



Office of the Washington State Auditor
Pat McCarthy

Financial Statements Audit Report

Highline Water District

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

Published January 17, 2019

Report No. 1022680





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

January 17, 2019

Board of Commissioners
Highline Water District
Kent, Washington

Report on Financial Statements

Please find attached our report on the Highline Water District's financial statements.

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

Sincerely,

A handwritten signature in black ink that reads "Pat McCarthy". The signature is fluid and cursive.

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**

**Highline Water District
January 1, 2017 through December 31, 2017**

Board of Commissioners
Highline Water District
Kent, 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 Highline Water 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 November 14, 2018.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be

material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

COMPLIANCE AND OTHER MATTERS

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

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

PURPOSE OF THIS REPORT

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



Pat McCarthy

State Auditor

Olympia, WA

November 14, 2018

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Highline Water District January 1, 2017 through December 31, 2017

Board of Commissioners
Highline Water District
Kent, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the Highline Water 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 Highline Water 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 November 14, 2018 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

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

Pat McCarthy
State Auditor
Olympia, WA

November 14, 2018

FINANCIAL SECTION

Highline Water 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 – 2017

Schedule of Proportionate Share of Net Pension Liability – PERS 2/3 – 2017

Schedule of Employer Contributions – PERS 1 – 2017

Schedule of Employer Contributions – PERS/3 – 2017

**HIGHLINE WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2017**

INTRODUCTION

Highline Water District was organized in 1946 to provide water services to customers residing within the District boundaries. Currently the District consists of 18-square miles, includes portions of seven cities within King County, and serves 18,450 water meter connections to a population of approximately 70,000 residents and 28,000 employees.

The mission of the Board of Commissioners and employees of Highline Water District is to provide high quality water and excellent customer service while effectively managing District infrastructure for a reliable water system today and for future generations.

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of management's discussion and analysis presents our review of the District's financial position as of December 31, 2017 and our financial performance for the year then ended. Please read these comments in conjunction with the District's financial statements, which follow this section.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

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

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

**HIGHLINE WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2017**

CONDENSED STATEMENTS OF NET POSITION AT DECEMBER 31

	2017	2016
Capital Assets	\$ 88,306,231	\$ 86,733,850
Other Assets	<u>26,095,219</u>	<u>23,352,035</u>
Total Assets	114,401,450	110,085,885
Deferred Outflows of Resources	253,715	404,254
Long-Term Liabilities	6,747,565	8,244,278
Other Liabilities	<u>3,125,353</u>	<u>3,865,784</u>
Total Liabilities	9,872,918	12,110,062
Deferred Inflows of Resources	<u>321,882</u>	<u>76,621</u>
Net Investment in Capital Assets	82,451,411	79,830,687
Restricted for Impaired Investments	21,116	22,903
Unrestricted Amounts	<u>21,987,838</u>	<u>18,449,866</u>
Total Net Position	<u>\$ 104,460,365</u>	<u>\$ 98,303,456</u>

**HIGHLINE WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2017**

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

	2017	2016
OPERATING REVENUES		
Water Distribution Revenue	\$ 16,297,921	\$ 15,766,054
Service Revenue	<u>751,307</u>	<u>470,607</u>
Total Operating Revenues	17,049,228	16,236,661
OPERATING EXPENSES		
Operating Costs	8,204,783	8,131,218
General and Administrative Expenses	3,015,805	2,626,735
Depreciation and Amortization	<u>3,879,017</u>	<u>3,611,240</u>
Total Operating Expenses	<u>15,099,605</u>	<u>14,369,193</u>
OPERATING INCOME	1,949,623	1,867,468
NONOPERATING REVENUE (EXPENSE)		
Investment Income, Net of Service Fees	157,535	138,562
Rental Income	243,365	169,208
Other Income	103,640	78,980
Gain (Loss) on Disposal of Assets	(18,954)	(22,151)
Interest on Long-Term Debt	<u>(24,869)</u>	<u>(18,774)</u>
Total Nonoperating Revenue	460,717	345,825
INCOME BEFORE CAPITAL CONTRIBUTIONS	2,410,340	2,213,293
Capital Contributions	<u>3,746,569</u>	<u>3,021,457</u>
CHANGE IN NET POSITION	6,156,909	5,234,750
Net Position, January 1	<u>98,303,456</u>	<u>93,068,706</u>
NET POSITION - DECEMBER 31	<u><u>\$ 104,460,365</u></u>	<u><u>\$ 98,303,456</u></u>

**HIGHLINE WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2017**

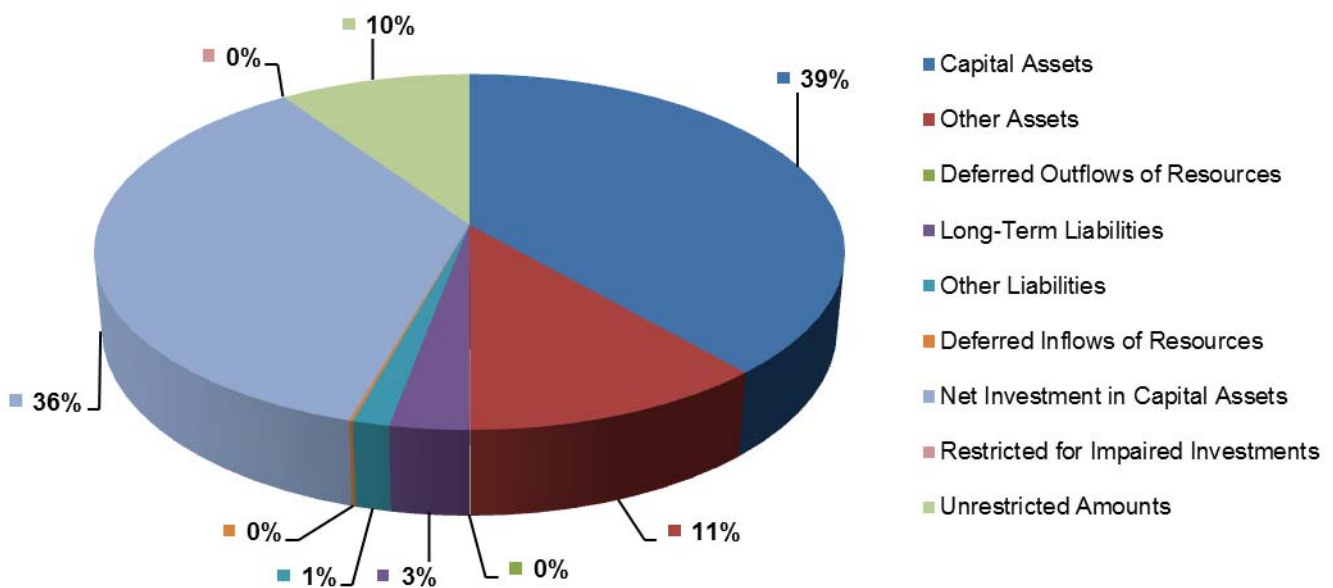
FINANCIAL POSITION

The District's overall financial position continues to be strong and provides sufficient liquidity to support stable, ongoing operations.

The District is financed primarily by equity. Substantial liquid assets are available to fund liabilities and construction. Capital assets increased in 2017 due to growth in the customer base and construction activity to upgrade the system.

The following charts indicate the components of financial position.

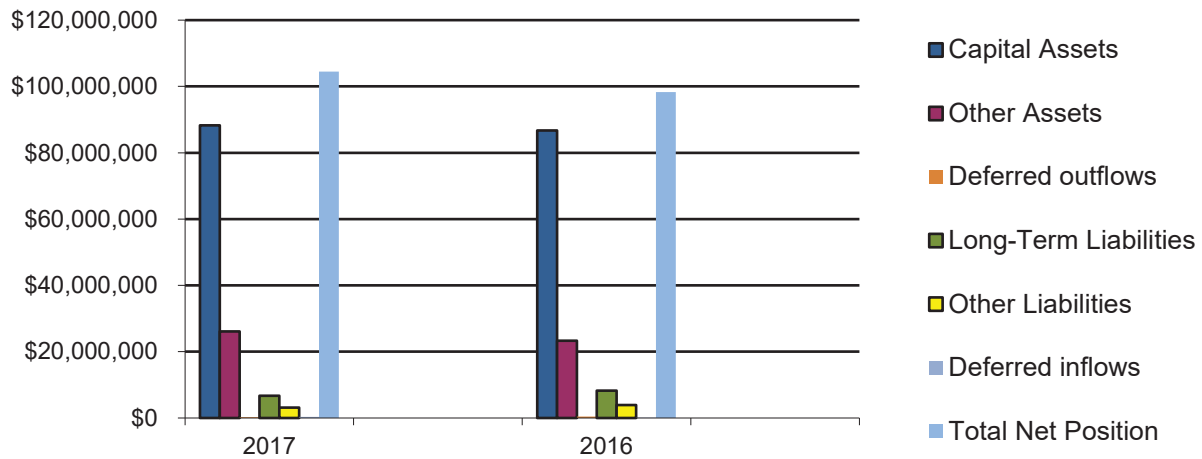
2017 STATEMENT OF NET POSITION



HIGHLINE WATER DISTRICT MANAGEMENT'S DISCUSSION AND ANALYSIS DECEMBER 31, 2017

FINANCIAL POSITION (CONTINUED)

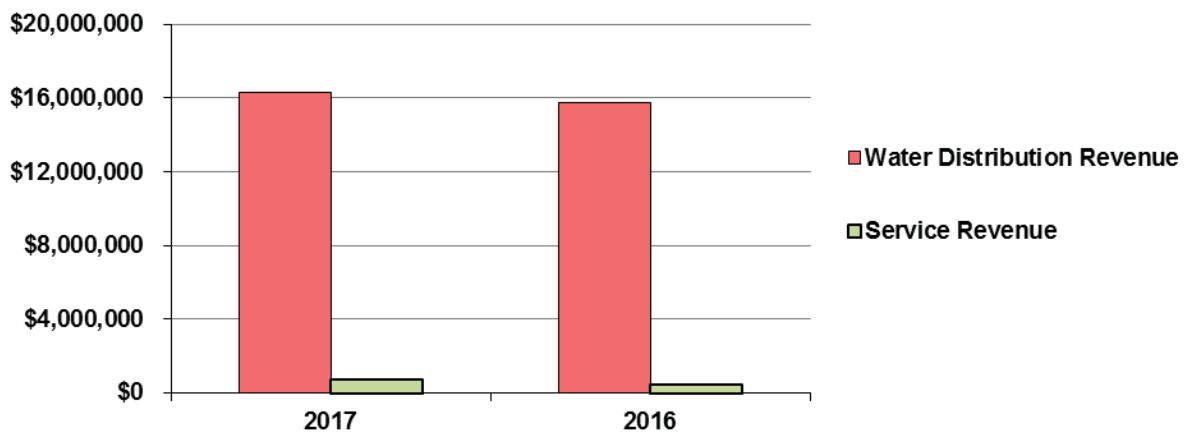
COMPARATIVE STATEMENT OF NET POSITION



RESULTS OF OPERATIONS

Operating revenues are received from two sources: metered water sales and service charges (including street lights). The following chart indicates operating revenue over the last two years.

OPERATING REVENUES



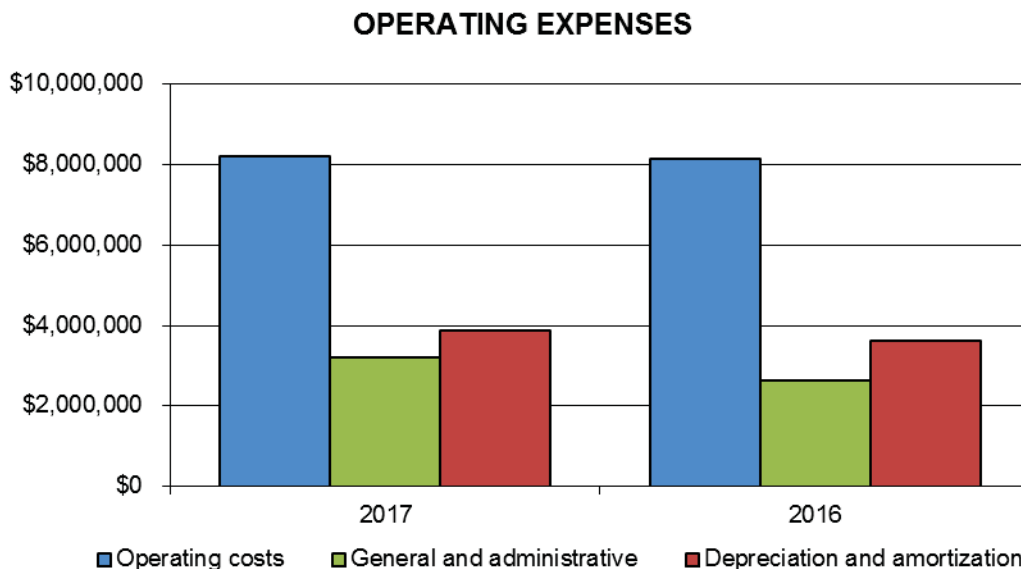
**HIGHLINE WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2017**

RESULTS OF OPERATIONS (CONTINUED)

Operating revenues increased in 2017 compared to 2016 due to a 2.6 percent rate increase that was effective January 1, 2017. Also, water demand was slightly up in 2017 compared to 2016. Water usage, and corresponding revenues, can vary significantly due to weather conditions. Overall, demand has been trending down as the population continues to rise, compared to later years, in part due to conservation efforts.

The board approved an additional 2.6 percent rate increase effective January 1, 2018. The rate increase is required to compensate for Seattle Public Utilities' January 1, 2018, 5 percent rate increase to the District for wholesale water and to meet revenue requirements to support the ongoing operating, maintenance and capital needs of the system.

The following chart indicates operating expenses over the last two years.

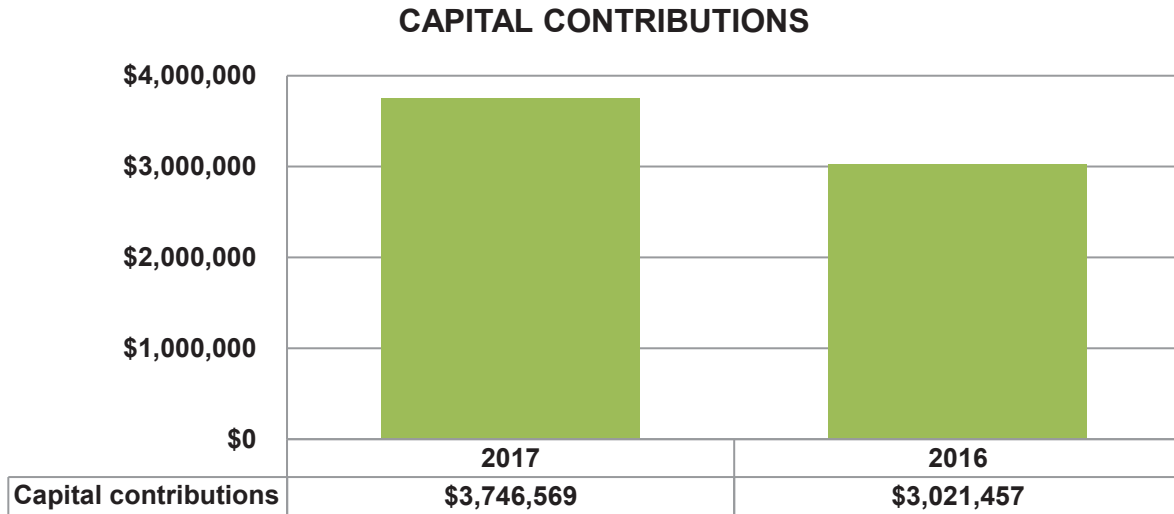


The District has operated at a profit in each of the past two years. The District's philosophy is to provide for all depreciation through rates, based on the principle that current users should pay all costs associated with the water system as it is being used. The District's operating costs increased in 2017 due to increases in personnel costs. General and administrative expenses increased in 2017 primarily due to increases in personnel costs and franchise fees for operations in the City of Des Moines and the City of Normandy Park. Operating revenues are augmented by earnings on investments and other nonoperating revenues in excess of other expenses, principally interest on long-term debt.

**HIGHLINE WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2017**

CAPITAL CONTRIBUTIONS

The District collects capital contributions from new customers. These contributions consist of connection charges, ULID assessments and donated systems. The following chart indicates capital contributions over the past two years.



The contributions are indicative of the growth of the District and include donated systems totaling \$2,062,259 and \$1,362,989 for the years ended December 31, 2017 and 2016, respectively.

CAPITAL ASSETS AND LONG-TERM LIABILITIES

Capital assets increased in 2017 due to growth in the customer base and construction activity to upgrade the system.

Significant capital asset additions during the years included the following:

2017		2016	
Water Main Replacements	\$ 1,505,673	Water Main Replacements	\$ 5,062,065
Wells and Reservoirs	373,701	Wells and Reservoirs	628,007
Pump Stations	218,300	Pump Stations	280,947
Meters	383,632	Meters	109,847
Other Projects	181,905	Other Projects	293,288
Developer Extensions		Developer Extensions	
Donated System	2,062,259	Donated System	1,362,989

Long-term liabilities decreased in 2017 due to principal payments made by the District in excess of new borrowings.

**HIGHLINE WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2017**

CAPITAL ASSETS AND LONG-TERM LIABILITIES (CONTINUED)

See Notes 4, 5, and 6 in the financial statements for detail activity in capital assets and long-term liabilities.

As of December 31, 2017, the District has \$13,067,883 of cash and equivalents in construction accounts of which \$1,827,640 was committed under existing construction contracts.

ADDITIONAL COMMENTS

The District is currently dependent on Seattle Public Utilities for about 72% of water the District provides its customers.

The District currently has adequate water supply to grant all requests for water service within its boundaries due to its 60-year partial-supply contract with the City of Seattle. The District is investigating additional water supply options to allow for both near and long-term needs. This effort includes possible joint water supply agreements with other water districts and cities.

The Central Puget Sound Regional Transit Authority (Sound Transit) proposes to construct the Federal Way Light Rail Extension Project (FWLE) through the District's boundaries. The proposed project directly affects several District-owned facilities and properties, including its Headquarters and the Mansion Hill tank site. Sound Transit must acquire real property and/or easements from the District and provide just compensation for mitigation.

In 2017, Sound Transit provided a *Notice of Eligibility* under the Uniform Relocation Act to reimburse the expense by the District to relocate water infrastructure at the Mansion Hill Tank site (HWD Project Numbers 16-3 and 16-6). The District is in design phase of the tank relocation work and plans to begin construction in late 2018. Subsequent work will include design and construction of a future booster pump station.

The District anticipates the Sound Transit project will create additional impacts to the water infrastructure within public and private right-of-way. Sound Transit will address these conflicts at their expense either by a Developer Extension (DE) Agreement or separately negotiated agreement between the parties.

**HIGHLINE WATER DISTRICT
STATEMENT OF NET POSITION
DECEMBER 31, 2017**

ASSETS

CURRENT ASSETS

Unrestricted:

Cash and Cash Equivalents	\$ 22,259,090
Accounts Receivable - Users	2,307,930
Interest Receivable	23,591
Inventory	967,531
Miscellaneous Accounts Receivable	208,270
Prepaid Expenses	252,354
Total Unrestricted	<u>26,018,766</u>

Restricted:

Cash and Cash Equivalents	<u>76,453</u>
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Total Current Assets	26,095,219
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NONCURRENT ASSETS

Capital Assets Not Being Depreciated:

Land	693,971
Construction in Progress	2,817,636

Capital Assets Being Depreciated:

Plant in service	145,930,394
Less: Accumulated Depreciation	<u>61,135,770</u>
Total Noncurrent Assets	<u>88,306,231</u>

Total Assets	114,401,450
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DEFERRED OUTFLOWS of RESOURCES

Deferred Outflows Related to Pensions	<u>253,715</u>
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Total Assets and Deferred Outflows of Resources	<u><u>\$ 114,655,165</u></u>
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See accompanying Notes to Financial Statements

**HIGHLINE WATER DISTRICT
STATEMENT OF NET POSITION
DECEMBER 31, 2017**

LIABILITIES

CURRENT LIABILITIES

Payable from Unrestricted Assets:	
Accounts Payable	\$ 811,666
Accrued Salaries and Benefits	194,928
Accrued Compensated Absences	330,805
Retainage Payable	65,470
Developer Deposits	669,427
Accrued Interest	16,123
Long-Term Debt	981,597
Total	<u>3,070,016</u>

Payable from Restricted Assets:	
Retainage Payable	43,191
Accounts Payable	12,146
Total	<u>55,337</u>

Total Current Liabilities	3,125,353
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NON-CURRENT LIABILITIES

Debt Payable from Unrestricted Assets	4,873,223
Compensated Absences	55,684
Net Pension Liability	1,818,658
Total Noncurrent Liabilities	<u>6,747,565</u>

Total Liabilities	9,872,918
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DEFERRED INFLOWS of RESOURCES

Deferred Inflows Related to Pensions	<u>321,882</u>
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Total Liabilities and Deferred Inflows of Resources	10,194,800
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NET POSITION

Net Investment in Capital Assets	82,451,411
Restricted for Impaired Investments	21,116
Unrestricted	21,987,838
Total Net Position	<u>104,460,365</u>

Total Liabilities, Deferred Inflows of Resources and Net Position	<u>\$ 114,655,165</u>
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See accompanying Notes to Financial Statements

**HIGHLINE WATER DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
YEAR ENDED DECEMBER 31, 2017**

OPERATING REVENUES

Water Distribution Revenue:	
Metered Water Sales - Residential	\$ 7,872,254
Metered Water Sales - Commercial	8,198,156
Metered Hydrant Sales	33,330
Subtotal	16,103,740
Wholesale and Standby Fire Sales	221,575
Discounts and Adjustments	(27,394)
Total Water Distribution Revenue	16,297,921
Service Revenue:	
Street Light Revenue	129,448
Franchise Utility Fee	308,961
Other Charges	312,898
Total Service Revenue	751,307
Total Operating Revenues	17,049,228

OPERATING EXPENSE

Supply	4,456,388
Pumps, Reservoirs and Telemetry	230,396
Wells and Water Treatment	639,141
Transmission and Distribution	1,877,667
Customer Accounts	1,001,191
General and Administrative	3,015,805
Depreciation and Amortization	3,879,017
Total Operating Expenses	15,099,605

OPERATING INCOME 1,949,623

NON-OPERATING REVENUE (EXPENSE)

Investment Income, Net of Service Fees	157,535
Rental Income	243,365
Other Income	103,640
Loss on Disposal of Assets	(18,954)
Interest on Long-Term Debt, Net of Amount Capitalized	(24,869)
Total Nonoperating Revenue (Expense)	460,717

INCOME BEFORE CAPITAL CONTRIBUTIONS 2,410,340

Capital Contributions	3,746,569
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CHANGE IN NET POSITION 6,156,909

Net Position - Beginning of Year	98,303,456
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NET POSITION - END OF YEAR \$ 104,460,365

See accompanying Notes to Financial Statements

**HIGHLINE WATER DISTRICT
STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2017**

CASH FLOWS FROM OPERATING ACTIVITIES

Cash Received from Customers	\$ 17,734,272
Cash Paid to Vendors	(8,167,591)
Cash Paid to and for Employees and Commissioners	(3,603,352)
Net Cash Provided by Operating Activities	<u>5,963,329</u>

CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES

Capital Contributions	1,684,310
Proceeds from Issuance of Long-Term Debt	-
Proceeds from Sale of Assets	1,654
Expenditures for Plant in Service and Construction	(3,512,144)
Payment of Long-Term Debt	(1,048,343)
Interest paid on Long-Term Debt	(40,305)
Net Cash Used in Capital Financing Activities	<u>(2,914,828)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Interest Received on Investments	<u>148,329</u>
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NET INCREASE IN CASH AND CASH EQUIVALENTS

3,196,830

Cash and Cash Equivalents - Beginning of Year

19,138,713

CASH AND CASH EQUIVALENTS - END OF YEAR

\$ 22,335,543

Cash and Cash Equivalents Balance is Comprised
of the Following at December 31:

Cash and Cash Equivalents - Unrestricted	\$ 22,259,090
Cash and Cash Equivalents - Restricted	76,453
Total	<u><u>\$ 22,335,543</u></u>

See accompanying Notes to Financial Statements

**HIGHLINE WATER DISTRICT
STATEMENT OF CASH FLOWS (CONTINUED)
YEAR ENDED DECEMBER 31, 2017**

RECONCILIATION OF OPERATING INCOME TO NET

CASH PROVIDED BY OPERATING ACTIVITIES

Operating Income	\$ 1,949,623
Adjustments to Reconcile Operating Income to Net Cash	
Provided by Operating Activities:	
Depreciation and Amortization	3,879,017
Loss (Gain) on Sale of Capital Assets	
(Increase) Decrease in Assets:	
Accounts Receivable	338,038
Inventory	246,205
Prepaid Expenses	(121,390)
Deferred Outflows Related to Pensions	150,539
Increase (Decrease) in Liabilities:	
Accounts Payable and Accrued Expenses	(726,982)
Developer Deposits	187,703
Net Pension Liability	(531,690)
Deferred Inflows Related to Pensions	245,261
Rental Income	243,365
Miscellaneous Fees	103,640
Net Cash Provided by Operating Activities	<u>\$ 5,963,329</u>

**SUPPLEMENTAL SCHEDULE OF SIGNIFICANT NONCASH
FINANCING AND INVESTING ACTIVITIES**

Utility Plant Donations Received	<u>\$ 2,062,259</u>
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See accompanying Notes to Financial Statements

**HIGHLINE WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

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

Description of Business, Nature of Operations, and Reporting Entity

Highline Water District (the District), a municipal corporation governed by an elected five-member board and organized under the laws of the state of Washington, was created for the purpose of constructing, maintaining and operating a water system within its boundaries, primarily serving portions in the cities of SeaTac, Des Moines, Kent, Normandy Park, Burien, Tukwila, and Federal Way. The District has no component units.

Basis of Presentation and Accounting

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

Cash and Cash Equivalents

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

Accounts Receivable

The District utilizes the allowance method of accounting for doubtful accounts. Washington State law allows the District to file a lien against real property for unpaid service charges. Once filed, these liens are junior only to general property taxes. Therefore, no provision is made for uncollectible service charges. These delinquencies were not reclassified as noncurrent.

Inventory

Inventory consists of materials and supplies for future use and is stated at the lower of cost (average method) or market.

Capital Assets

Capital assets are defined by the District as assets with initial individual costs of more than \$5,000, and an estimated useful life in excess of one 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 stated at cost when known and include the capitalized portion of District employees' wages and related overhead costs. For water systems installed by developers or customers and conveyed to the District by bill of sale, the District records the cost of the system at the contributing party's costs, contract price or appraised value. When capital assets are retired or otherwise disposed of, the cost and accumulated depreciation are removed from the accounts and any resulting gain or loss is recognized in income for the period.

**HIGHLINE WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 1 DESCRIPTION OF BUSINESS, NATURE OF OPERATIONS, AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Capital Assets (Continued)

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

Office Building	10-30 Years
Mains and Reservoirs	5-50 Years
Meters and Hydrants	10-50 Years
Equipment	3-10 Years
Comprehensive Plan	6 Years

Interest Capitalization

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

Total interest costs incurred for the year ended December 31, 2017 was \$36,057. Interest capitalized in 2017 was \$11,188.

Pensions

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

Deferred Outflows/Inflows of Resources

Deferred outflows of resources represent a consumption of net position that applies to future periods and will not be recognized as an outflow of resources (expense) until that time. Deferred outflows of resources consist of contributions to pension plans subsequent to the June 30 measurement date and the District's proportionate share of deferred outflows related to those plans. Pension plan contributions subsequent to the measurement date are recognized as a reduction of the net pension liability in the following year. Deferred outflows of resources for the net difference between projected and actual earnings on plan investments are amortized over a closed five-year period. The remaining deferred outflows of resources related to pensions are amortized over the average expected service lives of all employees provided with pensions through each plan.

**HIGHLINE WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 1 DESCRIPTION OF BUSINESS, NATURE OF OPERATIONS, AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Deferred Outflows/Inflows of Resources (Continued)

Deferred inflows of resources represent an acquisition of net position that applies to future periods and will not be recognized as an inflow of resources (revenue) until that time. Deferred inflows of resources consist of the District's proportionate share of deferred inflows related to pension plans. Deferred inflows of resources for the net difference between projected and actual earnings on plan investments are amortized over a closed five-year period. The remaining deferred inflows of resources related to pensions are amortized over the average expected service lives of all employees provided with pensions through each plan.

Compensated Absences

The District accrues accumulated unpaid vacation, sick leave and compensatory time amounts at year end at the employee's current rate of pay.

Vacation leave, which may be accumulated up to a maximum of 352 hours, is payable (up to 320 hours) upon resignation, retirement, or death.

Upon termination other than retirement, an employee shall receive payment for up to 160 hours of then accrued sick leave benefits at the employee's current rate of pay. In addition, upon retirement, an employee shall receive 20% of their unused sick leave in excess of 160 hours into their HRA VEBA account.

Compensatory time may accumulate up to a maximum of 45 hours and is payable upon resignation, retirement, or termination.

Net Position

Net position is classified in the following three components:

Net Investment in Capital Assets – This component of net position consists of capital assets, net of accumulated depreciation, and capital-related deferred outflows of resources reduced by the outstanding balances of any capital-related borrowings and deferred inflows of resources. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of net investment in capital assets. Rather, that portion of the debt is included in the same net position component as the unspent proceeds.

Restricted – This component of net position consists of assets restricted by external creditors (such as through debt covenants), grantors, contributors or others reduced by related liabilities and deferred inflows of resources.

Unrestricted Net Position – This component of net position consists of all net position that does not meet the definition of "restricted" or "net investment in capital assets."

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

**HIGHLINE WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 1 DESCRIPTION OF BUSINESS, NATURE OF OPERATIONS, AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenues and Expenses

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

Capital Contributions

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

Use of Estimates in Financial Statement Preparation

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

NOTE 2 DEPOSITS AND INVESTMENTS

Deposits

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

Investments

In accordance with State law, the District's governing body has entered into a formal interlocal agreement with the District's *ex officio* treasurer, King County, to have all its funds not required for immediate expenditure to be invested in the King County Investment Pool (Pool). Investments in the Pool are stated at the fair value of the Pool's underlying assets. The stated value per share is \$1. The King County Executive Finance Committee provides oversight of the Pool.

As of December 31, 2017 the District had the following investments:

			Average
			Effective
<u>Investment Type</u>		<u>Fair Value</u>	<u>Duration</u>
King County Investment Pool:			
Main Pool		\$ 22,223,039	1.02 Years
Impaired Pool		\$ 21,116	

**HIGHLINE WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 2 DEPOSITS AND INVESTMENTS (CONTINUED)

Impaired Investments

As of December 31, 2017, all impaired commercial paper investments had completed enforcement events. The King County Impaired Investment Pool (Impaired Pool) held one commercial paper asset where the Impaired Pool accepted an exchange offer and is receiving the cash flows from the investment's underlying securities. The Impaired Pool also held the residual investments in two commercial paper assets that were part of completed enforcement events, where the Impaired Pool accepted the cash-out option. The District's share of the impaired investment pool principal was \$31,331 at December 31, 2017. The District's unrealized loss for these investments was \$10,215 at December 31, 2017.

Interest Rate Risk

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

Credit Risk

As of December 31, 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 depositories, repurchase agreements, and the Local Government Investment Pool managed by the Washington State Treasurer's office.

NOTE 3 RESTRICTED ASSETS

In accordance with certain agreements, separate restricted accounts are required to be established. The assets held in these accounts are restricted for specific uses. Restricted assets are as follows at December 31, 2017:

	Cash and Cash		
	Equivalents		
Current Restricted Assets:			
Custodial Account	\$	12,146	
Retainage in Escrow		43,191	
Impaired Investment Pool		21,116	
Total	\$	76,453	

**HIGHLINE WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 4 CAPITAL ASSETS

Major classes of capital assets and capital asset activity were as follows at December 31, 2017:

	Balance - Beginning of Year	Increase	Decrease	Balance - End of Year
Capital Assets Not Being Depreciated				
Land	\$ 693,971	\$ -	\$ -	\$ 693,971
Construction in Progress	761,973	2,122,455	(66,792)	2,817,636
Total	1,455,944	2,122,455	(66,792)	3,511,607
Capital Assets Being Depreciated				
Office Building	3,923,038	5,236		3,928,274
Mains and Reservoirs	115,369,772	1,794,150	(83,843)	117,080,079
Meters and Hydrants	15,182,503	1,387,264	(529,583)	16,040,184
Equipment	5,591,075	229,694	(126,328)	5,694,441
Wells and Springs	2,961,342			2,961,342
Comprehensive Plan, net of Accumulated Amortization of \$59,493	273,668		(47,594)	226,074
Total	143,301,398	3,416,344	(787,348)	145,930,394
Accumulated Depreciation				
Office Building	(2,388,784)	(168,439)		(2,557,223)
Mains and Reservoirs	(42,385,327)	(2,771,812)	81,747	(45,075,392)
Meters and Hydrants	(6,917,789)	(582,458)	511,070	(6,989,177)
Equipment	(5,020,015)	(235,936)	126,328	(5,129,623)
Wells and Springs	(1,311,577)	(72,778)		(1,384,355)
Total	(58,023,492)	(3,831,423)	719,145	(61,135,770)
Net Capital Assets	\$ 86,733,850	\$ 1,707,376	\$ (134,995)	\$ 88,306,231

NOTE 5 LONG-TERM DEBT PAYABLE FROM UNRESTRICTED ASSETS

Long-term debt payable from unrestricted assets outstanding as of December 31, 2017 consisted of the following loans, secured by revenue of the system, issued for utility construction:

Description	Amount
1998 \$4,748,625 Public Works Trust Fund Loan Payable \$251,316 annually through the year 2018, plus interest at 1.0 annual percentage rate.	\$ 251,316
1998 \$780,850 Public Works Trust Fund Loan: Payable \$41,097 annually through the year 2018, plus interest at 1.0 annual percentage rate.	41,097

**HIGHLINE WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 5 LONG-TERM DEBT PAYABLE FROM UNRESTRICTED ASSETS (CONTINUED)

<u>Description</u>		Amount
2000 \$2,217,600 Public Works Trust Fund Loan: Payable \$118,089 annually through the year 2020, plus interest at 2.0 annual percentage rate.		\$ 354,267
2001 \$1,751,000 Public Works Trust Fund Loan: Payable \$92,414 annually through the year 2021, plus interest at .5 annual percentage rate.		369,655
2002 \$1,297,525 Public Works Trust Fund Loan: Payable \$71,966 annually through the year 2022, plus interest at .5 annual percentage rate.		359,831
2003 \$749,700 Public Works Trust Fund Loan: Payable \$43,386 annually through the year 2023, plus interest at .5 annual percentage rate.		260,316
2004 \$808,350 Public Works Trust Fund Loan: Payable \$43,254 annually through the year 2024, plus interest at .5 annual percentage rate.		302,777
2006 \$666,004 Public Works Trust Fund Loan: Payable \$35,502 annually through the year 2026, plus interest at .5 annual percentage rate.		319,514
2008 \$2,874,292 Public Works Trust Fund Loan: Payable \$152,590 annually through the year 2028, plus interest at .5 annual percentage rate.		1,678,493
2013 \$2,210,000 Public Works Trust Fund Loan: Payable \$125,073 annually through the year 2032, plus interest at .25 annual percentage rate.		1,876,097
2003 \$128,569 Drinking Water State Revolving Fund Loan: Payable \$6,910 annually through the year 2023, plus interest at 1.5 annual percentage rate.		41,457
Subtotal		5,854,820
Less: Current Maturities		981,597
Total		\$ 4,873,223

**HIGHLINE WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 5 LONG-TERM DEBT PAYABLE FROM UNRESTRICTED ASSETS (CONTINUED)

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

Year Ending December 31,	Principal	Interest	Total
2018	\$ 981,597	\$ 31,775	\$ 1,013,372
2019	689,183	23,877	713,060
2020	689,183	18,903	708,086
2021	571,094	13,929	585,023
2022	478,680	11,317	489,997
2023-2027	1,667,127	30,511	1,697,638
2028-2032	777,956	5,453	783,409
Total	<u>\$ 5,854,820</u>	<u>\$ 135,765</u>	<u>\$ 5,990,585</u>

NOTE 6 CHANGES IN LONG-TERM LIABILITIES

Changes in long-term liabilities were as follows December 31, 2016:

	Balance - Beginning of Year	Additions	Reductions	Balance - End of Year	Amounts Due Within One Year
1997 Public Works Trust Fund Loan	66,746		(66,746)	-	-
1998 Public Works Trust Fund Loan	82,195		(41,098)	41,097	41,097
1998 Public Works Trust Fund Loan	502,632		(251,316)	251,316	251,316
2000 Public Works Trust Fund Loan	472,356		(118,089)	354,267	118,089
2001 Public Works Trust Fund Loan	462,069		(92,414)	369,655	92,414
2002 Public Works Trust Fund Loan	431,797		(71,966)	359,831	71,966
2003 Public Works Trust Fund Loan	303,702		(43,386)	260,316	43,386
2004 Public Works Trust Fund Loan	346,030		(43,253)	302,777	43,254
2006 Public Works Trust Fund Loan	355,016		(35,502)	319,514	35,502
2008 Public Works Trust Fund Loan	1,831,083		(152,590)	1,678,493	152,590
2013 Public Works Trust Fund Loan	2,001,170		(125,073)	1,876,097	125,073
2003 Drinking Water State Revolving Fund Loan	48,367		(6,910)	41,457	6,910
Total	<u>\$ 6,903,163</u>	<u>\$ -</u>	<u>\$ (1,048,343)</u>	<u>\$ 5,854,820</u>	<u>\$ 981,597</u>
Compensated Absences	<u>\$ 346,110</u>	<u>\$ 371,184</u>	<u>\$ (330,805)</u>	<u>\$ 386,489</u>	<u>\$ 330,805</u>
Net Pension Liability	<u>\$ 2,350,348</u>		<u>\$ (531,690)</u>	<u>\$ 1,818,658</u>	

**HIGHLINE WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 7 PENSION PLAN

The following table represents the aggregate pension amounts for all plans subject to the requirements of the GASB Statement 68, *Accounting and Financial Reporting for Pensions* as of and for the year ended December 31, 2017:

Pension liabilities	\$ (1,818,658)
Pension assets	\$ -
Deferred outflows of resources	\$ 253,715
Deferred inflows of resources	\$ (321,882)
Pension expense/expenditures	\$ 162,736

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

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

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

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

Public Employees' Retirement System (PERS)

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

**HIGHLINE WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 7 PENSION PLAN (CONTINUED)

Public Employees Retirement System (PERS) (Continued)

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%

**HIGHLINE WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 7 PENSION PLAN (CONTINUED)

Public Employees Retirement System (PERS) (Continued)

PERS Plan 2/3 - provides retirement, disability and death benefits. Retirement benefits are determined as two percent of the member's average final compensation (AFC) times the member's years of service for Plan 2 and 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.

**HIGHLINE WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 7 PENSION PLAN (CONTINUED)

Public Employees Retirement System (PERS) (Continued)

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 \$130,960 to PERS Plan 1 and \$169,643 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%

**HIGHLINE WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 7 PENSION PLAN (CONTINUED)

Actuarial Assumptions (Continued)

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

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

- 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.
- 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.

**HIGHLINE WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 7 PENSION PLAN (CONTINUED)

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	Percent 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

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	Current	1% Increase
	6.5%	Discount Rate 7.5%	8.5%
PERS 1	\$ 1,182,499	\$ 970,701	\$ 787,238
PERS 2/3	2,284,485	847,957	(329,065)

Pension Plan Fiduciary Net Position

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

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

At December 31, 2017 the District reported a total pension liability (asset) of \$1,818,658 for its proportionate share of the net pension liabilities as follows (measured as of June 30, 2017):

PERS 1	\$ 970,701
PERS 2/3	847,957

**HIGHLINE WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 7 PENSION PLAN (CONTINUED)

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

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

	Proportionate	Proportionate	Change in
	Share 6/30/16	Share 6/30/17	Proportion
PERS 1	0.020661%	0.020457%	-0.000204%
PERS 2/3	0.024643%	0.024405%	-0.000238%

Employer contribution transmittals received and processed by the DRS for the fiscal year ended June 30 are used as the basis for determining each employer's proportionate share of the collective pension amounts reported by the DRS in the *Schedules of Employer and Nonemployer Allocations*.

The collective net pension liability (asset) was measured as of June 30, 2017, and the actuarial valuation date on which the total pension liability (asset) is based was as of June 30, 2016, with update procedures used to roll forward the total pension liability to the measurement date.

Pension Expense

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

PERS 1	\$	53,172
PERS 2/3		109,564
Total	\$	162,736

**HIGHLINE WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 7 PENSION PLAN (CONTINUED)

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:

	Deferred Outflow of Resources	Deferred Inflows of Resources
PERS 1:		
Differences between expected and actual experience	\$ -	\$ -
Net difference between projected and actual investment earnings on pension plan investments	-	(36,224)
Changes of assumptions		
Changes in proportion and differences between contributions and proportionate share of contributions		
Contributions subsequent to the measurement date	66,900	
Total PERS 1	66,900	(36,224)
PERS 2/3:		
Differences between expected and actual experience	85,918	(27,889)
Net difference between projected and actual investment earnings on pension plan investments	-	(226,045)
Changes of assumptions	9,007	
Changes in proportion and differences between contributions and proportionate share of contributions	-	(31,724)
Contributions subsequent to the measurement date	91,890	
Total PERS 2/3	186,815	(285,658)
Total all plans	\$ 253,715	\$ (321,882)

**HIGHLINE WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 7 PENSION PLAN (CONTINUED)

Deferred Outflows of Resources and Deferred Inflows of Resources (Continued)

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:

<u>Year Ending December 31</u>	<u>PERS 1</u>	<u>PERS 2/3</u>
2018	\$ (24,485)	\$ (104,153)
2019	7,730	13,695
2020	(1,795)	(22,340)
2021	(17,674)	(92,306)
2022	-	6,249
Thereafter	-	8,124
Total	<u>\$ (36,224)</u>	<u>\$ (190,732)</u>

NOTE 8 DEFERRED COMPENSATION PLAN

The District offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan assets are invested with the Washington State Department of Retirement Systems. The plan, available to all employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency. The District contributions to the plan totaled \$6,504 in 2017.

NOTE 9 RISK MANAGEMENT

Highline Water 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.

**HIGHLINE WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 9 RISK MANAGEMENT (CONTINUED)

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.

In the past three years (2017, 2016, and 2015), there have been no claim settlements, per occurrence or in aggregate, that have exceeded the coverage provided by excess/reinsurance contracts.

**HIGHLINE WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 10 COMMITMENTS

The District is obligated under construction contracts totaling \$4,310,543. As of December 31, 2017, \$2,482,903 has been expended.

NOTE 11 MAJOR SUPPLIERS

The District purchased approximately 72% of its water from the City of Seattle for the year ended December 31, 2017. In December 2001, the District signed a "partial-supply" contract with the City of Seattle. This contract assures an adequate supply of water to the District for 60 years.

NOTE 12 LEASES

The District leases space for cell towers on certain tanks and land under noncancelable operating leases. Future rental income due to the District is as follows:

<u>Year Ending December 31.</u>	<u>Amount</u>
2018	\$ 217,219
2019	197,957
2020	200,285
2021	115,462
2022	<u>45,541</u>
Total	<u>\$ 776,464</u>

HIGHLINE WATER DISTRICT
SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
PERS 1
JUNE 30 (MEASUREMENT DATE)
LAST 10 FISCAL YEARS*

	<u>2017</u>	<u>2016</u>	<u>2015</u>
<u>Employer's Proportion of the Net Pension Liability (Asset)</u>	0.020457%	0.020661%	0.020926%
<u>Employer's Proportionate Share of the Net Pension Liability</u>	\$ 970,701	\$ 1,109,592	\$ 1,094,624
<u>Employer's Covered Payroll*</u>	\$ 81,900	\$ 74,477	\$ 68,147
<u>Employer's Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll</u>	1185.23%	1489.85%	1606.27%
<u>Plan Fiduciary Net Position as a Percentage of the Total Pension Liability</u>	61.24%	57.03%	59.10%

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

Note to Schedule:

The District had two employees covered under PERS 1. The remaining PERS 1 contributions are from the component of PERS 2 contributions required to address the PERS 1 unfunded actuarially accrued liability (UAAL).

HIGHLINE WATER DISTRICT
SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
PERS 2/3
JUNE 30 (MEASUREMENT DATE)
LAST 10 FISCAL YEARS*

	<u>2017</u>	<u>2016</u>	<u>2015</u>
<u>Employer's Proportion of the Net Pension Liability (Asset)</u>	0.024405%	0.024643%	0.025301%
<u>Employer's Proportionate Share of the Net Pension Liability</u>	\$ 847,957	\$ 1,240,756	\$ 904,019
<u>Employer's Covered Payroll*</u>	\$ 2,394,182	\$ 2,295,253	\$ 2,244,998
<u>Employer's Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll</u>	35.42%	54.06%	40.27%
<u>Plan Fiduciary Net Position as a Percentage of the Total Pension Liability</u>	90.97%	85.82%	89.20%

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

**HIGHLINE WATER DISTRICT
SCHEDULE OF EMPLOYER CONTRIBUTIONS
PERS 1
DECEMBER 31 (EMPLOYER REPORTING DATE)
LAST 10 FISCAL YEARS***

	<u>2017</u>	<u>2016</u>	<u>2015</u>
<u>Statutorily or Contractually Required Contributions</u>	\$ 130,960	\$ 121,452	\$ 106,304
<u>Contributions in Relation to the Statutorily or Contractually Required Contributions*</u>	<u>(130,960)</u>	<u>(121,452)</u>	<u>(106,304)</u>
<u>Contribution Deficiency (Excess)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
<u>Employer's Covered Payroll*</u>	\$ 82,378	\$ 80,467	\$ 67,670
<u>Contributions as a percentage of covered payroll</u>	158.98%	150.93%	157.09%

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

Notes to Schedule:

The District had two employees covered under PERS 1. The remaining PERS 1 contributions are from the component of PERS 2 contributions required to address the PERS 1 unfunded actuarially accrued liability (UAAL).

**HIGHLINE WATER DISTRICT
SCHEDULE OF EMPLOYER CONTRIBUTIONS
PERS 2/3
DECEMBER 31 (EMPLOYER REPORTING DATE)
LAST 10 FISCAL YEARS***

	2017	2016	2015
Statutorily or Contractually Required Contributions	\$ 169,643	\$ 151,121	\$ 131,720
Contributions in Relation to the Statutorily or Contractually Required Contributions*	(169,643)	(151,121)	(131,720)
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -
Employer's Covered Payroll*	\$ 2,497,170	\$ 2,357,570	\$ 2,261,761
Contributions as a percentage of covered payroll	6.79%	6.41%	5.82%

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

ABOUT THE STATE AUDITOR'S OFFICE

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

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

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

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

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

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

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

Contact information for the State Auditor's Office	
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