Office of the Washington State Auditor
Pat McCarthy

Financial Statements Audit Report

Southwest Suburban Sewer District

For the period January 1, 2017 through December 31, 2017

Published November 13, 2018

Report No. 1022499

Office of the Washington State Auditor
Pat McCarthy

November 13, 2018

Board of Commissioners
Southwest Suburban Sewer District
Burien, Washington

Report on Financial Statements

Please find attached our report on the Southwest Suburban Sewer District's financial statements.

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

Sincerely,

Pat McCarthy

State Auditor

Olympia, WA

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

Southwest Suburban Sewer District
January 1, 2017 through December 31, 2017

Board of Commissioners
Southwest Suburban Sewer District
Burien, Washington

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the Southwest Suburban Sewer District, as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated October 16, 2018.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

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

COMPLIANCE AND OTHER MATTERS

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

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

PURPOSE OF THIS REPORT

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

Pat McCarthy

Pat McCarthy

State Auditor

Olympia, WA

October 16, 2018

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Southwest Suburban Sewer District
January 1, 2017 through December 31, 2017

Board of Commissioners
Southwest Suburban Sewer District
Burien, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the Southwest Suburban Sewer District, as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed on page 9.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Southwest Suburban Sewer District, as of December 31, 2017, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplementary information listed on page 9 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated

October 16, 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

October 16, 2018

FINANCIAL SECTION

Southwest Suburban Sewer District
January 1, 2017 through December 31, 2017

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2017

BASIC FINANCIAL STATEMENTS

Statement of Net Position – 2017
Statement of Revenues, Expenses and Changes in Net Position – 2017
Statement of Cash Flows – 2017
Notes to Financial Statements – 2017

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Proportionate Share of Net Pension Liability – PERS 1 and PERS 2/3 – 2017
Schedule of Employer Contributions – PERS 1 and PERS 2/3 – 2017

SOUTHWEST SUBURBAN SEWER DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2017

INTRODUCTION

As management of Southwest Suburban Sewer District ("the District"), we have prepared a narrative overview and analysis of the financial activities of the District for the fiscal years ending December 31, 2017. We encourage readers to consider the information presented here in conjunction with the financial statements, including the notes to the financial statements, which follow.

The following Management's Discussion and Analysis is intended to serve as an introduction to the District's basic financial statements, the notes to the financial statements and, if applicable, any other supplementary information required as part of the basic financial statements. Please refer to the accompanying Notes to the Financial Statements regarding capital asset and long-term liability activity, which can be found on pages 18-21.

The District is not legally required to adopt a budget, however, does so as a measure of monitoring revenues and controlling expenses. The Board of Commissioners adopts an annual budget and uses it as a financial plan for the District. The District has not reported budgetary comparison schedules herein as required supplementary information.

The District's financial statements present a Special Purpose District organized under the laws of the State of Washington, Revised Code of Washington (RCW), Title 57, to provide sanitary sewer service to specific areas in Clark County, Washington. The District is not a segment of any other local government nor is it a component unit thereof. The financial statements are presented in a manner similar to a private-sector business.

The District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities (i.e. sewer service). The District reports its activities as an enterprise fund, which is a type of proprietary fund. Enterprise funds are used to report the same functions presented as business-type activities; as such, the District uses the enterprise fund to account for all its activities.

The *Statement of Net Position* presents information on all the District's assets, deferred outflows, liabilities and deferred inflows with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The *Statement of Revenues, Expenses and Changes in Fund Net Position* display the change in the District's net position during the most recent fiscal year. All changes in net position are reported as soon as the underlying event occurs regardless of the timing of related cash flows.

The *Statement of Cash Flows* presents the cash flow from operations, non-capital financing and from capital and related financing, as well as from investing activities.

SOUTHWEST SUBURBAN SEWER DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2017

Financial Highlights

- For 2017, the assets of the District exceeded its liabilities by $77,798,987. Of this amount, $15,730,974 is classified as unrestricted and may be used to meet the District's ongoing obligations. The District has restricted funds of $2,306,656 at December 31, 2017 for debt service reserve.

- The District's change in net position was $3,348,090 for 2017. The 2017 increase is primarily a result of capital contributions from developers and connection charges totaling $1,672,735. Additionally, the total net operating income was increased by $945,694, leading to a total change in net position from 2016 to 2017 of $1,378,370.

- In 2017, the District made regular principal payments on its outstanding sewer revenue bonds of $835,000 and PWTF loans of $514,963.

Assets, Deferred Outflows, Liabilities, Deferred Inflows, and Net position
December 31, 2017 and 2016

			2017 to 2016	
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	**2017**	**2016**	**Change**	**%**
Current assets	$ 18,917,431	$ 19,383,169	$ (465,738)	-2.4%
Sewer revenue bond redemption funds	2,306,656	2,377,640	(70,984)	-3.0%
Cash and cash equivalents - construction fund, restricted	-	5,491,681	(5,491,681)	100%
Capital assets, net	76,727,011	68,468,909	8,258,102	12.1%
Assessments and contracts receivable, net of current portion	1,121,236	1,152,422	(31,186)	-2.7%
Total assets	99,072,334	96,873,821	2,198,512	
Deferred outflows of resources	365,514	438,706	(73,192)	-16.7%
Total assets and deferred outflows of resources	$ 99,437,848	$ 97,312,527	$ 2,125,320	
LIABILITIES AND DEFERRED INFLOWS OF RESOURCES				
Current liabilities	$ 2,914,942	$ 2,760,066	$ 154,876	5.6%
Long-term liabilities	18,346,366	20,005,864	(1,659,498)	-8.3%
Total liabilities	21,261,308	22,765,930	(1,504,622)	
Deferred inflows of resources	377,553	95,700	210,810	220.3%
Total liabilities and deferred inflows of resources	21,638,861	22,861,630	(1,293,812)	
NET POSITION				
Net Investment in Capital Assets	59,761,357	55,626,938	4,134,419	7.4%
Restricted for bond repayment	2,306,656	2,377,640	(70,984)	-3.0%
Unrestricted	15,730,974	16,446,319	(715,345)	-4.3%
Total net position	$ 77,798,987	$ 74,450,897	$ 3,348,090	

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

Investment in capital assets includes land, buildings, pump stations, collection and transmission lines, machinery and equipment, construction work in progress and intangible assets. The District’s total net capital assets as of December 31, 2017, were $76.7 million. This increase of $8.3 million or 12.1% from 2016 is due to the major capital assets events during the fiscal year, including the following:

- The new Administration and Maintenance Facility project spent $8.6 Million in 2017.
- In 2017, the District upgrade pump stations 14 & 15 for a total of $1.5 Million.

CAPITAL ASSETS, NET
December 31, 2017 and 2016

	2017	2016	Change
Land	$ 3,984,950	$ 3,984,950	$ -
Construction in progress	18,112,489	7,790,865	10,321,624
Capital assets not being depreciated	22,097,439	11,775,815	10,321,624
Utility plant and machinery and equipment	129,442,892	128,842,689	600,203
Accumulated depreciation	(74,813,320)	(72,149,595)	(2,663,725)
Capital assets being depreciated	54,629,572	56,693,094	(2,063,522)
Total capital assets	$ 76,727,011	$ 68,468,909	$ 8,258,102

Long-Term Liabilities

- During 2017, the District decreased its loan liabilities by a total of $1,393,766. This decrease was solely driven by regular principal payments on outstanding loans.
- Loans payable of $16,965,654 at year end include the following:
  - $3,375,423 in Public Works Trust Fund Loan and
  - $13,590,231 in Sewer Revenue Bonds
- Additional information on the District's capital assets and long-term debt can be found in Notes 5 and 6 of this report.
- On March 29, 2018, the District issued $16,175,000 in Sewer Improvement and Refunding bonds to provide moneys that are necessary to pay to (i) pay the cost of certain improvements to the System set forth in the District’s Comprehensive Plan; (ii) refund the District’s outstanding Sewer Revenue Bonds, 2008 to achieve a debt service savings; (iii) fund the Reserve Requirement; and (iv) pay the costs of issuance and sale of the Bonds. The bonds bear interest rates from 3.00 to 4.5 percent and will be redeemed over the next 20 years with proceeds from the Sewer revenues.

SOUTHWEST SUBURBAN SEWER DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2017

REVENUE, EXPENSES, AND CHANGES IN NET POSITION
For the Years Ended December 31, 2017 and 2016

	2017	2016	2017 to 2016 Change	%
Operating Revenue				
Sewer revenue	$ 10,751,353	$ 10,204,811	$ 546,542	5.4%
Permits income	55,308	44,422	10,886	24.5%
Late charge income	103,698	114,397	(10,699)	-9.4%
Total operating revenue	10,910,359	10,363,630	546,729	5.3%
Operating Expenses			-	
Depreciation	2,663,725	2,668,801	(5,076)	-0.2%
Sewage treatment	2,000,077	2,094,065	(93,988)	-4.5%
General and administrative	3,161,500	3,193,536	(32,036)	-1.0%
Biosolids management	384,890	357,159	27,731	7.8%
Collection and transmission	624,683	689,344	(64,661)	-9.4%
Pumping	269,720	234,467	35,253	15.0%
Total operating expenses	9,104,594	9,237,372	(132,778)	-1.4%
Net operating income	1,805,765	1,126,258	679,507	60.3%
Nonoperating Revenue (Expenses)				
Interest and other investment income	292,887	279,107	13,780	4.9%
Interest expense	(467,341)	(485,444)	18,103	-3.7%
Miscellaneous income	14,231	40,462	(26,231)	-64.8%
Street lighting, net	29,814	(29,419)	59,233	-201.3%
Income before contributions in aid of construction	1,675,355	930,964	744,391	80.0%
Contributions in Aid of Construction				
Charges in lieu of assessments	56,626	77,642	(21,016)	-27.1%
General facilities charges and other	874,708	323,116	551,592	170.7%
Installment contracts (non-cash)	298,296	637,998	(339,702)	-53.2%
Contribution In Aid of Revenue (DE Complete)	443,105	-	443,105	
Total contributions in aid of construction	1,672,735	1,038,756	633,979	61.0%
Change in net position	**$ 3,348,090**	**$ 1,969,720**	**$ 1,378,370**	70.0%
Net Position, beginning of year, as originally reported	$ 74,450,897	$ 72,481,177	$ 1,969,720	2.7%
Change in Net Position	3,348,090	1,969,720	1,378,370	70.0%
Net Position, end of year	$ 77,798,987	$ 74,450,897	$ 3,348,090	4.5%

SOUTHWEST SUBURBAN SEWER DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2017

The comparative statement of revenue, expenses, and changes in fund net position shows how the District's net position changed during the most recent fiscal year compared to the prior year. These changes are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, some revenue and expenses reported in this statement will affect future period cash flows (e.g., uncollected receivables).

This statement, in part, measures the success of the District's operations to collect enough revenue to pay for the costs of providing the Sewer services. It also reports other non- operating revenue and expenses such as investment interest income and bond interest expense. This comparative statement provides interesting information that can be compared and analyzed.

- Operating revenues increased in 2017 by $546,729 or 5.5% due partially to a $1.25 increase in rates and partially due to an increase in number of connections to sewer service, actual Residential Equivalent Unit (REU's) growth was 183 and 307 REU's for 2017 and 2016, respectively. Interest and investment income in 2017 increased by 4.9% from 2016.

- Miscellaneous revenue decreased by $26,231 in 2017 and offset with the increase in Street Light Income which was primarily driven by the receipt of a credit from Seattle City Light for billing the lights at HPS rates after City Light had converted the lights to LED.

- The District General Facility Charge (GFC) revenues increase by $551,592 or 170.7% primarily an increase in development project and partially offset with a decrease in installment contracts. The revenue from this charge is used for new infrastructure and capital projects within the District service area.

- The remaining increase in aid of contributions is a result of increased donated capital. The District received $443,105 in 2017. This contribution is a result of completed developer extension (DE) within the District's service area.

- Operating expenses for 2017 decreased over 2016 by $133,000 or 1.4%. The main drivers for this decrease was an expense saving from various district operation cost, includes sewage treatment, general, administrative expenses and a savings on collection and transmission expenses.

Notes to the Basic Financial Statements

The notes to the District's basic financial statements can be found on pages 14 through 31 of this report. These notes provide additional information that are essential to a full understanding of the basic financial statements.

Economic Outlook

The District is no longer feeling the effects of the prolonged recession of the past 9-10 years. Delinquencies and liens are still occurring, but are much fewer than in years past. We are seeing consistent growth through district extensions, developer extensions, and new homes.

The Board of Commissioners did raise the residential and commercial rates in March of 2017, from $31.50 to $32.75 per month. At $32.75 per month, the District still has the second lowest monthly sewer rates in King County, Washington, and is committed to keeping rates as low as possible while still providing quality sewer service.

The District continues its commitment to spend approximately $2 million per year replacing and rehabilitating the District's collection, pumping, and treatment systems to ensure cost effective sewer service.

Request for Information

This financial report is designed to provide a general overview of the District's finances for all those with an interest in its finances. Questions concerning any of the information provided in this report, or requests for additional financial information should be addressed to the General Manager, Southwest Suburban Sewer District, 17840 Des Moines Memorial DR S, Burien WA 98148

SOUTHWEST SUBURBAN SEWER DISTRICT

STATEMENT OF NET POSITION
As of December 31, 2017

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	2017
Current Assets	
Cash and cash equivalents	
Maintenance fund	$ 8,349,970
Construction fund, unrestricted	7,904,880
Accrued interest receivable	23,028
Accounts receivable	2,355,310
Prepayments and advances	104,845
Current portion of assessments and contracts receivable	179,398
Total current assets	18,917,431
Noncurrent Assets	
Sewer revenue bond redemption funds	
Cash and cash equivalents - bond fund	1,957,234
Interest receivable on redemption fund investments	-
ULID assessments receivable	349,422
Total sewer revenue bond redemption funds	2,306,656
Capital assets not being depreciated	22,097,439
Capital assets being depreciated	54,629,572
Assessments and contracts receivable, net of current portion	1,121,236
Total noncurrent assets	80,154,903
Total assets	99,072,334
Deferred outflows related to pensions	365,514
Total assets and deferred outflows of resources	$ 99,437,848

The notes to the financial statements are an integral part of this statement

SOUTHWEST SUBURBAN SEWER DISTRICT

STATEMENT OF NET POSITION
(Continued)
As of December 31, 2017

LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	2017
Current Liabilities	
Accounts payable, maintenance fund	$ 343,372
Accounts payable, construction fund	614,326
Accrued interest payable	86,729
Retainage due to contractors	583,932
Current portion of long-term liabilities	1,286,583
Total current liabilities	2,914,942
Net Pension Liability	2,082,877
Long-Term Liabilities, less current portion	16,263,489
Total liabilities	21,261,308
Deferred Inflows Related to Pensions	377,553
Total liabilities and deferred inflows of resources	21,638,861
NET POSITION	
Net Investment in Capital Assets	59,761.357
Restricted for bond repayment	2,306,656
Unrestricted	15,730,974
Total net position	$ 77,798,987

The notes to the financial statements are an integral part of this statement

SOUTHWEST SUBURBAN SEWER DISTRICT

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
For the Years Ended December 31, 2017

	2017
Operating Revenue	
Sewer revenue	$ 10,751,353
Permits income	55,308
Late charge income	103,698
Total operating revenue	10,910,359
Operating Expenses	
Depreciation	2,663,725
Sewage treatment	2,000,077
General and administrative	3,161,500
Biosolids management	384,890
Collection and transmission	624,683
Pumping	269,720
Total operating expenses	9,104,594
Net operating income	1,805,765
Nonoperating Revenue (Expenses)	
Interest and other investment income	292,887
Interest expense	(467,341)
Miscellaneous income	14,231
Street lighting, net	29,814
Income before contributions in aid of construction	1,675,355
Contributions in Aid of Construction	
Charges in lieu of assessments	56,626
General facilities charges and other	874,708
Installment contracts (non-cash)	298,296
Contribution In Aid of Revenue (DE Complete)	443,105
Total contributions in aid of construction	1,672,735
Change in net position	**$ 3,348,090**
Net Position, beginning of year, as originally reported	$ 74,450,897
Change in Net Position	3,348,090
Net Position, end of year	$ 77,798,987

The notes to the financial statements are an integral part of this statement

SOUTHWEST SUBURBAN SEWER DISTRICT

STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2017

		2017
Cash Flows from Operating Activities		
Cash received from customers	$	10,761,551
Cash paid to suppliers		(3,885,339)
Cash paid to employees		(2,778,840)
Net cash flows from operating activities		4,097,372
Cash Flows from Capital and Related Financing Activities		
Acquisition and construction of capital assets		(10,234,879)
Principal payments on sewer revenue bonds		(835,000)
Principal payments on loans payable		(514,963)
Interest paid on sewer revenue bonds and loans payable		(485,377)
Cash received in aid of construction		931,334
Net cash flows from capital and related financing activities		(11,138,884)
Cash Flows from Investing Activities		
Interest received on investments		229,155
Principal received on contracts		581,454
Interest received on assessments and contracts		55,850
Net cash flows from investing activities		866,459
Net change in cash and cash equivalents		**(6,175,053)**
Cash and Cash Equivalents, beginning of year		24,387,138
Cash and Cash Equivalents, end of year (See Note 3)	$	18,212,085

The notes to the financial statements are an integral part of this statement

SOUTHWEST SUBURBAN SEWER DISTRICT

STATEMENTS OF CASH FLOWS
(Continued)
For the Years Ended December 31, 2017

		2017
Reconciliation of Net Operating Income to Net		
Cash Flows from Operating Activities		
Net operating income	$	1,805,765
Depreciation		2,663,725
Change in operating assets and liabilities		
Accounts receivable		(202,447)
Prepayments and advances		(17,823)
Accounts payable and accrued expenses		(181,827)
Accrued compensated absences		51,012
Deferred outflows		73,192
Deferred inflows		281,853
Net pension liability		(405,891)
Other		29,814
Net cash flows from operating activities	$	4,097,372

The notes to the financial statements are an integral part of this statement

Note 1. Organization and Summary of Significant Accounting Policies

Organization

Southwest Suburban Sewer District ("the District") was created under the laws of the State of Washington by King County Commissioners' Resolution No. 9607 dated April 30, 1945, for the purpose of constructing, maintaining, and operating a sewer system and treatment plant within the boundaries of the District. As a governmental entity, the District is not subject to federal income tax.

Reporting Entity

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

Basis of Accounting and Presentation

The accounting records of the District are maintained in accordance with methods prescribed by the Washington State Auditor under the authority of Chapter 43.09 of the Revised Code of Washington ("RCW"). The District uses the Uniform System of Accounts for Class A & B Water and Sewer Utilities as prescribed by the National Association of Regulatory Utility Commissioners, which does not differ materially from accounting principles generally accepted in the United States. The District uses the accrual basis of accounting, where revenues are recognized when earned and expenses are recognized when incurred.

The District distinguishes between operating revenues and expenses from non-operating ones. Operating revenues are derived from the sewer services provided to the ratepayers of the District. Operating expenses include the cost of providing sewer services (i.e. maintenance, engineering, treatment and administration), as well as depreciation and amortization of capital assets. All revenues and expenses not meeting the above criteria are reported as non-operating revenues and expenses, such as interest income and expense.

Accounts Receivable

Accounts receivables represent user charges for sewer services, which are recognized as earned. All accounts receivables are due from users within the service area of the District. Since the District records liens on the property served and, ultimately, may foreclose on such property, payments on delinquent accounts are eventually received.

Assessments and Contracts Receivable

Assessments and contracts receivable are due from property owners for improvements the District has financed. Property owners repay amounts due over a 10 to 15-year period. These assessments and contracts receivable are reported at their principal amounts. An allowance for uncollectible amounts was not required at December 31, 2016 or 2015. Interest rates on these receivables are determined by the Board of Commissioners and vary from 2% to 5%.

Capital Assets

Capital assets are defined by the District as assets with an initial individual cost of more than $10,000 and an estimated useful life in excess of three years. Utility plant in service and other fixed assets are recorded at cost. Donations by developers and customers ("contributions in aid of construction") are recorded at the donor's costs.

The District uses the two-percent-composite method in computing depreciation for most of its physical property. Machinery and equipment is being depreciated using the straight-line method over the estimated useful lives of the assets.

Preliminary planning and design costs incurred for proposed projects are deferred pending construction of the facility. When the projects are completed, their costs are transferred to capitalized utility plant; costs relating to those projects abandoned are charged to expense when it is determined that they will not be completed. Expenditures not associated with construction are expensed as incurred.

Compensated Absences

The District accrues accumulated but unpaid compensated absences related to vacation and sick leave as earned. Total accrued unpaid compensated absences (vacation and sick leave) amounted to $584,419 at December 31, 2017.

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of all state sponsored pension plans and additions to/deductions from those plans' fiduciary net position have been determined on the same basis as they are reported by the Washington State Department of Retirement Systems. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Deferred Inflows/Outflows of Resources

Deferred outflows of resources represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources until then. Deferred inflows of resources represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources until that time.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

Note 2. Statements of Cash Flows

Cash and cash equivalents in the statements of cash flows include the following:

	2017
Held for operations and construction	
Maintenance fund invested in the Pool (see Note 4)	$ 8,313,775
Maintenance fund invested in the Impaired Pool	7,585
Maintenance fund - demand deposits	28,610
	8,349,970
Construction fund invested in the Pool (see Note 4)	7,893,889
Construction fund invested in the Impaired Pool	10,991
	7,904,880
Held for the redemption of bonds	
Bond fund invested in the Pool (see Note 4)	1,956,804
Bond fund invested in the Impaired Pool	430
	1,957,234
Total cash and cash equivalents	$ 18,212,084

For purposes of the statements of cash flows, the District considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

Note 3. Investments in King County Finance Division Pool

The District has entered into an investment pool ("the Pool") agreement with the King County Finance Division. Under this agreement, the District advances funds to the King County Finance Division. These funds are pooled with other funds and are commonly invested. The District accounts for its investment in the Pool at amortized cost, which usually approximates fair value. Investment income is allocated to the District in proportion to its average balance in the Pool on a quarterly basis. District deposits are covered by the Federal Deposit Insurance Corporation or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission.

As of December 31, 2017, the District had the following invested in the Pool:

Investment Type	Amortized Cost (as adjusted)	Fair Value	Effective Duration
Maintenance Fund	$ 8,313,775	$ 8,296,316	1.02 Years
Construction Fund	7,893,888	7,877,311	1.02 Years
Bond Fund	1,956,804	1,952,695	1.02 Years

***Impaired Investments*.** As of December 31, 2016, all impaired commercial paper investments have completed enforcement events. The King County impaired investment pool (Impaired Pool) held one commercial paper asset where the Impaired Pool accepted an exchange offer and is receiving the cash flows from the investment's underlying securities. The Impaired Pool also held the residual investments in two commercial paper assets that were part of completed enforcement events, where the Impaired Pool accepted the cash-out option. The District's share of the impaired investment pool (which is included in cash balances at fair value) is as follows as of December 31:

		2017
Principal (maximum risk of loss)	$	28,201
Unrealized loss		(9,195)
Fair value	$	19,006

Interest Rate Risk: As of December 31, 2017, the Pool's average duration was 1.02 years. As a means of limiting its exposure to rising interest rates, securities purchased in the Pool must have a final maturity, or weighted average life, no longer than five years. While the Pool's market value is calculated on a monthly basis, unrealized gains and losses are not distributed to participants. The Pool distributes earnings monthly using an amortized cost methodology.

***Credit Risk*.** As of December 31, 2017, the district's investment in the Pool was not rated by a nationally recognized statistical rating organization (NRSRO). In compliance with state statutes, Pool policies authorize investments in U.S. Treasury securities, U.S. agency securities and mortgage-backed securities, corporate note (rated at least "A"), municipal securities (rated at least "A" by two NRSROs), commercial paper (rated at least the equivalent of "A-1" by two NRSROs), certificates of deposits issued by qualified public depositaries, repurchase agreements, and the Local Government Investment Pool managed by the Washington State Treasurer's office.

All amounts administered by the King County Finance Division are restricted for payment of maintenance and other operating costs, construction costs, and/or repayment of bonds.

Note 4. Capital Assets

Capital assets activity for the year ended December 31, 2017, was as follows:

	2016	Increase	Decrease	Transfers	2017
Utility plant not being depreciated					
Land	$ 3,984,950	$ -	$ -	$ -	$ 3,984,950
Construction work in progress	7,790,865	10,360,587		(38,963)	18,112,489
Total utility plant not being depreciated	11,775,815	10,360,587	-	(38,963)	22,097,439
Utility plant and machinery and equipment					
Collection and transmission lines	67,721,134	443,105			68,164,239
Plant structures and improvements	43,176,994	45,870		38,963	43,261,827
Pump stations	4,982,541				4,982,541
Machinery and equipment	10,375,023	53,773			10,428,796
Other	2,586,997	18,492			2,605,489
Total utility plant and machinery and equipment being depreciated	128,842,689	561,240	-	38,963	129,442,892
Less accumulated depreciation for:					
Collection and transmission lines	28,036,149	1,367,514			29,403,663
Plant structures and improvements	29,752,292	942,889			30,695,181
Pump stations	2,740,416	142,045			2,882,461
Machinery and equipment	9,762,915	128,301			9,891,216
Other	1,857,824	82,977			1,940,801
Total accumulated depreciation	72,149,596	2,663,725	-	-	74,813,320
Total utility plant and machinery and equipment being depreciated, net	56,693,093	(2,102,485)	-	38,963	54,629,572
Total capital assets	$68,468,908	$ 8,258,102	$ -	$ (0)	$76,727,011

Construction in progress at December 31, 2017, consists primarily of the new administrative and maintenance facility and Pump Station 14&15 upgrade projects. No interest was capitalized in 2017 because the amounts would have been immaterial.

Note 5. Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2017, was as follows:

	2016	Additions	Reductions	2017	Amount Due Within One Year
Loans Payable:					
1997 Public Works Trust Fund Loan	112,599		112,599	-	-
2000 Public Works Trust Fund Loan	316,015		79,003	237,012	79,003
2006 Public Works Trust Fund Loan	2,092,762		209,276	1,883,486	209,276
2008 Public Works Trust Fund Loan	1,369,011		114,085	1,254,925	114,084
Total loans payable	3,890,387		514,963	3,375,423	402,363
Bonds Payable:					
2008 Sewer Revenue Bonds	1,480,000		100,000	1,380,000	100,000
2011 Sewer Revenue Bonds	3,097,708		159,180	2,938,528	160,000
2014 A Sewer Revenue Bonds	9,865,559		593,856	9,271,703	595,000
Total bonds payable	14,443,267		853,036	13,590,231	855,000
Compensated Absences	533,407	51,011	-	584,419	29,221
Long-Term Liabilities	$ 8,867,061	$ 51,011	$ 1,367,999	$ 17,550,073	$ 1,286,584

The terms associated with loans payable at December 31, 2017 are as follows:

	2017
2000 Public Works Trust Fund Loan, due in annual installments of $79,003, plus interest at 1% through July 1, 2020	237,012
2006 Public Works Trust Fund Loan, due in annual installments of $209,277, plus interest at 0.5% through July 1, 2026	1,883,486
2008 Public Works Trust Fund Loan, due in annual installments of $170,580, plus interest at 0.5% through July 1, 2028	1,254,925
	$ 3,375,423

	Principal	Interest	Total
2018	402,364	18,062	420,426
2019	402,364	15,655	418,019
2020	402,364	13,248	415,612
2021	323,360	10,841	334,201
2022	323,360	9,225	332,585
2023-2026	1,293,442	20,732	1,314,174
2027-2028	228,169	1,711	229,880
	$ 3,375,423	$ 89,474	$ 3,464,897

The terms associated with bonds payable at December 31, 2017 are as follows:

	2017
$2,145,000 2008 revenue and refunding bonds due in remaining annual principal installments of $100,000 to $155,000 through May 2028; interest varies from 4.00% to 4.15%.	1,380,000
$3,750,000 2011 revenue and refunding bonds due in remaining annual principal installments of $160,000 to $265,000 through May 2031; interest varies from 3.00% to 4.00%; includes unamortized premium of $58,528 at December 31, 2017.	2,938,528
$9,995,000 2014 A revenue and refunding bonds due in remaining annual principal installments of $595,000 to $640,000 through May 2034; interest varies from 2.00% to 4.00%; includes unamortized premium of $221,703 at December 31, 2017.	9,271,703
	$ 13,590,231

Scheduled future repayments on the sewer revenue bonds are as follows at December 31:

	Principal	Interest	Total
2018	855,000	443,810	1,298,810
2019	875,000	416,794	1,291,794
2020	865,000	389,555	1,254,555
2021	710,000	364,749	1,074,749
2022	740,000	340,841	1,080,841
2023-2026	3,210,000	1,096,518	4,306,518
2027-2031	4,205,000	697,047	4,902,047
2032-2034	1,850,000	107,920	1,957,920
	13,310,000	$ 3,857,234	$ 17,167,234
Unamortized premium	280,231		
	$ 13,590,231		

Note 6– Pension Plans

The following table represents the aggregate pension amounts for all plans subject to the requirements of the GASB Statement 68, *Accounting and Financial Reporting for Pensions* for the year 2017:

Aggregate Pension Amounts – All Plans	
Pension liabilities	$ 2,082,877
Deferred outflows of resources	$ 365,514
Deferred inflows of resources	$ 377,553
Pension expense/expenditures	$ 279,354

State Sponsored Pension Plans

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

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

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

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

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 2017 were as follows:

PERS Plan 1		
Actual Contribution Rates	**Employer**	**Employee***
January - June 2017:		
PERS Plan 1	6.23%	6.00%
PERS Plan 1 UAAL	4.77%	
Administrative Fee	0.18%	
Total	**11.18%**	**6.00%**
July - December 2017:		
PERS Plan 1	7.49%	6.00%
PERS Plan 1 UAAL	5.03%	
Administrative Fee	0.18%	
Total	**12.70%**	**6.00%**

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 2017 were as follows:

PERS Plan 2/3		
Actual Contribution Rates	**Employer 2/3**	**Employee 2***
January – June 2017:		
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%**
July – December 2017:		
PERS Plan 2/3	7.49%	7.38%
PERS Plan 1 UAAL	5.03%	
Administrative Fee	0,18%	
Employee PERS Plan 3		Varies
Total	**12.70%**	**7.38%**

The district's actual PERS plan contributions were $137,650 to PERS Plan 1 and $192,553 to PERS Plan 2/3 for the year ended December 31, 2017.

Actuarial Assumptions

The total pension liability (TPL) for each of the DRS plans was determined using the most recent actuarial valuation completed in 2017 with a valuation date of June 30, 2016. 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* and the *2015 Economic Experience Study*.

Additional assumptions for subsequent events and law changes are current as of the 2016 actuarial valuation report. The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2017. Plan liabilities were rolled forward from June 30, 2016, to June 30, 2017, 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 changes in methods and assumptions since the last valuation.

- For all plans except LEOFF Plan 1, how terminated and vested member benefits are valued was corrected.

- How the basic minimum COLA in PERS Plan 1 is valued for legal order payees was improved.

- For all plans, the average expected remaining service lives calculation was revised.

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. In selecting this assumption, the Office of the State Actuary (OSA) reviewed the historical experience data, considered the historical conditions that produced past annual investment returns, and considered capital market assumptions and simulated expected investment returns provided by the Washington State Investment Board (WSIB). The WSIB uses the capital market assumptions and their target asset allocation to simulate future investment returns over various time horizons.

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, 2017, 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%	4.90%
Real Estate	15%	5.80%
Global Equity	37%	6.30%
Private Equity	23%	9.30%
	100%	

Sensitivity of the Net Pension Liability/(Asset)

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

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
PERS 1	$ 1,306,662	$ 1,072,625	$ 869,898
PERS 2/3	$ 2,721,725	$ 1,010,252	$ (392,046)

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, 2017, the District reported a total pension liability of $2,082,877 for its proportionate share of the net pension liabilities as follows:

	Liability (or Asset)
PERS 1	$ 1,072,625
PERS 2/3	$ 1,010,252
	$ 2,082,877

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

	Proportionate Share 6/30/16	Proportionate Share 6/30/17	Change in Proportion
PERS 1	0.021069%	0.022605%	0.001536%
PERS 2/3	0.026957%	0.029076%	0.002119%

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*.

Pension Expense

For the year ended December 31, 2017, the District recognized pension expense as follows:

	Pension Expense
PERS 1	$ 145,403
PERS 2/3	$ 133,951
TOTAL	**$ 279,354**

Deferred Outflows of Resources and Deferred Inflows of Resources

At December 31, 2017, 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	$0	$0
Net difference between projected and actual investment earnings on pension plan investments	$0	($40,027)
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	$69,790	$0
TOTAL	**$69,790**	**($40,027)**

PERS 2/3	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$102,362	($33,225)
Net difference between projected and actual investment earnings on pension plan investments	$0	($269,309)
Changes of assumptions	$10,731	$0
Changes in proportion and differences between contributions and proportionate share of contributions	$78,709	($34,992)
Contributions subsequent to the measurement date	$103,922	$0
TOTAL	**$295,724**	**($337,526)**

ALL PLANS	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$102,362	($33,225)
Net difference between projected and actual investment earnings on pension plan investments	$0	($309,336)
Changes of assumptions	$10,731	$0
Changes in proportion and differences between contributions and proportionate share of contributions	$78,709	($34,992)
Contributions subsequent to the measurement date	$173,712	$0
TOTAL	**$365,514**	**($377,553)**

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, 2018. 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
2018	($27,056)
2019	$8,542
2020	($1,983)
2021	($19,530)
2022	$
Thereafter	
Total	**($40,027)**
Year ended December 31:	**PERS 2/3**
2018	($110,320)
2019	$25,340
2020	($14,214)
2021	($95,937)
2022	$21,481
Thereafter	$27,926
Total	**($145,724)**

Note 7– Risk Management

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

The District 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, 2017, there are 540 Enduris members representing a broad array of special purpose districts throughout the state. Enduris provides property and liability coverage as well as risk management services and other related administrative services.

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

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

Enduris acquires reinsurance from unrelated insurance companies on a "per occurrence" basis to cover all losses over the deductibles as shown on the policy maximum limits. Liability coverage is for all lines of liability coverage including Public Official's Liability. The Property coverage is written on an "all risk", blanket basis using current Statement of Values. The Property coverage includes but is not limited to mobile equipment, boiler and machinery, electronic data processing equipment, business interruption, course of construction and additions, property in transit, fine arts, cyber 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.

Note 8– Subsequent Events

On March 29, 2018, the District issued $16,175,000 in Sewer Improvement and Refunding bonds to provide moneys that are necessary to pay to (i) pay the cost of certain improvements to the System set forth in the District's Comprehensive Plan; (ii) refund the District's outstanding Sewer Revenue Bonds, 2008 to achieve a debt service savings; (iii) fund the Reserve Requirement; and (iv) pay the costs of issuance and sale of the Bonds. , all as described in the Bond Resolution and the Official Statement (as defined herein). The bonds bear interest rates from 3.00 to 4.5 percent and will be redeemed over the next 20 years with proceeds from the Sewer revenues.

SOUTHWEST SUBURBAN SEWER DISTRICT

Schedule of Proportionate Share of the Net Pension Liability

PERS 1

As of June 30

Last Four Fiscal Years

		2017	2016	2015	2014
Employer's proportion of the net pension liability (asset)	%	0.022605%	0.021069%	0.022117%	0.022148%
Employer's proportionate share of the net pension liability	$	1,072,625	1,131,504	1,156,925	1,115,716
Covered payroll*	$	2,810,118	2,763,245	2,514,680	2,491,827
Employer's proportionate share of the net pension liability as a percentage of covered payroll	%	38.17%	40.95%	46.01%	44.78%
Plan fiduciary net position as a percentage of the total pension liability	%	61.24%	57.03%	59.10%	61.19%

Notes to the Schedule

Until a full 10-Year trend is compiled, the District will present information for those years for which information is available. There are no changes of benefit terms or changes of assumptions that are expected to significantly affect the amounts reported in the above schedule.

SOUTHWEST SUBURBAN SEWER DISTRICT

Schedule of Proportionate Share of the Net Pension Liability

PERS 2/3

As of June 30

Last Four Fiscal Years

		2017	2016	2015	2014
Employer's proportion of the net pension liability (asset)	%	0.029076%	0.026957%	0.028570%	0.028516%
Employer's proportionate share of the net pension liability	$	1,010,252	1,357,264	1,020,822	576,411
Covered payroll	$	2,810,118	2,763,245	2,514,680	2,491,827
Employer's proportionate share of the net pension liability as a percentage of covered payroll	%	35.95%	49.12%	40.59%	23.13%
Plan fiduciary net position as a percentage of the total pension liability	%	90.97%	85.82%	89.20%	93.29%

Notes to the Schedule

Until a full 10-Year trend is compiled, the District will present information for those years for which information is available. There are no changes of benefit terms or changes of assumptions that are expected to significantly affect the amounts reported in the above schedule.

SOUTHWEST SUBURBAN SEWER DISTRICT

Schedule of Employer Contributions

PERS 1

For the year ended December 31

Last Four Fiscal Years

		2017	2016	2015	2014
Statutorily or contractually required contributions	$	137,650	172,150	109,995	100,451
Contributions in relation to the statutorily or contractually required contributions	$	(137,650)	(172,150)	(109,995)	(100,451)
Contribution deficiency (excess)	$	0	0	0	0
Covered payroll	$	2,810,118	2,763,245	2,514,680	2,491,827
Contributions as a percentage of covered payroll	%	4.90%	6.23%	4.37%	4.03%

Notes to the Schedule

Until a full 10-Year trend is compiled, the District will present information for those years for which information is available. There are no changes of benefit terms or changes of assumptions that are expected to significantly affect the amounts reported in the above schedule.

SOUTHWEST SUBURBAN SEWER DISTRICT

Schedule of Employer Contributions

PERS 2/3

For the year ended December 31

Last Four Fiscal Years

		2017	2016	2015	2014
Statutorily or contractually required contributions	$	192,553	172,150	141,150	124,560
Contributions in relation to the statutorily or contractually required contributions	$	(192,553)	(172,150)	(141,150)	(124,560)
Contribution deficiency (excess)	$	0	0	0	0
Covered payroll	$	2,810,118	2,763,245	2,514,680	2,491,827
Contributions as a percentage of covered payroll	%	6.85%	6.23%	5.61%	5.00%

Notes to the Schedule

Until a full 10-Year trend is compiled, the District will present information for those years for which information is available. There are no changes of benefit terms or changes of assumptions that are expected to significantly affect the amounts reported in the above schedule.

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