSIS
### For the Year Ended December 31, 2016

The District's 2017 Capital Budget plans for investment of $3,232,069 to the following projects:

| | | | |
|---|---|---|---|
| Collection | Kentucky View Lift Station & Extension | $ | 175,500 |
| | N Baker Avenue Extension | $ | 550,000 |
| | Highline Drive Sewer Extension | $ | 250,000 |
| | 8th Street SE Sewer Extension | $ | 698,000 |
| | Batterman Lift Station Upgrade | $ | 260,000 |
| | DOT North End Easement | $ | 305,000 |
| | Misc. Collection System Construction & Replacement | $ | 200,000 |
| Treatment | Painting Clarifiers Project | $ | 12,569 |
| | Headworks Screening/Non-potable Water System Improvements | $ | 15,000 |
| | Rebuild Recycle Pumps | $ | 15,000 |
| | UV System Bulb/Sleeve Expansion | $ | 12,000 |
| | Clarifier Drive Replacement | $ | 97,000 |
| | WWTP & Admin Workstation, Software & Setup | $ | 42,000 |
| | Headworks Building Roof / Venting Repairs | $ | 300,000 |
| | Misc. Treatment Plant Construction / Replacement | $ | 300,000 |
| | | $ | 3,232,069 |

As of December 31, 2016, the District has the following principal debt balances:

| | | |
|---|---|---|
| Revenue Bonds | $ | 14,155,000 |
| Public Works Trust Fund Loans | $ | 36,000 |
| | $ | 14,191,000 |

This excludes the pass-through PWTF loans for the Douglas County Port District in the amount of $610,049. In all, debt totals $14,801,049. Debt repayment schedules go out to 2035. The increase over the prior year is due to a refunding of a portion of the 2006 bond, the 2008 bond in full, and new bond proceeds of $4,200,000.

Refer to the **Notes to the Financial Statements** for more detail.

### OTHER POTENTIALLY SIGNIFICANT MATTERS

The District completed a formal rate study in 2015. Rate study recommendations were adopted in June of 2015 became effective on October 1, 2015. Objectives of the study were to plan for anticipated capital needs, evaluate multiple bond coverage scenarios to determine an appropriate balance between protecting its bond rating through sufficient debt service coverage and maintaining affordable sewer service rates, and update the General Facilities Charges/Connection Fees for connection to the system. In addition, the study was based on criteria to maintain the District's cash reserves, begin to formally fund system reinvestment, and anticipate a need to enter the bond market in 2015 or 2016 for capital projects.

Based on the rate study recommendations, annual sewer rate increases in the amount of $2.50 per Equivalent Residential Unit are scheduled through 2020. General Facilities Charges were calculated on the Average Cost approach, which defines the connection charge as a pro rata share of existing and planned future capital investments, and increased from $2,642 to $5,448 per Equivalent Residential Unit.

## Douglas County Sewer District No. 1
## MANAGEMENT'S DISCUSSION AND ANALYSIS
### For the Year Ended December 31, 2016

The District entered the bond market in May of 2016 to secure funding for the Kentucky View Lift Station and Extension Project and the N. Baker Avenue Extension Project in 2016, as well as other, smaller capital projects included in the Capital Improvement Plan for an approximate $4.2 million dollars. The District also refunded the 2008 bond and a portion of the 2006 bond in the amount of $8,565,000. The refunding resulted in savings of approximately $100,000 in annual debt repayment costs. Cumulative savings over the 10 year term of the refunding portion of the debt is $1,022,000, net of issuance costs. The overall interest rate achieved for both the refinancing and the new funds was 2.418%.

Construction of new housing developments is strong locally, and the District anticipates increased connection fee revenue over 2016 (58 permits totaling $262,482 for 2016, 71 permits totaling $390,358 budgeted for 2017) due to a locally tight, high-demand housing market, a local rental vacancy rate of less than 2%, and the increase in the connection fee per ERU implemented in October 2015. Active Developer Extension Agreements currently provide approximately 150 lots for residential, mostly single-family, development. Developer interest in additional, future developments is strong.

As the District treatment plant and collection system infrastructure continue to age and wear, the District anticipates increased costs of plant and line maintenance and/or replacement in the future. System condition and analysis is continuing as part of the on-going General Sewer Plan Update scheduled to be concluded by the end of 2017.

The Wastewater Treatment Plant has a rated capacity of 2.6 million gallons per day (mgd) and will be adequate for years to come, based on the current demand of 1.43 mgd.

### CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the District's ratepayers and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Finance Officer at the Douglas County Sewer District, 692 Eastmont Avenue, East Wenatchee, WA 98802.

# Douglas County Sewer District No. 1
## MANAGEMENT'S DISCUSSION AND ANALYSIS
### For the Year Ended December 31, 2015

The mission of the Board of Commissioners and the Employees of the Douglas County Sewer District is to provide efficient, effective and timely wastewater collection and treatment and excellent customer service while effectively managing the District's infrastructure in order to maintain a reliable wastewater collection and treatment system for today's, as well as tomorrow's, customers.

The following statements report the net position of the District, and changes to them. Analysis of the District's net position - the difference between assets and liabilities - is a way to measure financial health or financial position. Over time, increases or decreases in the District's net position are one indicator of whether financial health is improving or deteriorating. However, you will need to also consider other non-financial factors such as changes in economic conditions, customer growth, and legislative mandates.

**DISCUSSION OF FINANCIAL STATEMENTS**

The District's basic financial statements consist of the following:

1 Management's Discussion and Analysis
2 Financial Statements
3 Notes to Financial Statements
4 Required Supplemental Schedules

The District is a single, enterprise fund providing wastewater collection and treatment services. The financial statements of the District report information about the District using accounting methods similar to those used by private sector companies, reflecting short- and long-term financial information about its activities.

The financial statements include a Statement of Net Position; Statement of Revenues, Expenses and Changes in Net Position; Statement of Cash Flows; and Notes to the Financial Statements.

The Statement of Net Position provides a record, or snap shot, of the assets and deferred outflows; and liabilities and deffered inflows of the District at the close of the year. It provides information about the nature and amounts invested in resources (assets) and the obligations to District creditors (liabilities), and provides the basis for evaluating the capital structure, and assessing the liquidity and financial flexibility, of the District.

The Statement of Revenues, Expenses and Changes in Net Position presents the results of business activities over the course of the year. The information is used to determine whether the District has successfully recovered all of the costs through its user fees and charges, profitability and credit worthiness.

The Cash Flow Statement 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 was generated and what is was used for.

The Notes to the Financial Statements and Required Supplemental Schedules 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.

## Douglas County Sewer District No. 1
## MANAGEMENT'S DISCUSSION AND ANALYSIS
### For the Year Ended December 31, 2015

**CONSENSED STATEMENT OF NET POSITION AT DECEMBER 31**

| | 12/31/2015 | 12/31/2014 | Difference | Percentage of Change |
|---|---|---|---|---|
| CURRENT AND OTHER ASSETS | $ 10,494,361 | $ 10,454,965 | $ 39,396 | 0.38% |
| CAPITAL ASSETS, NET | $ 35,256,582 | $ 35,246,032 | $ 10,550 | 0.03% |
| DEFERRED OUTFLOWS | $ 67,185 | | $ 67,185 | |
| TOTAL ASSETS & DEFERRED OUTFLOWS | $ 45,818,128 | $ 45,700,997 | $ 117,131 | 0.26% |
| | | | | |
| TOTAL LIABILITIES | $ 13,695,118 | $ 14,184,116 | $ (488,998) | -3.45% |
| DEFERRED INFLOWS | $ 80,428 | | $ 80,428 | |
| TOTAL LIABILITIES & DEFERRED INFLOWS | $ 13,775,546 | $ 14,184,116 | $ (408,570) | -2.88% |
| | | | | |
| NET INVESTMENT IN CAPITAL ASSETS | $ 22,644,072 | $ 21,619,692 | $ 1,024,380 | 4.74% |
| RESTRICTED | $ 1,925,187 | $ 723,065 | $ 1,202,122 | 166.25% |
| UNRESTRICTED | $ 7,473,323 | $ 9,174,123 | $ (1,700,800) | -18.54% |
| TOTAL NET POSITION | $ 32,042,582 | $ 31,516,880 | $ 525,702 | 1.67% |

NOTE: Deferred Outflows and Deferred Inflows were added for 2015 per GASB Statement 68, but amounts for 2014 have not been restated to reflect these changes.

## Douglas County Sewer District No. 1
## MANAGEMENT'S DISCUSSION AND ANALYSIS
### For the Year Ended December 31, 2015

### CONDENSED STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION FOR THE YEAR ENDED

| | 12/31/2015 | 12/31/2014 | Difference | Percentage of Change |
|---|---|---|---|---|
| OPERATING REVENUE | $ 4,186,996 | $ 3,747,369 | $ 439,627 | 11.73% |
| NON-OPERATING REVENUE | $ 2,361 | $ 13,424 | $ (11,063) | -82.41% |
| ULID ASSESSMENTS | | | | |
| INTEREST EARNED | $ 20,782 | $ 16,353 | $ 4,428 | 27.08% |
| TOTAL REVENUE | $ 4,210,139 | $ 3,777,146 | $ 432,992 | 11.46% |
| PLANT OPERATIONS | $ 1,940,849 | $ 1,615,561 | $ 325,288 | 20.13% |
| MAINTENANCE | $ 137,030 | $ 108,016 | $ 29,014 | 26.86% |
| DEPRECIATION / AMORTIZATION | $ 1,215,190 | $ 1,188,603 | $ 26,587 | 2.24% |
| INTEREST EXPENSES | $ 447,157 | $ 483,668 | $ (36,511) | -7.55% |
| TOTAL EXPENSES | $ 3,740,226 | $ 3,395,848 | $ 344,378 | 10.14% |
| INCOME BEFORE CAPITAL CONTRIBUTIONS AND EXTRAORDINARY ITEMS | $ 469,912 | $ 381,298 | $ 88,614 | 23.24% |
| CAPITAL CONTRIBUTIONS | $ 610,633 | $ 251,592 | $ 359,042 | 142.71% |
| INCOME (LOSS) BEFORE EXTRAORDINARY ITEMS | $ 1,080,546 | $ 632,890 | $ 447,656 | 70.73% |
| EXTRAORDINARY ITEMS | | | | |
| CHANGE IN NET POSITION | $ 1,080,546 | $ 632,890 | $ 447,656 | 70.73% |
| BEGINNING NET POSITION | $ 31,516,882 | $ 30,883,992 | $ 632,890 | 2.05% |
| APPLICATION OF NEW ACCOUNTING-GASB | $ (554,845) | | $ (554,845) | |
| ENDING NET POSITION | $ 32,042,582 | $ 31,516,882 | $ 525,701 | 1.67% |

### OVERALL ANALYSIS OF FINANCIAL POSITION AND RESULT OF OPERATIONS

The District's financial position continues to be strong and stable for the year ended December 31, 2015.

Total assets and deferred outflows increased slightly by $117,131 or .26% ($45,700,997 for 2014 vs. $45,818,128 for 2015). Net Capital Assets increased by $10,550.33 or .03% ($35,246,032 for 2014 vs. $35,256,582 for 2015) including land, plant and buildings, collections system, vehicles and construction in progress.

Total net position increased by $525,703 or 1.67% ($31,516,880 for 2014 vs. $32,042,582 for 2015). This increase is due to Developer Contributed Line/Contributions in Aid of Construction of $610,634, increased cash balances, depreciation being greater than capital additions, debt service payments lowering bond and loan principle balances, and the implementation of GASB 68 requirements effective for 2015. The new accounting procedure implemented in 2015 includes adjusting net position to account for pension liability and deferred pension inflows and outflows.

Total liabilities and deferred inflows decreased by $408,569 or -2.88% ($14,184,116 for 2014 vs. $13,775,546 for 2015). This is largely due to debt service payments lowering bond and loan principal balances.

## Douglas County Sewer District No. 1
## MANAGEMENT'S DISCUSSION AND ANALYSIS
### For the Year Ended December 31, 2015

Operating revenues increased by $439,628 or 11.73% ($3,747,369 for 2014 vs. $4,186,996 for 2015). This is largely due to the implementation of sewer service rate and General Facilities Charge/Connection Fee increases adopted at the completion of a rate study. Sewer rates increased by 8% from $30.50 per Equivalent Residential Unit (ERU) to $33.00. Connection fees increased 86% from $2,642 per ERU to $5,448. New rates became effective on October 1, 2015 and resulted in a 3.82% increase in service revenue ($129,226) over 2014. Developers with Developer Extension Agreements in place were allowed to prepay connection fees for connections anticipated to happen in the next year before the rate increase, which contributed to a 83.4% increase in connection fee income ($299,636) over 2014.

Operating expenses increased by $388,914 or 13.39% ($2,904,154 for 2014 vs. $3,293,067 for 2015). This increase is partially due to increased maintenance and engineering costs, and the hiring of additional staff.

**CAPITAL ASSETS AND LONG-TERM DEBT**

The overall decrease in capital assets is due to depreciation being greater than capital additions.

The following table summarized the District's capital assets, net of accumulated depreciation for the years ended as shown.

**CAPITAL ASSETS, NET OF ACCUMULATED DEPRECIATION**

| | 12/31/2015 | 12/31/2014 | Difference | Percentage of Change |
|---|---|---|---|---|
| NET CAPITAL ASSETS: | | | | |
| LAND | $ 75,731 | $ 75,731 | $ - | 0.00% |
| COLLECTION SYSTEM | $ 15,027,188 | $ 14,593,012 | $ 434,176 | 2.98% |
| PLANT BUILDINGS & STRUCTURES | $ 19,053,984 | $ 19,948,805 | $ (894,820) | -4.49% |
| MACHINERY & EQUIPMENT | $ 431,282 | $ 327,500 | $ 103,782 | 31.69% |
| GENERAL COMP PLAN | $ - | $ 59,354 | $ (59,354) | -100.00% |
| CONSTRUCTION IN PROGRESS | $ 668,395 | $ 241,630 | $ 426,765 | 176.62% |
| TOTAL CAPITAL ASSETS, NET | $ 35,256,582 | $ 35,246,032 | $ 10,549 | 0.03% |

Major additions for 2015 include:

| | |
|---|---|
| Cascade Lift Station Improvements | $ 67,639 |
| Cues Camera Head & Track System | $ 52,104 |
| Badger Mt Road Sewer Line | $ 40,460 |
| Mixers and Dosing Pumps | $ 23,915 |
| Developer Contributed Lines | $ 610,633 |
| Total | $ 794,752 |

## Douglas County Sewer District No. 1
## MANAGEMENT'S DISCUSSION AND ANALYSIS
### For the Year Ended December 31, 2015

The District's 2016 Capital Budget plans for investment of $5,089,139 to the following projects:

| | | |
|---|---|---|
| Kentucky View Lift Station & Extension - Phase 1 | $ | 3,190,000 |
| N Baker Avenue Extension | $ | 622,155 |
| Clearwater Alley Sewer Line Replacement | $ | 75,000 |
| Painting Clarifier Project - Phase 2 | $ | 180,984 |
| Headworks Screening/Non-potable Water System Improvements | $ | 575,000 |
| Rebuild Recycle Pumps | $ | 15,000 |
| UV System Bulb/Sleeve Expansion | $ | 12,000 |
| Camera Transporter & Cable | $ | 20,000 |
| Dump Truck Bed Repair & Cover | $ | 10,000 |
| WWTP & Admin Workstation, Software & Setup | $ | 17,000 |
| Admin HVAC Unit Replacement | $ | 32,000 |
| DOT North End Easement | $ | 100,000 |
| WWTP Odor Evaluation - Ongoing | $ | 40,000 |
| Misc. Construction / Replacement | $ | 200,000 |
| | $ | 5,089,139 |

As of December 31, 2015, the District has the following principal debt balances:

| | | |
|---|---|---|
| Revenue Bonds | $ | 11,740,000 |
| Public Works Trust Fund Loans | $ | 240,378 |
| | $ | 11,980,378 |

This excludes the pass-through PWTF loans for the Douglas County Port District in the amount of 699,317. In all, debt totals $12,679,695. Debt repayment schedules go out to 2026. The decrease is due to debt service payments lowering bond and loan principle debt balances.

Refer to the **Notes to the Financial Statements** for more detail.

### OTHER POTENTIALLY SIGNIFICANT MATTERS

The District completed a formal rate study in 2015. Objectives of the study were to plan for anticipated capital needs, evaluate multiple bond coverage scenarios to determine an appropriate balance between protecting its bond rating through sufficient debt service coverage and maintaining affordable sewer service rates, and update the General Facilities Charges/Connection Fees for the system. In addition, the study was based on criteria to maintain the District's high cash reserves, begin to formally fund system reinvestment, and anticipate a need to enter the bond market in 2015 or 2016 for capital projects.

The District is planning to secure bond funding for the Kentucky View Lift Station and Expansion Project and the N. Baker Avenue Extension Project in 2016, as well as other, smaller capital projects included in the Capital Improvement Plan for an estimated $4.2 million dollars. The District anticipates a refunding of principal balances of existing bonds from 2006 and 2008 for an estimated annual interest savings of $40,000 - $60,000.

The rate study was formally adopted in June of 2015 and rate increases became effective on October 1, 2015. Annual sewer rate increases in the amount of $2.50 per Equivalent Residential Unit are scheduled through 2020. General Facilities Charges were calculated on the Average Cost approach, which defines the connection charge as a pro rata share of existing and planned future capital investments, and increased from $2,642 to $5,448 per Equivalent Residential Unit.

As the District treatment plant and collection system infrastructure continue to age and wear, the District anticipates increased costs of plant and line maintenance and/or replacement in the future. System condition and analysis is continuing as part of the on-going General Sewer Plan Update scheduled to be concluded by the end of 2016.

The Wastewater Treatment Plant has a rated capacity of 2.6 million gallons per day (mgd) and will be adequate for years to come, based on the current demand of 1.43 mgd.

## CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the District's ratepayers and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Finance Officer at the Douglas County Sewer District, 692 Eastmont Avenue, East Wenatchee, WA 98802.

## Douglas County Sewer District No. 1

### STATEMENT OF NET POSITION
### December 31, 2016

| | | |
|---|---|---|
| ASSETS | | |
| Current Assets: | | |
| Cash and Cash Equivalents | $ | 114,809 |
| Investments | | 5,904,038 |
| Short-Term Investments | | |
| Receivables (Net): | | |
| Service Revenue | | 344,923 |
| Restricted Assets: | | |
| Debt Service | | 1,974,908 |
| Construction Accounts | | 1,947,840 |
| Prepayments | | 75,806 |
| TOTAL CURRENT ASSETS | | 10,362,323 |
| | | |
| Noncurrent Assets: | | |
| Restricted Assets: | | |
| Bond Debt Service Reserve | | 51,824 |
| Bond Debt Service Reserve Long-Term Investments | | 292,004 |
| Unrestricted Long-Term Investments | | 843,213 |
| ULID Assessments | | 15,535 |
| Bond Issue Costs | | - |
| Loan Receivable - Port District PWTF | | 610,049 |
| Capital Assets Not Being Depreciated | | |
| Land | | 75,731 |
| Construction in Progress | | 271,776 |
| Capital Assets Being Depreciated | | |
| Plant | | 28,496,476 |
| Collection System | | 22,801,980 |
| Machinery & Equipment | | 1,143,324 |
| Less Accumulated Depreciation | | (15,122,252) |
| Total Capital Assets (Net) | | 37,667,035 |
| | | |
| TOTAL NONCURRENT ASSETS | | 39,479,660 |
| TOTAL ASSETS | $ | 49,841,983 |
| | | |
| DEFERRED OUTFLOWS OF RESOURCES | | |
| Deferred Outflows - Pension | | 156,902 |
| TOTAL DEFERRED OUTFLOWS OF RESOURCES | | 156,902 |

Notes to the Financial Statements are an integral part of this statement.

**Douglas County Sewer District No. 1**

**STATEMENT OF NET POSITION**
**December 31, 2016**

| | |
|---|---|
| LIABILITIES | |
| Current Liabilities: | |
| Accounts/Vouchers Payable | $ 154,838 |
| Payables from Restricted Assets: | |
| Bonds, Notes and Loans Payable | 1,167,268 |
| Accrued Interest | 203,988 |
| Developer Extension Deposits | 51,737 |
| TOTAL CURRENT LIABILITIES | 1,577,830 |
| | |
| Noncurrent Liabilities: | |
| Compensated Absences | 202,396 |
| PWTF Loan Payable | 18,000 |
| PWTF Loan Payable - Port District | 520,781 |
| Payables from Restricted Assets: | |
| Bonds, Notes and Loans Payable | 14,203,203 |
| Pension Liability | 721,271 |
| TOTAL NONCURRENT LIABILITIES | 15,665,652 |
| TOTAL LIABILITIES | 17,243,482 |
| | |
| DEFERRED INFLOWS OF RESOURCES | |
| Deferred Inflows - Pension | 13,001 |
| TOTAL DEFERRED INFLOWS OF RESOURCES | 13,001 |
| | |
| NET POSITION | |
| Net Investment in Capital Assets | 23,022,888 |
| Restricted - Bond | 1,974,908 |
| Restricted - Bond Reserve | 343,828 |
| Restricted - Construction II | 1,947,840 |
| Unrestricted | 5,452,938 |
| TOTAL NET POSITION | 32,742,402 |

Notes to the Financial Statements are an integral part of this statement.

## Douglas County Sewer District No. 1

### STATEMENT OF NET POSITION
### December 31, 2015

| | | |
|---|---|---|
| ASSETS | | |
| Current Assets: | | |
| Cash and Cash Equivalents | $ | 103,987 |
| Investments | | 7,331,327 |
| Short-Term Investments | | |
| Receivables (Net): | | |
| Service Revenue | | 329,908 |
| Restricted Assets: | | |
| Debt Service | | 1,426,363 |
| Construction Accounts | | - |
| Prepayments | | 79,667 |
| TOTAL CURRENT ASSETS | | 9,271,252 |
| | | |
| Noncurrent Assets: | | |
| Restricted Assets: | | |
| Debt Service Reserve | | 498,824 |
| Long-Term Investments | | - |
| ULID Assessments | | 24,968 |
| Bond Issue Costs | | - |
| Loan Receivable - Port District PWTF | | 699,317 |
| Capital Assets Not Being Depreciated | | |
| Land | | 75,731 |
| Construction in Progress | | 668,395 |
| Capital Assets Being Depreciated | | |
| Plant | | 27,586,194 |
| Collection System | | 19,690,630 |
| Machinery & Equipment | | 1,125,861 |
| Less Accumulated Depreciation | | (13,890,230) |
| Total Capital Assets (Net) | | 35,256,582 |
| | | |
| TOTAL NONCURRENT ASSETS | | 36,479,691 |
| TOTAL ASSETS | $ | 45,750,943 |
| | | |
| DEFERRED OUTFLOWS OF RESOURCES | | |
| Deferred Outflows - Pension | | 67,185 |
| TOTAL DEFERRED OUTFLOWS OF RESOURCES | | 67,185 |

Notes to the Financial Statements are an integral part of this statement.

## Douglas County Sewer District No. 1

### STATEMENT OF NET POSITION
### December 31, 2015

| | | |
|---|---|---|
| LIABILITIES | | |
| Current Liabilities: | | |
| Accounts/Vouchers Payable | $ | (5,646) |
| Payables from Restricted Assets: | | |
| Bonds, Notes and Loans Payable | | 1,028,646 |
| Accrued Interest | | 189,947 |
| Developer Extension Deposits | | 36,689 |
| TOTAL CURRENT LIABILITIES | | 1,249,635 |
| Noncurrent Liabilities: | | |
| Compensated Absences | | 185,431 |
| PWTF Loan Payable | | 36,000 |
| PWTF Loan Payable - Port District | | 610,049 |
| Payables from Restricted Assets: | | |
| Bonds, Notes and Loans Payable | | 11,092,468 |
| Pension Liability | | 521,535 |
| TOTAL NONCURRENT LIABILITIES | | 12,445,483 |
| TOTAL LIABILITIES | | 13,695,118 |
| DEFERRED INFLOWS OF RESOURCES | | |
| Deferred Inflows - Pension | | 80,428 |
| TOTAL DEFERRED INFLOWS OF RESOURCES | | 80,428 |
| NET POSITION | | |
| Net Investment in Capital Assets | | 22,644,072 |
| Restricted - Bond | | 1,426,363 |
| Restricted - Bond Reserve | | 498,824 |
| Restricted - Construction | | - |
| Unrestricted | | 7,473,323 |
| TOTAL NET POSITION | | 32,042,582 |

Notes to the Financial Statements are an integral part of this statement.

**Douglas County Sewer District No. 1**

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION**
**For the Year Ended December 31, 2016**

| | |
|---|---|
| OPERATING REVENUES: | |
| Utility Sales and Service Fees | $ 3,843,249 |
| Connection Fees | 262,482 |
| Other Charges for Services | 4,241 |
| Other Operating Revenue-ULID Assessments | |
| Total Operating Revenue | 4,109,972 |
| OPERATING EXPENSES: | |
| Operations: | |
| General Operations | 1,042,470 |
| Cost of Power | 119,278 |
| Maintenance | 90,844 |
| Administration: | |
| General Administration | 783,901 |
| Depreciation/Amortization/Depletion | 1,232,022 |
| Property, Excise and B&O Taxes | 85,500 |
| Total Operating Expenses | 3,354,015 |
| OPERATING INCOME (LOSS) | $ 755,957 |

Notes to the Financial Statements are an integral part of this statement.

**Douglas County Sewer District No. 1**

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION**
**For the Year Ended December 31, 2016**

| | |
|---|---|
| NONOPERATING REVENUES (EXPENSES) | |
| Interest Income | $ 51,650 |
| (Interest Expense and Related Charges) | (619,525) |
| Gains (Losses) on Investments Realized | (43,265) |
| Gains (Losses) on Capital Asset Disposition | - |
| Other Nonoperating Revenues | 35,689 |
| (Other Nonoperating Expenses) | |
| Total Nonoperating Revenues (Expenses) | (575,450) |
| Income Before Contributions, Transfers and Extraordinary Items | 180,507 |
| Capital Contributions | 519,313 |
| Extraordinary/Special Items | |
| CHANGE IN NET POSITION | 699,820 |
| Adjustment for Retrospective Application of New Accounting-GASB 68 | |
| TOTAL NET POSITION, January 1 | 32,042,582 |
| TOTAL NET POSITION, December 31 | $ 32,742,402 |

Notes to the Financial Statements are an integral part of this statement.

## Douglas County Sewer District No. 1

### STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
### For the Year Ended December 31, 2015

| | | |
|---|---|---|
| OPERATING REVENUES: | | |
| Utility Sales and Service Fees | $ | 3,508,540 |
| Connection Fees | | 659,530 |
| Other Charges for Services | | 18,926 |
| Other Operating Revenue-ULID Assessments | | |
| Total Operating Revenue | | 4,186,996 |
| OPERATING EXPENSES: | | |
| Operations: | | |
| General Operations | | 981,310 |
| Cost of Power | | 109,287 |
| Maintenance | | 137,030 |
| Administration: | | |
| General Administration | | 782,161 |
| Depreciation/Amortization/Depletion | | 1,215,190 |
| Property, Excise and B&O Taxes | | 68,089 |
| Total Operating Expenses | | 3,293,067 |
| OPERATING INCOME (LOSS) | $ | 893,929 |

Notes to the Financial Statements are an integral part of this statement.

**Douglas County Sewer District No. 1**

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION**
**For the Year Ended December 31, 2015**

| | |
|---|---|
| NONOPERATING REVENUES (EXPENSES): | |
| Interest Income | $ 20,781 |
| (Interest Expense and Related Charges) | (447,157) |
| Gains (Losses) on Capital Asset Disposition | - |
| Other Nonoperating Revenues | 2,361 |
| (Other Nonoperating Expenses) | |
| Total Nonoperating Revenues (Expenses) | (424,016) |
| Income Before Contributions, Transfers and Extraordinary Items | 469,913 |
| Capital Contributions | 610,633 |
| Extraordinary/Special Items | |
| CHANGE IN NET POSITION | 1,080,547 |
| Adjustment for Retrospective Application of New Accounting-GASB 68 | (554,845) |
| TOTAL NET POSITION, January 1 | 31,516,880 |
| TOTAL NET POSITION, December 31 | $ 32,042,582 |

Notes to the Financial Statements are an integral part of this statement.

**Douglas County Sewer District**

**Statement of Cash Flows**
**For the Year Ended December 31, 2016**

| | |
|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | |
| Receipts from Customers | $ 4,140,080 |
| Payments to Suppliers | (702,087) |
| Payments to Employees | (1,180,955) |
| Net Cash Provided by Operating Activities | 2,257,038 |
| | |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | |
| Borrowings from Long-Term Debt | 12,935,381 |
| Payments on Long-Term Debt | (9,728,646) |
| Interest Paid | (670,129) |
| Acquisition of Capital Assets | (3,123,162) |
| Net Cash Used by Capital and Related Financing Activities | (586,556) |
| | |
| CASH FLOWS FROM INVESTING ACTIVITIES | |
| Interest Received | 51,650 |
| Proceeds from Sale of Investments | - |
| Purchase of Investments | (1,178,482) |
| Advances on Notes Receivable | - |
| Payments Received on Notes Receivable | 89,268 |
| Net Cash Provided by Investing Activities | (1,037,563) |
| | |
| INCREASE IN CASH | 632,919 |
| | |
| BEGINING CASH AND CASH EQUIVALENTS | 9,360,501 |
| | |
| ENDING CASH AND CASH EQUIVALENTS | $ 9,993,420 |

Notes to the Financial Statements are an integral part of this statement.

## Douglas County Sewer District

### Statement of Cash Flows
### For the Year Ended December 31, 2016

RECONCILIATION OF CHANGE IN NET OPERATING INCOME TO
NET CASH PROVIDED BY OPERATING ACTIVITIES

| | |
|---|---|
| Net Operating Income | $ 755,957 |
| | |
| Noncash and nonoperating Income | |
| Other non-operating income | 35,689 |
| Gain on disposal of capital asset | - |
| ULID assessments | |
| | |
| Noncash and nonoperating expenses | |
| Depreciation | 1,232,022 |
| Bond amortization | |
| Change in pension expense | 42,592 |
| | |
| (Increase) decrease in operating assets | |
| Accounts receivable | (15,015) |
| Prepaid expenses | 3,862 |
| ULID assessments | 9,434 |
| | |
| Increase (decrease) in operating liabilities | |
| Accounts payable | 175,532 |
| Accrued vacation and sick payable | 16,965 |
| Net cash provided by operating activities | $ 2,257,038 |

SUPPLEMENTAL SCHEDULE OF NON-CASH CAPITAL AND
RELATED FINANCING ACTIVITIES

| | |
|---|---|
| Capital Assets Contributed by Developers | 519,313 |

Notes to the Financial Statements are an integral part of this statement.

**Douglas County Sewer District**

**Statement of Cash Flows**
**For the Year Ended December 31, 2015**

| | |
|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | |
| Receipts from customers | $ 4,176,273 |
| Payments to suppliers | (1,102,879) |
| Payments to employees | (1,035,842) |
| Net cash provided by operating activities | 2,037,553 |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | |
| Borrowings from long-term debt | - |
| Payments on long-term debt | (946,646) |
| Interest paid | (476,240) |
| Acquisition of capital assets | (615,106) |
| Net cash used by capital and related financing activities | (2,037,992) |
| CASH FLOWS FROM INVESTING ACTIVITIES | |
| Interest received | 20,781 |
| Proceeds from sale of investments | - |
| Purchase of investments | - |
| Advances on notes receivable | - |
| Payments received on notes receivable | 89,268 |
| Net cash provided by investing activities | 110,049 |
| INCREASE IN CASH | 109,609 |
| CASH & CASH EQUIVALENTS- BEGINNING | 9,250,892 |
| CASH & CASH EQUIVALENTS - ENDING | $ 9,360,501 |

Notes to the Financial Statements are an integral part of this statement.

**Douglas County Sewer District**

**Statement of Cash Flows**
**For the Year Ended December 31, 2015**

RECONCILIATION OF CHANGE IN NET OPERATING INCOME TO
NET CASH PROVIDED BY OPERATING ACTIVITIES

| | |
|---|---|
| Net Operating Income | $ 893,929 |
| | |
| Noncash and nonoperating Income | |
| Other non-operating income | 2,361 |
| Gain on disposal of capital asset | - |
| ULID assessments | |
| | |
| Noncash and nonoperating expenses | |
| Depreciation | 1,215,190 |
| Bond amortization | |
| Change in pension expense | (20,067) |
| | |
| (Increase) decrease in operating assets | |
| Accounts receivable | (23,629) |
| Prepaid expenses | (5,972) |
| ULID assessments | 10,546 |
| | |
| Increase (decrease) in operating liabilities | |
| Accounts payable | (69,153) |
| Accrued vacation and sick payable | 34,348 |
| Net cash provided by operating activities | $ 2,037,553 |

SUPPLEMENTAL SCHEDULE OF NON-CASH CAPITAL AND
RELATED FINANCING ACTIVITIES

| | |
|---|---|
| Capital assets contributed by developers | 610,633 |

Notes to the Financial Statements are an integral part of this statement.

# DOUGLAS COUNTY SEWER DISTRICT NO. 1

## NOTES TO FINANCIAL STATEMENTS
## January 1, 2016 through December 31, 2016

THESE NOTES ARE AN INTEGRAL PART OF THE ACCOMPANYING FINANCIAL STATEMENTS

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

The financial statements of Douglas County Sewer District No. 1 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

Douglas County Sewer District no. 1 is a municipal corporation established in 1964 in with the laws of the State of Washington, RCW Chapter 57 and 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 Douglas County Sewer District No. 1 has no component units.

B. Basis of Accounting and Presentation

The District uses the full-accrual basis of accounting where revenues are recognized when earned and expenses are recognized when incurred except for ULID assessment interest and penalties. Assessment interest and penalties are not recorded until funds are received. This practice is not in accordance with general accepted accounting principles (GAAP). Capital asset purchases are capitalized and long-term liabilities are accounted for in the appropriate funds.

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 a district's principal ongoing operations. The principal operating revenues of the district are charges to customers for sewer service. The district also recognizes as operating revenue connection fees and developer extension fees. Operating expenses for the district include the cost of operations and maintenance, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Unbilled utility service receivables are not recorded at year end, which is a departure from generally accepted accounting principles.

C. Cash and Cash Equivalents

It is the District's policy to invest all temporary cash surpluses. As of December 31, 2016, $9,878,611 was invested in the Local Government Investment Pool administered through the Douglas County Treasurer and $1,135,217 was invested in U.S. Securities Bonds with U.S. Bank and administered through the Douglas County Treasurer and Time Value Investments, LLC. The amounts are classified on the Statement of Net Position as 'Investments', 'Restricted Assets: Debt Services', 'Restricted Assets: Construction Accounts', 'Restricted Assets: Debt Service Reserve', 'Restricted Assets: Debt Service Reserve Long-term Investments' and 'Unrestricted Assets: Long-term Investments'.

For purposes of the Statement of Cash Flows, the District considers all highly liquid investments (including restricted assets) with a maturity of 3 months or less when purchased to be cash equivalents.

D. Capital Assets and Depreciation: Also See Note 3 - Capital Assets

Capital assets placed in service are recorded at cost. Depreciation is computed on the straight-line method with useful lives of 1 to 70 years. Initial depreciation on capital assets is recorded in the year subsequent to purchase. Preliminary costs incurred for proposed projects are deferred pending construction of the facility. Costs relating to projects ultimately constructed are transferred to capital assets. Charges that relate to abandoned projects are expensed.

Major asset categories and anticipated useful lives are as follows:

| Asset Category | Years |
|---|---|
| Sewer Lines | 66.67 |
| Buildings & Major Infrastructure | 50 |
| Building Improvements | 20 |
| Vehicles | 10 |
| Equipment | 10 |
| Pumps, Computer Hardware/Software, Misc. | 3-10 |

E. Restricted Assets

In accordance with bond resolutions, and certain related agreements, separate restricted funds are required to be established. The assets held in these funds are restricted for specific uses, including construction, debt service and other special reserve requirements.

Restricted funds balances are as follows:

| | |
|---|---|
| Bond Fund | $1,974,908 |
| Bond Reserve Fund | $343,828 |
| Construction II Fund | $1,947,840 |
| Totals | $4,266,577 |

The Bond Fund balance of $1,974,908 is reserved to pay the current portion of long-term bond debt included in Payables From Restricted Assets - Bonds, Notes and Loans Payable on the Statement of Net Position.

F. Receivables

The district has the power to file liens against the property when sewer service charges are not paid. Consequently, there are no write-offs of uncollectible accounts, nor an allowance for uncollectible receivables.

G. Investments: Also See Note 2 - Deposits and Investments

All investments of District funds are in the Local Government Investment Pool utilized through the Douglas County Treasurer or in U.S. Treasury securities with U.S. Bank purchased through the Douglas County Treasurer's Office in conjunction with Time Value Investments, LLC.

H. Unamortized Debt Expense

In accordance with generally accepted accounting principles for regulated businesses, the District's unamortized bond premiums/discounts relating to the sale of bonds are amortized over the lives of the various bond issues. Amortization expense for 2016 is $64,645.78.

I. Deferred Compensation

The District participates in the Washington State Deferred Compensation Program (DCP), an IRS Section 457(b) defined contribution pension plan, administered by the Washington State Department of Retirement Systems.

The minimum monthly contribution is $30 or 1% of pretax income up to a maximum of $1,541 per month or $18,500 a year. Participants age 50 and older are allowed an additional $6,000 contribution per year up to a maximum of $24,500. Special Catch-up and Deferral limits may be allowed under certain criteria. Withdrawal eligibility begins upon separation from DCP-covered employment, with no tax penalties or age requirements. A one-time, voluntary in-service withdrawal is allowed in the event that the account value does not exceed $5,000 and contributions have been suspended for 2 years or longer. Internal Revenue Service Code 401(a)(9) requires that, unless you are still actively employed, beginning at age 70 1/2, your payments must be an amount that will exhaust your entire account balance with your projected life expectancy as determined by taking the prior year's December 31 account balance and dividing by an estimated distribution period. Payment options include whole or partial lump sum, periodic payment amounts and an annuity purchase. In the event of the participant's death, designated beneficiaries can choose from a number of withdrawal options to receive benefits from the DCP account.

The Dept of Retirement Systems is authorized to interpret the provisions of the plan to the extent that they are not inconsistent with state and federal law. The Department has the authority to decide all issues concerning the rights of participants and beneficiaries under the plan.

The District provides a dollar match of up to $75 a month to its full time employees. In 2016, 11 of 12 employees participated at a total cost to the District of $9,825.

J. Compensated Absences

Compensated absences are absences for which employees will be paid, such as vacation and sick leave. The district records unpaid leave for compensated absences as an expense and liability, and adjusts this amount annually.

Vacation pay, which may be accumulated up to 480 hours, is payable upon retirement, death or separation from employment, unless terminated for intentional misconduct as determined by the District.

Sick leave may accumulate indefinitely. Upon retirement, death or separation from employment, accumulated sick leave will be paid up to a maximum of 240 hours, unless terminated for intentional misconduct as determined by the District.

The recorded liability for unpaid vacations benefits at December 31, 2016 was $78,333.31
At December 31, 2016 the recorded liability for sick pay was $124,062.99.

K. 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.

## NOTE 2 - DEPOSITS AND INVESTMENTS

A. Deposits

The District's deposits and any certificates of deposit are entirely covered by Federal Depository Insurance Corporation (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (PDPC). The District's treasurer is the Douglas County Treasurer and all cash funds are controlled and invested by that office, with the exception of a FDIC covered account utilized to receive and temporarily hold ACH and credit card payments.

B. Investments

All investments of District funds are in the Local Government Investment Pool utilized through the Douglas County Treasurer or in U.S. Treasury securities with U.S. Bank purchased through the Douglas County Treasurer's Office in conjunction with Time Value Investments, LLC.

All long-term investments are measured at fair value.

Investments in Local Government Investment Pool (LGIP)

The District is a participant in the Local Government Investment Pool which was authorized by Chapter 294, Laws of 1986, and is managed and operated by the Washington State Treasurer. The State Finance Committee is the administrator of the statute that created the pool and adopts rules. The State Treasurer is responsible for establishing the investment policy for the pool and reviews the policy annually and proposed changes are reviewed by the LGIP Advisory Committee.

Investments in the LGIP, a qualified external investment pool, are at amortized cost which approximates fair value. The LGIP is an unrated external investment pool. The pool portfolio is invested in a manner that meets the maturity, quality, diversification and liquidity requirements set forth by the GASBS 79 for external investments pools that elect to measure, for financial reporting purposes, investments at amortized cost. The LGIP does not have any legally binding guarantees of share values. The LGIP does not impose liquidity fees or redemption gates on participant withdrawals.

The Office of the State Treasurer prepares a stand-alone LGIP financial report. A copy of the report is available from the Office of the State Treasurer, PO Box 40200, Olympia, Washington 98504-0200, online at http://www.tre.wa.gov.

Investments Measured at Fair Value

The District measures and reports investments at fair value using the valuation input hierarchy established by generally accepted accounting principles, as follows:

- Level 1: Quoted prices in active markets for identical assets or liabilities;
- Level 2: These are quoted market prices for similar assets, quoted prices for identical or similar assets in markets that are not active, or other than quoted prices that are not observable;
- Level 3: Unobservable inputs for an asset.

At December 31, 2016, the District had the following investments measured at fair value:

| Investments by Fair Value Level | Level 1 | Level 2 | Level 3 | 12/31/2016 |
|---|---|---|---|---|
| U.S. Treasury Securities | | $1,135,217 | | $ 1,135,217 |
| | | | | |
| Investments Measured at Amortized Cost | | | | |
| State Local Government Investment Pool (LGIP) | | | | $ 9,878,611 |
| | | | | |
| Total Investments in Statement of Net Position | | | | $ 11,013,828 |

## NOTE 3 - CAPITAL ASSETS

Capital assets are defined by the District as assets with initial individual cost of more than $5,000.00 and an estimated useful life in excess of 1 year.

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.

Capital assets are recorded at cost where the historical cost is known. Where the historical cost is not known, assets are recorded at market value. Donations by developers and customers are recorded at the contract price and donor cost or appraised value.

Capital Asset Change by Categories during 2016 is as follows:

| | Beginning Balance | Reclassify | Increase | Decrease | Ending Balance |
|---|---|---|---|---|---|
| Capital Assets Not Being Depreciated: | | | | | |
| Land | 75,731 | | | | 75,731 |
| Construction In Progress | 668,395 | | 3,155,712 | 3,552,331 | 271,776 |
| Total Capital Assets Not Being Depreciat | 744,126 | 0 | 3,155,712 | 3,552,331 | 347,507 |
| | | | | | |
| Capital Assets Being Depreciated: | | | | | |
| Plant & Buildings | 27,586,194 | | 910,282 | | 28,496,476 |
| Machinery & Equipment | 1,125,861 | | 17,463 | | 1,143,324 |
| Collection System | 19,690,630 | | 3,111,350 | | 22,801,980 |
| Total Capital Assets Being Depreciated | 48,402,685 | 0 | 4,039,095 | 0 | 52,441,780 |
| | | | | | |
| Less Accumulated Depreciation for: | | | | | |
| Plant & Buildings | 8,532,211 | | 865,847 | | 9,398,058 |
| Machinery & Equipment | 694,579 | | 70,836 | | 765,415 |
| Collection System | 4,663,442 | | 295,338 | | 4,958,780 |
| Total Accumulated Depreciation | 13,890,232 | 0 | 1,232,020 | 0 | 15,122,252 |
| | | | | | |
| Total Capital Assets Being Depreciated, Net | 34,512,453 | | 2,807,074 | | 37,319,527 |
| | | | | | |
| Total Capital Assets, Net | $35,256,579 | $0 | $5,962,786 | $3,552,331 | $37,667,034 |

The original cost of operating property retired or otherwise disposed of and the cost of installation, less salvage, is installation, less salvage, is charged to accumulated depreciation. However, in the case of the sale of a significant operating unit or system, the original cost is removed from the capital assets accounts, accumulated depreciation is charged with the accumulated depreciation related to the property sold, and the net gain or loss is credited or charged to income.

Depreciation is computed using the straight-line method with useful lives of 3 to 66.67 years. Initial depreciation on capital assets is recorded in the year subsequent to purchase.

Preliminary costs incurred for the proposed projects are deferred pending construction of the facility. Costs relating to projects ultimately constructed are transferred to capital assets; charges that related to abandoned projects are expensed.

The District expenses any impairment losses that may arise. There were no impairment losses to report for 2016.

## NOTE 4 - CONSTRUCTION IN PROGRESS

The District completed $3,552,331 worth of construction, leaving $271,776 in progress. The following projects were in progress at year end:

| | Project Authorization | Expended thru 12/31/16 | Committed | Required Future Financing | Funding Source |
|---|---|---|---|---|---|
| N Baker Avenue Extension | 622,155 | 103,095 | 519,060 | $ - | Bond Funds |
| WWTP Headworks Building Improvement | | 5,858 | -5,858 | $ - | Cash Reserves |
| Highline Drive Extension | 189,675 | 9,980 | 179,695 | | Cash Reserves |
| 8th Street SE Extension | 712,000 | 38,375 | 673,625 | $ - | Cash Reserves |
| WWTP Clarifier Drive Unit Replacement | 81,150 | 13,054 | 68,096 | $ - | Cash Reserves |
| North End DOT Easement Acquisition | 285,000 | 9,967 | 275,033 | $ - | Cash Reserves |
| Empire Way Extension | | 68,131 | -68,131 | TBD | TBD |
| Batterman Lift Station Improvements | | 23,318 | -23,318 | TBD | TBD |
| | $ 1,889,980 | $ 271,776 | $1,618,204 | $ - | TBD:To be determined |

## NOTE 5 - LONG-TERM DEBT: Also see attached NOTE 5 - LONG-TERM DEBT GRAPH

The District issues revenue bonds to finance construction of Wastewater Treatment Plant upgrades and other capital projects. Bonded indebtedness has also been entered into in prior years to advance refund several revenue bonds. The revenue bonds are being repaid by proprietary fund reserves.

At December 31, 2016, the District has $1,974,908.30 available in a debt service fund to service the bonded debt. Restricted assets in proprietary funds contain $4,266,576 in sinking funds and reserves as required by bond covenants. There are a number of other limitations and restrictions contained in the bond covenants. The District is in compliance with all significant limitations and restrictions.

The District has pledged future enterprise revenues, net of enterprise operating expenses, to repay $14,155,000.00 in sewer revenue bonds issued in 2006, 2013 and 2016.

The District's revenue bonds are payable solely from sewer revenues and are payable through 2035. The total principal and interest remaining to be paid on the bonds is $17,929,241. Principal and interest paid for the current year and total enterprise revenue were $1,217,578, excluding refunded portions of the 2006 and 2008 bonds settled at the time of the 2016 bond, and $4,145,660 respectively. The total principal and interest paid of $9,960,109 includes $8,565,000 of principal and $177,532 of interest on the 2006 and 2008 bonds that was refunded and paid at closing of the 2016 bond on 5/23/2016. Annual principal and interest payments on the bonds are expected to require less than 40 percent of net revenues when excluding the refunded portions of the 2006 and 2008 bonds.

The District also has three non-parity, Public Works Trust Fund loans for WWTP upgrades and system extension projects. Total principal and interest remaining to be paid on the non-parity debt is $658,605, which includes two PWTF pass-through loans for which the Port of Douglas County reimburses the District for debt service in the amount of $622,065. Principal and interest for the current year on the non-parity debt is $299,252 of which the Port of Douglas County reimbursed $92,764 of debt service to the District.

Revenue Bonds and general obligation debt outstanding as of December 31, 2016:

| ID # | Description | Maturity / Payment Due Date | Beginning Balance 01/01/2016 | Additions | Reductions | Ending Balance 12/31/16 |
|---|---|---|---|---|---|---|
| 259 | Compensated Absences | | 185,431 | 16,965 | | 202,396 |
| 259 | Pension Liability | | 521,535 | 199,736 | | 721,271 |
| 263 | 1996 PWFT - Plant Upgrade | 7/1/2016 | 186,378 | | 186,378 | 0 |
| 263 | 2001 PWTF - Port Preconstructio | 7/1/2021 | 44,481 | | 7,414 | 37,067 |
| 263 | 2003 PWTF - Port Construction | 7/1/2023 | 654,836 | | 81,854 | 572,982 |
| 252 | 2006 Bond - Plant Upgrade | 8/1/2024 | 7,475,000 | | 6,615,000 | 860,000 |
| 252 | 2008 Bond - Plant Upgrade | 8/1/2024 | 2,170,000 | | 2,170,000 | 0 |
| 252 | 2013 Bond - Refunding | 8/1/2019 | 2,095,000 | | 515,000 | 1,580,000 |
| 263 | 2015 PWTF - N Baker Ave Ext | 6/1/2018 | 54,000 | | 18,000 | 36,000 |
| 252 | 2016 Bond - Refunding/New | 8/1/2035 | | 11,850,000 | 135,000 | 11,715,000 |
| | Total Long-Term Debt | | 13,386,661 | 12,066,701 | 9,728,646 | 15,724,716 |

See attached Note 5 Long-Term Debt Graph

## DOUGLAS COUNTY SEWER DISTRICT NO. 1

### NOTES TO FINANCIAL STATEMENTS
### January 1, 2016 through December 31, 2016

**NOTE 5 - LONG-TERM DEBT**

**A. Long-Term Debt**

The annual requirements to amortize all debts outstanding as of December 31, 2016, including interest, are:

| | 1996 PWTF Loan WWTP Upgrade | | 2006 Bond WWTP Upgrade | | 2013 Refunding Bonds Refunded 2003 Bond | | 2016 Refunding Bonds Refund 2008/New Money | | 2001 PWTF Loan Port Dist Pass-thru Preconstruction | | 2003 PWTF Loan Port Dist Pass-thru Construction | | 2013 PWTF Loan Baker Avenue Extension | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Year | Principal | Interest | Principal | Interest | Principal | Interest | Principal | Interest | Principal | Interest | Principal | Interest | Principal | Interest | Total Long-Term Debt and Interest |
| 2017 | | | 0 | 36,550 | 520,000 | 31,960 | 540,000 | 421,144 | 7,414 | 185 | 81,854 | 2,865 | 18,000 | 360 | 1,660,332 |
| 2018 | | | 0 | 36,550 | 525,000 | 26,500 | 595,000 | 410,344 | 7,414 | 148 | 81,854 | 2,456 | 18,000 | 180 | 1,703,446 |
| 2019 | | | 0 | 36,550 | 535,000 | | 610,000 | 398,444 | 7,414 | 111 | 81,854 | 2,046 | | | 1,671,419 |
| 2020 | | | 0 | 36,550 | | | 1,185,000 | 374,044 | 7,414 | 74 | 81,854 | 1,637 | | | 1,686,573 |
| 2021 | | | 0 | 36,550 | | | 1,220,000 | 338,494 | 7,414 | 37 | 81,854 | 1,228 | | | 1,685,577 |
| 2022-2026 | | | 860,000 | 109,650 | | | 5,390,000 | 1,087,819 | | | 163,709 | 1,228 | | | 7,612,406 |
| 2027-2031 | | | | | | | 1,120,000 | 308,819 | | | | | | | 1,428,819 |
| 2032 - 2035 | | | | | | | 1,055,000 | 84,275 | | | | | | | 1,139,275 |
| Totals | 0 | 0 | 860,000 | 292,400 | 1,580,000 | 58,460 | 11,715,000 | 3,423,381 | 37,068 | 556 | 572,981 | 11,460 | 36,000 | 540 | 18,587,847 |
| ID# | 263.82 | | 252.11 | | 252.11 | | 252.11 | | 263.82 | | 263.82 | | 263.82 | | |
| Original Amount | $3,500,000 | | $8,440,000 | | $2,930,000 | | $11,850,000 | | $179,962 | | $1,555,235 | | $54,000 | | 14,801,049 Principal Only |
| Interest Rate | 1.00% | | 4.20% | | 1.56% | | 2.42% | | 0.50% | | 0.50% | | 1.00% | | 3,786,797 Interest Only |
| Dated | 4/26/96 | | 11/15/06 | | 5/28/13 | | 5/23/16 | | 3/19/01 | | 7/29/03 | | 1/29/13 | | |
| Maturity | 2016 | | 2024 | | 2019 | | 2035 | | 2021 | | 2023 | | 2018 | | |
| Last Pmt | 7/1/2016 | | 8/1/24 | | 8/1/19 | | 08/01/35 | | 7/1/21 | | 7/1/23 | | 6/1/18 | | |

## NOTE 6 - RESTRICTED COMPONENT OF NET POSITION

The District's Statement of Net Position reports $4,266,576 of restricted component of net assets, of which $4,266,576 is restricted by bond covenants.

## NOTE 7 - RISK MANAGEMENT

Douglas County Sewer District No. 1 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, 2016, there are 524 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 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 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 $20 million per occurrence and property coverage limit is $1 billion per occurrence. Enduris offers crime coverage up to a limit of $1 million per occurrence.

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

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

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

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

Settlement claims have not exceeded insurance coverage for any of the past three years.

## NOTE 8 - PENSION PLANS

The following table represents the aggregate pension amounts for all plans subject to the requirements of

| Aggregate Pension Amounts - All Plans | |
|---|---|
| Pension liabilities | $ 721,271 |
| Pension assets | $ - |
| Deferred outflows of resources | $ 156,902 |
| Deferred inflows of resources | $ 13,001 |
| Pension expense | $ 126,762 |

**State Sponsored Pension Plans**

Substantially all 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

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:

| Actual Contribution Rates: | Employer | Employee* |
|---|---|---|
| PERS PLAN 1 | 6.23% | 6.00% |
| PERS Plan 1 UAAL | 4.77% | 6.00% |
| Administrative Fee | 1.80% | |
| **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** | **Employee*** |
| 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 Douglas County Sewer District's actual PERS plan contributions were $36,500 to PERS Plan 1 and $47,671 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 7.7%. Assumed administrative factors were updated.

**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.

**Estimated Rates of Return by Asset Class**

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

**Sensitivity of the Net Pension Liability (Asset)**

The table below presents the Districts 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 (7.5%) | 1% Increase (8.5%) |
|---|---|---|---|
| PERS 1 | 394,857 | 327,438 | 269,419 |
| PERS 2/3 | 725,115 | 393,832 | (205,012) |

**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 Douglas County Sewer District No. 1 reported a total pension liability of $721,270 for its proportionate share of the net pension liabilities as follows:

| | Liability (or Asset) |
|---|---|
| PERS 1 | 327,438 |
| PERS 2/3 | 393,832 |

At June 30, Douglas County Sewer District's proportionate share of the collective net pension liabilities was as follows:

| | Proportionate Share 06/30/15 | Proportionate Share 06/30/16 | Change in Proportionate Share |
|---|---|---|---|
| PERS Plan 1 | 0.005296% | 0.006097% | 0.000801% |
| PERS Plan 2/3 | 0.006843% | 0.007822% | 0.000979% |

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 was measured as of June 30, 2016 and the actuarial valuation date on which the total pension liability is based was as of June 30, 2015, with update procedures used to roll forward the total pension liability to the measure date.

**Pension Expense**

For the year ended December 31, 2016, the Douglas County Sewer District recognized pension expense as follows:

| | Pension Expense |
|---|---|
| PERS 1 | $61,580 |
| PERS 2/3 | $65,182 |
| TOTAL | $126,762 |

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

At December 31, 2016, the Douglas County Sewer District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| PERS 1 | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|---|
| Differences between expected and actual experience | 0 | 0 |
| Net difference between projected and actual investment earnings on pension plan investments | 8,244 | 0 |
| Changes of assumptions | 0 | 0 |
| Changes in proportion and differences between contributions and proportionate share of contributions | 0 | 0 |
| Contributions subsequent to the measurement date | 18,572 | 0 |
| TOTAL | 26,816 | 0 |

| PERS 2/3 | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|---|
| Differences between expected and actual experience | 20,971 | 13,001 |
| Net difference between projected and actual investment earnings on pension plan investments | 48,194 | 0 |
| Changes of assumptions | 4,071 | 0 |
| Changes in proportion and differences between contributions and proportionate share of contributions | 32,593 | 0 |
| Contributions subsequent to the measurement date | 24,257 | 0 |
| TOTAL | 130,086 | 13,001 |

Deferred outflows of resources related to pensions resulting from the Douglas County Sewer District 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- Inflows | PERS 1 - Outflows |
|---|---|---|
| 2017 | | -$2,030 |
| 2018 | | -$2,030 |
| 2019 | | $7,572 |
| 2020 | | $4,733 |

| Year ended December 31: | PERS 2/3 - Inflows | PERS 2/3 - Outflows |
|---|---|---|
| 2017 | -$4,063 | $14,698 |
| 2018 | -$4,063 | $14,698 |
| 2019 | -$4,063 | $50,848 |
| 2020 | -$813 | $25,584 |

# DOUGLAS COUNTY SEWER DISTRICT NO. 1

## NOTES TO FINANCIAL STATEMENTS
## January 1, 2015 through December 31, 2015

THESE NOTES ARE AN INTEGRAL PART OF THE ACCOMPANYING FINANCIAL STATEMENTS

### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Douglas County Sewer District No. 1 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

Douglas County Sewer District No. 1 is a municipal corporation established in 1964 in accordance with the laws of the State of Washington, RCW Chapter 57 and 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 Douglas County Sewer District No. 1 has no component units.

B. Basis of Accounting and Presentation

The District uses the full-accrual basis of accounting where revenues are recognized when earned and expenses are recognized when incurred except for ULID assessment interest and penalties. Assessment interest and penalties are not recorded until funds are received. This practice is not in accordance with general accepted accounting principles (GAAP). Capital asset purchases are capitalized and long-term liabilities are accounted for in the appropriate funds.

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 a District's principal ongoing operations. The principal operating revenues of the District are charges to customers for sewer service. The District also recognizes as operating revenue connection fees and developer extension fees. Operating expenses for the District include the cost of operations and maintenance, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Unbilled utility service receivables are not recorded at year end, which is a departure from generally accepted accounting principles.

C. Accounting and Reporting Changes

Statement 68 of the Governmental Accounting Standards Board requires the District to report its share of the state retirement plan's net pension liability or asset. It also requires reporting deferred outflows and inflows of resources related to pensions as well as adjustments to pension expense. The implementation of this standard resulted in a $554,845 reduction in net position.

D. Cash and Cash Equivalents

It is the District's policy to invest all temporary cash surpluses. As of December 31, 2015, $9,256,514 was invested in the Local Government Investment Pool administered through the Douglas County Treasurer. The amount is classified on the Statement of Net Position as 'Investments', 'Restricted Assets: Debt Service' and 'Restricted Assets: Debt Service Reserve'.

For purposes of the Statement of Cash Flows, the District considers all highly liquid investments (including restricted assets) with a maturity of 3 months or less when purchased to be cash equivalents.

E. Capital Assets and Depreciation: Also See Note 3 - Capital Assets

Capital assets placed in service are recorded at cost. Depreciation is computed on the straight-line method with useful lives of 1 to 70 years. Initial depreciation on capital assets is recorded in the year subsequent to purchase. Preliminary costs incurred for proposed projects are deferred pending construction of the facility. Costs relating to projects ultimately constructed are transferred to capital assets. Charges that relate to abandoned projects are expensed.

Major asset categories and anticipated useful lives are as follows:

| Asset Category | Years |
|---|---|
| Sewer Lines | 66.67 |
| Buildings & Major Infrastructure | 50 |
| Building Improvements | 20 |
| Vehicles | 10 |
| Equipment | 10 |
| Pumps, Computer Hardware/Software, Misc. | 3-10 |

F. Restricted Assets

In accordance with bond resolutions, and certain related agreements, separate restricted funds are required to be established. The assets held in these funds are restricted for specific uses, including construction, debt service and other special reserve requirements.

Restricted funds are as follows:

| | |
|---|---|
| Bond Fund | $1,426,363 |
| Bond Reserve Fund | $498,824 |
| Construction Fund | 0 |
| Totals | $1,925,187 |

The Bond Fund balance of $1,426,363 is reserved to pay the current portion of long-term bond debt included in Payables From Restricted Assets - Bonds, Notes and Loans Payable on the Statement of Net Position.

G. Receivables

The District has the power to file liens against the property when sewer service charges are not paid. Consequently, there are no write-offs of uncollectible accounts, nor an allowance for uncollectible receivables.

H. Investments: Also See Note 2 - Deposits and Investments

All investments of District funds are in accounts with banking institutions or the Local Government Investment Pool utilized through the Douglas County Treasurer's Office.

I. Unamortized Debt Expense

In accordance with generally accepted accounting principles for regulated businesses, the District's unamortized bond premiums/discounts relating to the sale of bonds are amortized over the lives of the various bond issues. Amortization expense for 2015 is $22,170.93.

J. Deferred Compensation

The District participates in the Washington State Deferred Compensation Program (DCP), an IRS Section 457(b) defined contribution pension plan, administered by the Washington State Department of Retirement Systems.

The minimum monthly contribution is $30 or 1% of pretax income up to a maximum of $1,541 per month or $18,500 a year. Participants age 50 and older are allowed an additional $6,000 contribution per year up to a maximum of $24,500. Special Catch-up and Deferral limits may be allowed under certain criteria. Withdrawal eligibility begins upon separation from DCP-covered employment, with no tax penalties or age requirements. A one-time, voluntary in-service withdrawal is allowed in the event that the account value does not exceed $5,000 and contributions have been suspended for 2 years or longer. Internal Revenue Service Code 401(a)(9) requires that, unless you are still actively employed, beginning at age 70 1/2, your payments must be an amount that will exhaust your entire account balance with your projected life expectancy as determined by taking the prior year's December 31 account balance and dividing by an estimated distribution period. Payment options include whole or partial lump sum, periodic payment amounts and an annuity purchase. In the event of the participant's death, designated beneficiaries can choose from a number of withdrawal options to receive benefits from the DCP account.

The Dept of Retirement Systems is authorized to interpret the provisions of the plan to the extent that they are not inconsistent with state and federal law. The Department has the authority to decide all issues concerning the rights of participants and beneficiaries under the plan.

The District provides a dollar match of up to $75 a month to its full time employees. In 2015, 12 of 13 employees participated at a total cost to the District of $8,925.

K. 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, and adjusts this amount annually.

Vacation pay, which may be accumulated up to 480 hours, is payable upon retirement, death or separation from employment, unless terminated for intentional misconduct as determined by the District.

Sick leave may accumulate indefinitely. Upon retirement, death or separation from employment, accumulated sick leave will be paid up to a maximum of 240 hours, unless terminated for intentional misconduct as determined by the District.

The recorded liability for unpaid vacations benefits at December 31, 2015 was $75,120. At December 31, 2015 the recorded liability for sick pay was $110,312.

L. 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.

## NOTE 2 - DEPOSITS AND INVESTMENTS

A. Deposits

The District's deposits are entirely covered by Federal Depository Insurance Corporation (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (PDPC). The District's treasurer is the Douglas County Treasurer and all cash funds are controlled and invested by that office, with the exception of a FDIC covered account utilized to receive and temporarily hold ACH and credit card payments.

B. Investments

All investments of District funds are in accounts with banking institutions or the Local Government Investment Pool utilized through the Douglas County Treasurer's Office.

Investments are measured at amortized cost and include the following as of December 31, 2015:

| | |
|---|---|
| State investment pool | $9,256,514 |
| U.S. Treasuries | |
| Other | - |
| Total | $9,256,514 |

There are no restrictions or limitations on withdrawals of these investments.

## NOTE 3 - CAPITAL ASSETS

Capital assets are defined by the District as assets with initial cost of more than $5,000.00 and an estimated useful life in excess of 1 year.

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.

Capital assets are recorded at cost where the historical cost is known. Where the historical cost is not known, assets are recorded at market value. Donations by developers and customers are recorded at the contract price and donor cost or appraised value.

Capital Asset Change by Categories during 2015 is as follows:

| | Beginning Balance | Reclassify | Increase | Decrease | Ending Balance |
|---|---|---|---|---|---|
| Capital Assets Not Being Depreciated: | | | | | |
| Land | 75,731 | | | | 75,731 |
| Construction in progress | 241,630 | | 426,765 | | 668,395 |
| Total Capital Assets Not Being Depreciated | 317,362 | | 426,765 | - | 744,127 |
| Capital Assets Being Depreciated: | | | | | |
| Plant | 27,595,098 | | | (8,904) | 27,586,194 |
| Machinery & Equipment | 1,036,716 | | 89,145 | | 1,125,861 |
| Collection System | 18,971,897 | | 718,733 | | 19,690,630 |
| Total Capital Assets Being Depreciated | 47,603,711 | - | 807,878 | (8,904) | 48,402,685 |
| Less Accumulated Depreciation for: | | | | | |
| Plant | 7,667,763 | | 864,448 | | 8,532,211 |
| Machinery & Equipment | 628,392 | | 66,187 | | 694,579 |
| Collection System | 4,378,885 | | 284,557 | | 4,663,442 |
| Total Accumulated Depreciation | 12,675,041 | - | 1,215,191 | - | 13,890,231 |
| Total Capital Assets Being Depreciated, Net | 34,928,670 | - | (407,313) | (8,904) | 34,512,454 |
| **Total Capital Assets, Net** | **$ 35,246,032** | **$ -** | **$ 19,452** | **$ (8,904)** | **$ 35,256,581** |

The original cost of operating property retired or otherwise disposed of and the cost of installation, less salvage, is installation, less salvage, is charged to accumulated depreciation. However, in the case of the sale of a significant operating unit or system, the original cost is removed from the capital assets accounts, accumulated depreciation is charged with the accumulated depreciation related to the property sold, and the net gain or loss is credited or charged to income.

Depreciation is computed using the straight-line method with useful lives of 3 to 66.67 years. Initial depreciation on capital assets is recorded in the year subsequent to purchase.

Preliminary costs incurred for proposed projects are deferred pending construction of the facility. Costs relating to projects ultimately constructed are transferred to capital assets; charges that related to abandoned projects are expensed.

The District expenses any impairment losses that may arise. There were no impairment losses to report for 2015.

## NOTE 4 - CONSTRUCTION IN PROGRESS

The District expended a net increase of $426,765 toward Construction Projects In Progress, resulting in $668,395 at year end in the following projects:

| | Project Authorization | Expended thru 12/31/15 | Committed | Required Future Financing | Financing Source |
|---|---|---|---|---|---|
| Kentucky Lift Station & Extension | 3,190,000 | 161,649 | | 3,028,351 | Bond Funds |
| N Baker Avenue Extension | 1,502,800 | 70,128 | 261,022 | 1,171,650 | Bond Funds |
| Headworks Screening | 790,000 | 213,860 | 576,140 | | Cash Reserves |
| Painting Clarifiers | 300,000 | 117,263 | 182,738 | - | Cash Reserves |
| General Sewer Plan Upgrade | 150,000 | 13,738 | 136,262 | - | Cash Reserves |
| N End DOT Easement Acquisition | 100,000 | 6,006 | 93,994 | - | Cash Reserves |
| Empire Way Extension | | 68,131 | | TBD | TBD |
| Batterman Lift Station Improvements | | 17,620 | | TBD | TBD |
| | $ 6,032,800 | $ 668,395 | $ 1,250,156 | $ 4,200,000 | TBD:To be determined |

## NOTE 5 - LONG-TERM DEBT: Also see attached NOTE 5 - LONG-TERM DEBT GRAPH

The District issues revenue bonds to finance construction of Wastewater Treatment Plant upgrades and other capital projects. Bonded indebtedness has also been entered into in prior years to advance refund several revenue bonds. The revenue bonds are being repaid by proprietary fund reserves.

At December 31, 2015, the District has $1,426,363 available in a debt service fund to service the bonded debt. Restricted assets in proprietary funds contain $1,925,187 in sinking funds and reserves as required by bond covenants. There are a number of other limitations and restrictions contained in the bond covenants. The District is in compliance with all significant limitations and restrictions.

The District has pledged future enterprise revenues, net of enterprise operating expenses, to repay $11,740,000 in sewer revenue bonds issued in 2006, 2008 and 2013.

The District's revenue bonds are payable solely from sewer revenues and are payable through 2026. Annual principal and interest payments on the bonds are expected to require less than 40 percent of net revenues. The total principal and interest remaining to be paid on the bonds is $14,845,813. Principal and interest paid for the current year and total enterprise revenue were $1,192,295 and $4,189,357 respectively.

The District also has four non-parity, Public Works Trust Fund loans for Treatment Plant upgrades and system extension projects. Total principal and interest remaining to be paid on the non-parity debt is $957,857, which includes two PWTF pass-through loans for which the Port of Douglas County reimburses the District for debt service in the amount of $714,830. Principal and interest for the current year on the non-parity debt is $283,316, of which the Port of Douglas County reimbursed $93,211 of debt service to the District.

Revenue Bonds and general obligation debt outstanding as of December 31, 2015:

| ID. No. | Description | Maturity / Payment Due Date | Beginning Balance 01/01/2015 | Additions | Reductions | Ending Balance 12/31/2015 |
|---|---|---|---|---|---|---|
| 259. | Compensated Absences | | 151,083 | 34,348 | | 185,431 |
| 259. | Pension Liability | | - | 521,535 | | 521,535 |
| 263. | 1996 PWTF - Plant Upgrade | 7/1/2016 | 372,755 | | 186,378 | 186,378 |
| 263. | 2001 PWTF - Port Preconstruction | 7/1/2021 | 51,895 | | 7,414 | 44,481 |
| 263. | 2003 PWTF - Port Construction | 7/1/2023 | 736,690 | | 81,854 | 654,836 |
| 252. | 2006 Bond - Plant Upgrade | 8/1/2024 | 7,690,000 | | 215,000 | 7,475,000 |
| 252. | 2008 Bond - Plant Upgrade | 8/1/2026 | 2,170,000 | | - | 2,170,000 |
| 252. | 2013 Bond - Refunding | 8/1/2019 | 2,605,000 | | 510,000 | 2,095,000 |
| 263. | 2015 PWTF - N Baker Ave Ext | 6/1/2018 | - | 54,000 | | 54,000 |
| | Total Long-Term Debt | | $ 13,777,424 | $ 609,883 | $ 1,000,646 | $ 13,386,661 |

## DOUGLAS COUNTY SEWER DISTRICT NO. 1

### NOTES TO FINANCIAL STATEMENTS
### January 1, 2015 through December 31, 2015

**NOTE 5 - LONG-TERM DEBT**

**A. Long-Term Debt**

The annual requirements to amortize all debts outstanding as of December 31, 2015, including interest, are:

| | 1996 PWTF Loan WWTP Upgrade | | 2006 Bond WWTP Upgrade | | 2008 Bond WWTP Upgrade | | 2013 Refunding Bonds Refunded 2003 Bond | | 2001 PWTF Loan Port Dist Pass-thru Preconstruction | | 2003 PWTF Loan Port Dist Pass-thru Construction | | 2015 PWTF Loan Baker Avenue Extension | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Year | Principal | Interest | Principal | Interest | Principal | Interest | Principal | Interest | Principal | Interest | Principal | Interest | Principal | Interest | Total Long-Term Debt and Interest |
| 2016 | 186,378 | 1,864 | 220,000 | 317,688 | | 99,290 | 515,000 | 36,080 | 7,414 | 222 | 81,854 | 3,274 | 18,000 | 246 | 1,487,310 |
| 2017 | | | 420,000 | 308,338 | | 99,290 | 520,000 | 31,960 | 7,414 | 185 | 81,854 | 2,865 | 18,000 | 360 | 1,490,266 |
| 2018 | | | 480,000 | 290,488 | | 99,290 | 525,000 | 26,500 | 7,414 | 148 | 81,854 | 2,456 | 18,000 | 180 | 1,531,329 |
| 2019 | | | 500,000 | 270,088 | | 99,290 | 535,000 | 13,375 | 7,414 | 111 | 81,854 | 2,046 | | | 1,509,178 |
| 2020 | | | 1,075,000 | 248,838 | | 99,290 | | | 7,414 | 74 | 81,854 | 1,637 | | | 1,514,107 |
| 2021-2025 | | | 4,780,000 | 518,500 | 1,060,000 | 496,450 | | | 7,414 | 37 | 245,563 | 2,456 | | | 7,110,420 |
| 2026 | | | | | 1,110,000 | 51,060 | | | | | | | | | 1,161,060 |
| Totals | 186,378 | 1,864 | 7,475,000 | 1,953,938 | 2,170,000 | 1,043,960 | 2,095,000 | 107,915 | 44,482 | 778 | 654,836 | 14,734 | 54,000 | 786 | 15,803,670 |
| ID# | 263.82 | | 252.11 | | 252.11 | | 252.11 | | 263.82 | | 263.82 | | 263.82 | | |
| Original Amount | $3,500,000 | | $8,440,000 | | $2,170,000 | | $2,930,000 | | $179,962 | | $1,555,235 | | $54,000 | | |
| Interest Rate | 1.00% | | 4.20% | | 4.70% | | 1.56% | | 0.50% | | 0.50% | | 1.00% | | |
| Dated | 4/26/96 | | 11/15/06 | | 7/29/08 | | 5/28/13 | | 3/19/01 | | 7/29/03 | | 1/29/13 | | |
| Maturity | 2016 | | 2024 | | 2026 | | 2019 | | 2021 | | 2023 | | 2018 | | |
| Last Pmt | 7/1/2016 | | 8/1/24 | | 8/1/26 | | 8/1/19 | | 7/1/21 | | 7/1/23 | | 6/1/18 | | |

## NOTE 6 - RESTRICTED COMPONENT OF NET POSITION

The District's Statement of Net Position reports $1,925,187 of restricted component of net assets, of which $1,925,187 is restricted by bond covenants.

## NOTE 7 - RISK MANAGEMENT

Douglas County Sewer District No. 1 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 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 property loss.
>
> Enduris is responsible for the $4,000 deductible on boiler and machinery loss.

Enduris acquires reinsurance from unrelated insurance companies on a “per occurrence” basis to cover all losses over the deductibles as shown on the policy maximum limits. Liability coverage is for all lines of liability coverage including Public Official’s Liability. The Property coverage is written on an “all risk”, blanket basis using current Statement of Values. The Property coverage includes but is not limited to mobile equipment, boiler and machinery, electronic data processing equipment, business interruption, course of construction and additions, property in transit, fine arts, and automobile physical damage to insured vehicles. Liability coverage limit is $10 million per occurrence and property coverage limit is $1 billion per occurrence. Enduris offers crime coverage up to a limit of $1 million per occurrence.

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

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

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

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

Settlement claims have not exceeded insurance coverage for any of the past three years.

## NOTE 8 - PENSION PLANS

The following table represents the aggregate pension amounts for all plans subject to the requirements of the GASB Statement 68, *Accounting and Financial Reporting for Pensions* for the year 2015:

| Aggregate Pension Amounts - All Plans | | |
|---|---|---|
| Pension liabilities | $ | 521,534 |
| Pension assets | $ | - |
| Deferred outflows of resources | $ | 67,185 |
| Deferred inflows of resources | $ | 80,428 |
| Pension expense | $ | 47,990 |

**State Sponsored Pension Plans**

Substantially all 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 2015 were as follows:

| **PERS PLAN 1** | | |
|---|---|---|
| **Actual Contribution Rates:** | **Employer** | **Employee*** |
| January through June 2015 | 9.21% | 6.00% |
| July through December 2015 | 11.18% | 6.00% |

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

The District's actual contributions to the plan were $29,789 for the year ended December 31, 2015.

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

With a benefit that is reduced by three percent for each year before age 65; or

With a benefit that has a smaller (or no) reduction (depending on age) that imposes stricter return-to-work rules.

PERS Plan 2/3 members hired on or after May 1, 2013 have the option to retire early by accepting a reduction of five percent for each year of retirement before age 65. This option is available only to those who are age 55 or older and have at least 30 years of service credit. PERS Plan 2/3 retirement benefits are also actuarially reduced to reflect the choice of a survivor benefit. Other PERS Plan 2/3 benefits include duty and non-duty disability payments, a cost-of-living allowance (based on the CPI), capped at three percent annually and a one-time duty related death benefit, if found eligible by the Department of Labor and Industries. PERS 2 members are vested after completing five years of eligible service. Plan 3 members are vested in the defined benefit portion of their plan after ten years of service; or after five years of service if 12 months of that service are earned after age 44.

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

Contributions

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

| PERS PLAN 2/3 | | |
|---|---|---|
| **Actual Contribution Rates:** | **Employer 2/3** | **Employee 2*** |
| January through June 2015 | 9.21% | 4.92% |
| July through December 2015 | 11.18% | 6.12% |
| Employee PERS Plan 3 | | varies |

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

The District's actual contributions to the plan were $38,268 for the year ended December 31, 2015.

**Actuarial Assumptions**

The total pension liability (TPL) for each of the DRS plans was determined using the most recent actuarial valuation completed in 2015 with a valuation date of June 30, 2014. The actuarial assumptions used in the valuation were based on the results of the Office of the State Actuary's (OSA) *2007-2012 Experience Study* .

Additional assumptions for subsequent events and law changes are current as of the 2014 actuarial valuation report. The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2015. Plan liabilities were rolled forward from June 30, 2014, to June 30, 2015, reflecting each plan's normal cost (using the entry-age cost method), assumed interest and actual benefit payments.

**Inflation**: 3% total economic inflation; 3.75% salary inflation

**Salary increases:** In addition to the base 3.75% salary inflation assumption, salaries are also expected to grow by promotions and longevity.

**Investment rate of return:** 7.5%

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

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

The OSA updated demographic assumptions, consistent with the changes from the 2007-2012 Experience Study Report, used when valuing the PERS 1 and TERS 1 Basic Minimum COLA.

The OSA corrected how valuation software calculates a member's entry age under the entry age normal actuarial cost method. Previously, the funding age was rounded, resulting in an entry age one year higher in some cases.

For purposes of calculating the Plan 2/3 Entry Age Normal Cost contribution rates, the OSA now uses the current blend of Plan 2 and Plan 3 salaries rather than using a long-term membership assumption of two-thirds Plan 2 members and one-third Plan 3 members.

The OSA changed the way it applies salary limits, as described in the 2007-2012 Experience Study Report.

**Discount Rate**

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

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

**Long-Term Expected Rate of Return**

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

**Estimated Rates of Return by Asset Class**

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

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

**Sensitivity of NPL**

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

| | 1% Decrease 6.50% | Current Discount Rate 7.50% | 1% Increase 8.50% |
|---|---|---|---|
| PERS1 | 337,285 | 277,030 | 225,216 |
| PERS 2/3 | 714,943 | 244,504 | (115,693) |

**Pension Plan Fiduciary Net Position**

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

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

At June 30, 2015, the District's reported a total pension liability of $521,534 for its proportionate share of the net pension liabilities as follows

| | Liability (or Asset) |
|---|---|
| PERS1 | 277,030 |
| PERS 2/3 | 244,504 |

At June 30, the District's proportionate share of the collective net pension liabilities was as follows

| | Proportionate Share 6/30/14 | Proportionate Share 6/30/15 | Change in Proportion |
|---|---|---|---|
| PERS1 | 0.005257% | 0.005296% | 0.000039% |
| PERS 2/3 | 0.006768% | 0.006843% | 0.000075% |

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

**Pension Expense**

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

| | Pension Expense |
|---|---|
| PERS1 | 18,482 |
| PERS 2/3 | 29,508 |
| TOTAL | 47,990 |

### Deferred Outflows of Resources and Deferred Inflows of Resources

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

| PERS 1 | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|---|
| Differences between expected and actual experience | | |
| Net difference between projected and actual investment earnings on pension plan investments | | 15,156.57 |
| Changes of assumptions | | |
| Changes in proportion and differences between contributions and proportionate share of contributions | | |
| Contributions subsequent to the measurement date | 16,646.00 | |
| TOTAL | 16,646.00 | 15,156.57 |

| PERS 2/3 | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|---|
| Differences between expected and actual experience | 25,990.88 | |
| Net difference between projected and actual investment earnings on pension plan investments | | 65,271.07 |
| Changes of assumptions | 393.95 | |
| Changes in proportion and differences between contributions and proportionate share of contributions | 2,413.24 | |
| Contributions subsequent to the measurement date | 21,741.00 | |
| TOTAL | 50,539.07 | 65,271.07 |

Deferred outflows of resources related to pensions resulting from the District's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2016. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows.

| Year ended December 31: | PERS 1 |
|---|---|
| 2016 | -5,874 |
| 2017 | -5,874 |
| 2018 | -5,874 |
| 2019 | 2,466 |

| Year ended December 31: | PERS 2/3 |
|---|---|
| 2016 | -17,011 |
| 2017 | -17,011 |
| 2018 | -17,011 |
| 2019 | 14,562 |

**Required Supplementary Information (RSI) - all cost-sharing employers**

Douglas County Sewer District
Schedule of Proportionate Share of the Net Pension Liability
PERS Plan 1
As of June 30

| PERS Plan 1 | 2015 | 2016 |
|---|---|---|
| Employer's proportion of the net pension liability (asset) | 0.0052960% | 0.0060970% |
| Employer's proportionate share of the net pension liability | 277,030 | 327,438 |
| Employer's covered employee payroll | 607,096 | 724,815 |
| Employer's proportionate share of the net pension liability as a percentage of covered employee payroll | 45.63% | 45.18% |
| Plan fiduciary net position as a percentage of the total pension liability | 59.10% | 57.03% |

Schedule of Proportionate Share of the Net Pension Liability
PERS Plan 2/3
As of June 30

| PERS Plan 2/3 | 2015 | 2016 |
|---|---|---|
| Employer's proportion of the net pension liability (asset) | 0.0068430% | 0.0078220% |
| Employer's proportionate share of the net pension liability | 244,504 | 393,832 |
| Employer's covered employee payroll | 607,096 | 724,815 |
| Employer's proportionate share of the net pension liability as a percentage of covered employee payroll | 40.27% | 54.34% |
| Plan fiduciary net position as a percentage of the total pension liability | 89.20% | 85.82% |

## Schedule of Employer Contributions
## PERS 1
## As of December 31,

| PERS 1 | 2015 | 2016 |
|---|---|---|
| Statutorily required contributions | 29,789 | 36,500 |
| Contributions in relation to the statutorily or contractually required contributions | -29,789 | -36,500 |
| Contribution deficiency (excess) | 0 | 0 |
| Covered employer payroll | 677,552 | 765,192 |
| Contributions as a percentage of covered employee payroll | 4.40% | 4.77% |

## Schedule of Employer Contributions
## PERS 2/3
## As of December 31,

| PERS Plan 2/3 | 2015 | 2016 |
|---|---|---|
| Statutorily required contributions | 38,268 | 47,671 |
| Contributions in relation to the statutorily or contractually required contributions | -38,268 | -47,671 |
| Contribution deficiency (excess) | 0 | 0 |
| Covered employer payroll | 677,552 | 765,192 |
| Contributions as a percentage of covered employee payroll | 5.65% | 6.23% |

# 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 | |
|---|---|
| **Public Records requests** | PublicRecords@sao.wa.gov |
| **Main telephone** | (360) 902-0370 |
| **Toll-free Citizen Hotline** | (866) 902-3900 |
| **Website** | www.sao.wa.gov |