



Office of the Washington State Auditor
Pat McCarthy

Financial Statements Audit Report
Southwest Suburban Sewer District
King County

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

Published October 30, 2017

Report No. 1020135





Office of the Washington State Auditor
Pat McCarthy

October 30, 2017

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
King County
January 1, 2015 through December 31, 2016**

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, King County, Washington, as of and for the years ended December 31, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated October 19, 2017.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

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

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

October 19, 2017

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Southwest Suburban Sewer District King County January 1, 2015 through December 31, 2016

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, King County, Washington, as of and for the years ended December 31, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed on page 9.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Southwest Suburban Sewer District, as of December 31, 2016 and 2015, and the changes in financial position and, where applicable, cash flows thereof for the years 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 19, 2017 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

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

Pat McCarthy

State Auditor

Olympia, WA

October 19, 2017

FINANCIAL SECTION

**Southwest Suburban Sewer District
King County
January 1, 2015 through December 31, 2016**

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2016 and 2015

BASIC FINANCIAL STATEMENTS

Comparative Statement of Net Position – 2016 and 2015

Comparative Statement of Revenues, Expenses, and Changes in Net Position – 2016 and 2015

Comparative Statement of Cash Flows – 2016 and 2015

Notes to Financial Statements – 2016 and 2015

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Proportionate Share of Net Pension Liability – PERS 1 – 2016 and 2015

Schedule of Proportionate Share of Net Pension Liability – PERS 2/3 – 2016 and 2015

Schedule of Employer Contributions – PERS 1 – 2016 and 2015

Schedule of Employer Contributions – PERS 2/3 – 2016 and 2015

SOUTHWEST SUBURBAN SEWER DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2016

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, 2016 and December 31, 2015. Please read this in conjunction with the financial statements, including the notes to the financial statements, which follow.

FINANCIAL STATEMENT OVERVIEW

The District's financial statements include two components: 1) the District's basic financial statements, and 2) the notes to the financial statements. This discussion and analysis is intended to serve as an introduction to the District's basic financial statements.

Condensed Financial Position Information

The statement of net position presents information concerning the District's assets, liabilities, and net position. Net position is the difference between assets and liabilities. Increases or decreases in net position may indicate, over time, if the financial position of the District is either improving or deteriorating.

The Comparative Statement of Net Position presents detailed information on all of the District's assets, liabilities, and deferred outflows/inflows with the difference between total assets and total liabilities represented as net position. This statement reports all of the District's assets and liabilities at a precise date, in the District's case, it's December 31. It is like taking a "financial snapshot" of the District on the last day of the year. While it is interesting to know this information, it is more useful to compare it to what the District looked like at the same date of the prior year. To that end, we have elected to present three years of financial statements, thus we call our statements "comparative". By looking at the three years together, a reader can see what changes have occurred in individual line items and begin to make a determination whether the changes, taken as a whole, indicate that the District's financial position has improved or deteriorated.

The following condensed financial information provides an overview of the District's financial position as of December 31, 2016, 2015, and 2014.

COMPARATIVE STATEMENTS OF NET POSITION
December 31, 2016, 2015, and 2014

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	2016	2015	2014
Current assets	\$ 19,383,169	\$ 18,673,483	\$ 16,589,256
Sewer revenue bond redemption funds	2,377,640	2,476,912	2,510,983
Cash and cash equivalents - construction fund, restricted	5,491,680	8,613,584	9,005,138
Capital assets, net	68,468,910	64,875,698	65,981,380
Assessments and contracts receivable, net of current portion	1,152,422	862,902	940,032
Total assets	96,873,821	95,502,579	95,026,789
Deferred outflows of resources	438,706	224,259	115,720
Total assets and deferred outflows of resources	\$ 97,312,527	\$ 95,726,838	\$ 95,142,509
LIABILITIES AND DEFERRED INFLOWS OF RESOURCES			
Current liabilities	\$ 2,760,066	\$ 1,926,242	\$ 1,853,122
Long-term liabilities	20,005,864	21,108,609	21,978,215
Total liabilities	22,765,930	23,034,851	23,831,337
Deferred inflows of resources	95,700	210,810	750,515
Total liabilities and deferred inflows of resources	22,861,630	23,245,661	24,581,852
NET POSITION			
Net Investment in capital assets	55,626,938	53,796,085	53,966,095
Restricted for bond repayment	2,377,640	2,476,912	2,510,983
Unrestricted	16,446,319	16,208,180	14,083,579
Total net position	\$ 74,450,897	\$ 72,481,177	\$ 70,560,657

Total assets increased by \$1.6 million (or 2%) during 2016, due mainly to increases in capital assets (\$3.6 million) offset by decreases in cash balances (\$2.5 million). Of the \$97.3 million in total assets, \$24.3 million (or 25%) is in cash and investments in the King County Finance Division Pool at December 31, 2016. Net capital assets are equivalent to 70% and 68% of total assets at December 31, 2016 and 2015, respectively.

At December 31, 2016 and 2015, the District had outstanding liabilities of \$22.7 and \$23.0 million, respectively. The decrease is due to the paying down of bonds in 2016.

The assets and deferred outflows of the District exceeded its liabilities and deferred inflows at December 31, 2016, by \$74.5 million (net position). Total net position increased by \$2.0 million (3.0%) from the previous year. The District's investment in capital assets (land, utility plant and machinery and equipment, and construction in progress) less any related debt is 74% of total net position at both December 31, 2016 and 2015. These changes to net investment in capital assets, net of related debt, are largely the result of the District continuing to invest current assets in capital projects during 2015. The District continues to invest in an aggressive capital improvement program to ensure that infrastructure is dependable and has sufficient capacity for future growth.

The District reported restricted net assets for bond repayment of \$2.4 and \$2.5 million at December 31, 2016 and 2015 respectively. This is 3% and 4% of the District's total net position at December 31, 2015 and 2014, respectively.

The District reported unrestricted net position of \$16.9 million and \$16.2 million at December 31, 2016 and 2015, respectively. Unrestricted net position represents 23% and 22% of the District's total net position at December 31, 2016 and 2015, respectively, and is not subject to external restrictions.

Summary of Operations and Changes in Net Position

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.

The following table summarizes the operations for fiscal years 2016, 2015, and 2014.

COMPARATIVE STATEMENTS OF REVENUE, EXPENSES, AND CHANGES IN FUND NET POSITION
For the Years Ended December 31, 2016, 2015, and 2014

	2016	2015	2014
Operating Revenue			
Sewer revenue	\$ 10,204,811	\$ 9,713,675	\$ 9,575,743
Other operating revenue	158,819	156,893	156,962
Total operating revenue	10,363,630	9,870,568	9,732,705
Operating Expenses			
Depreciation	2,668,801	2,689,543	2,663,635
Sewage treatment	2,094,065	2,050,288	2,137,600
General and administrative	3,193,536	2,808,191	2,548,429
Biosolids management	357,159	371,291	388,196
Collection and transmission	689,344	561,970	555,289
Pumping	234,467	208,605	219,559
Total operating expenses	9,237,372	8,689,888	8,512,708
Net operating income	1,126,258	1,180,680	1,219,997
Nonoperating Revenue (Expenses)			
Interest and other investment income	279,107	213,300	168,035
Interest expense	(485,444)	(533,814)	(464,656)
Miscellaneous income	40,462	25,911	7,325
Bond issuance costs	-	-	(158,506)
Street lighting, net	(29,419)	59,288	19,647
Income before contributions in aid of construction	930,964	945,365	791,842
Contributions in Aid of Construction	1,038,756	975,155	365,486
Change in net position	1,969,720	1,920,520	1,157,328
Net Position, beginning of year	72,481,177	70,560,657	71,958,420
Adj for Adoption of New Standard			(2,555,091)
Net Position, end of year	\$ 74,450,897	\$ 72,481,177	\$ 70,560,657

Total 2016 operating revenues for the District increased by \$0.5 million (or 5%) from 2015 operating revenues. The \$2 increase in sewer rates in 2016 caused operating revenues to an increase from 2015.

Total operating expenses for 2016 increased by \$0.5 million (or 6%) from 2015 operating 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 is essential to a full understanding of the basic financial statements.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The District's investment in capital assets as of December 31, 2016, amounts to \$68.5 million (net of accumulated depreciation of \$72.1 million). The District's investment in capital assets includes land, utility plant and machinery and equipment, and construction in progress. The total increase in the District's investment in capital assets for the current year was \$3.6 million (or 6%). The major capital asset events during 2016 have been the SWAMP office and maintenance facility projects (\$4.7 million total) and Pump Station #14 \$ #15 upgrades (\$1.1 million total).

CAPITAL ASSETS, NET December 31, 2016 and 2015

	2016	2015	Change
Land	\$ 3,984,950	\$ 3,441,905	\$ 543,045
Construction in progress	7,790,865	3,727,750	4,063,115
Capital assets not being depreciated	11,775,815	7,169,655	4,606,160
Utility plant and machinery and equipment	128,842,689	127,319,756	1,522,933
Accumulated depreciation	(72,149,595)	(69,613,713)	(2,535,882)
Capital Assets net of accumulated depreciation	56,693,094	57,706,043	(1,012,949)
Total capital assets	\$ 68,468,909	\$ 64,875,698	\$ 3,593,211

CAPITAL ASSETS, NET December 31, 2015 and 2014

	2015	2014	Change
Land	\$ 3,441,905	\$ 3,441,905	\$ -
Construction in progress	3,727,750	2,397,933	1,329,817
Capital assets not being depreciated	7,169,655	5,839,838	1,329,817
Utility plant and machinery and equipment	127,319,756	127,065,712	254,044
Accumulated depreciation	(69,613,713)	(66,924,170)	(2,689,543)
Capital Assets net of accumulated depreciation	57,706,043	60,141,542	(2,435,499)
Total capital assets	\$ 64,875,698	\$ 65,981,380	\$ (1,105,682)

Long-Term Debt

At December 31, 2016, the District had total Public Works Trust Fund Loans outstanding of \$3.9 million and total sewer revenue bonds outstanding of \$14.4 million. Additionally, \$0.5 million is payable in long-term compensated absences. The total long-term debt of the District decreased by \$1.4 million (or 7.0%) due to payments made as of December 31, 2016.

Additional information on the District's capital assets and long-term debt can be found in Notes 5 and 6 of this report.

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 \$29.50 to \$31.50 per month. At \$31.50 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.

REQUESTS 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, 431 SW Ambaum Boulevard, Burien, Washington 98166.

SOUTHWEST SUBURBAN SEWER DISTRICT

COMPARATIVE STATEMENT OF NET POSITION

As of December 31, 2016 and 2015

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	2016	2015
Current Assets		
Cash and cash equivalents		
Maintenance fund	\$ 6,404,201	\$ 5,269,842
Construction fund, unrestricted	10,545,016	11,050,813
Accrued interest receivable	23,597	21,410
Accounts receivable	2,152,863	2,151,428
Prepayments and advances	87,022	104,955
Current portion of assessments and contracts receivable	170,471	75,035
Total current assets	19,383,169	18,673,483
Noncurrent Assets		
Sewer revenue bond redemption funds		
Cash and cash equivalents - bond fund	1,946,241	1,955,840
Interest receivable on redemption fund investments	476	476
ULID assessments receivable	430,923	520,596
Total sewer revenue bond redemption funds	2,377,640	2,476,912
Cash and cash equivalents - construction fund, restricted	5,491,680	8,613,584
Capital assets not being depreciated	11,775,815	7,169,655
Capital assets being depreciated	56,693,095	57,706,043
Assessments and contracts receivable, net of current portion	1,152,422	862,902
Total noncurrent assets	77,490,652	76,829,096
Total assets	96,873,821	95,502,579
Deferred outflows related to pensions	438,706	224,259
Total assets and deferred outflows of resources	\$ 97,312,527	\$ 95,726,838

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

SOUTHWEST SUBURBAN SEWER DISTRICT

COMPARATIVE STATEMENT OF NET POSITION
(Continued)

As of December 31, 2016 and 2015

LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	2016	2015
Current Liabilities		
Accounts payable, maintenance fund	\$ 312,050	\$ 308,623
Accounts payable, construction fund	827,475	156,574
Accrued interest payable	93,132	95,259
Retainage due to contractors	177,446	35,823
Current portion of long-term liabilities	1,349,963	1,329,963
Total current liabilities	2,760,066	1,926,242
Net Pension Liability	2,488,768	2,177,747
Long-Term Liabilities, less current portion	17,517,096	18,930,862
Total liabilities	22,765,930	23,034,851
Deferred Inflows Related to Pensions	95,700	210,810
Total liabilities and deferred inflows of resources	22,861,630	23,245,661
NET POSITION		
Invested in capital assets, net of related debt	55,626,938	53,796,085
Restricted for bond repayment	2,377,640	2,476,912
Unrestricted	16,446,319	16,208,180
Total net position	\$ 74,450,897	\$ 72,481,177

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

SOUTHWEST SUBURBAN SEWER DISTRICT

COMPARATIVE STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION

For the Years Ended December 31, 2016 and 2015

	2016	2015
Operating Revenue		
Sewer revenue	\$ 10,204,811	\$ 9,713,675
Permits income	44,422	40,062
Late charge income	114,397	116,831
Biosolids revenue	-	-
Total operating revenue	10,363,630	9,870,568
Operating Expenses		
Depreciation	2,668,801	2,689,543
Sewage treatment	2,094,065	2,050,288
General and administrative	3,193,536	2,808,191
Biosolids management	357,159	371,291
Collection and transmission	689,344	561,970
Pumping	234,467	208,605
Total operating expenses	9,237,372	8,689,888
Net operating income	1,126,258	1,180,680
Nonoperating Revenue (Expenses)		
Interest and other investment income	279,107	213,300
Interest expense	(485,444)	(533,814)
Miscellaneous income	40,462	25,911
Bond issuance costs	-	-
Street lighting, net	(29,419)	59,288
Income before contributions in aid of construction	930,964	945,365
Contributions in Aid of Construction		
Charges in lieu of assessments	77,642	38,309
General facilities charges and other	323,116	777,991
Installment contracts (non-cash)	637,998	158,855
Total contributions in aid of construction	1,038,756	975,155
Change in net position	\$ 1,969,720	\$ 1,920,520
Net Position, beginning of year, as originally reported	\$ 72,481,177	\$ 70,560,657
Change in Net Position	1,969,720	1,920,520
Net Position, end of year	\$ 74,450,897	\$ 72,481,177

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

SOUTHWEST SUBURBAN SEWER DISTRICT**COMPARATIVE STATEMENTS OF CASH FLOWS**
For the Years Ended December 31, 2016 and 2015

	2016	2015
Cash Flows from Operating Activities		
Cash received from customers	\$ 10,489,176	\$ 10,023,410
Cash paid to suppliers	(3,235,502)	(3,718,904)
Cash paid to employees	(2,809,503)	(2,553,340)
Net cash flows from operating activities	4,444,172	3,751,166
Cash Flows from Capital and Related Financing Activities		
Acquisition and construction of capital assets	(6,124,705)	(1,548,038)
Proceeds from sewer revenue bonds	-	-
Bond issuance costs	-	-
Principal payments on sewer revenue bonds	(815,000)	(800,000)
Principal payments on loans payable	(514,963)	(514,963)
Interest paid on sewer revenue bonds and loans payable	(515,026)	(548,894)
Cash received in aid of construction	400,758	816,300
Net cash flows from capital and related financing activities	(7,568,936)	(2,595,595)
Cash Flows from Investing Activities		
Interest received on investments	209,593	153,304
Principal received on contracts	342,715	304,092
Interest received on assessments and contracts	69,515	61,254
Net cash flows from investing activities	621,823	518,650
Net change in cash and cash equivalents	(2,502,941)	1,674,221
Cash and Cash Equivalents, beginning of year	26,890,079	25,215,858
Cash and Cash Equivalents, end of year (See Note 3)	\$ 24,387,138	\$ 26,890,079

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

SOUTHWEST SUBURBAN SEWER DISTRICT

COMPARATIVE STATEMENTS OF CASH FLOWS

(Continued)

For the Years Ended December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Reconciliation of Net Operating Income to Net		
Cash Flows from Operating Activities		
Net operating income	\$ 1,126,258	\$ 1,180,680
Depreciation	2,668,801	2,689,543
Change in operating assets and liabilities		
Accounts receivable	(1,435)	(35,276)
Prepayments and advances	17,933	(18,470)
Accounts payable and accrued expenses	674,328	25,114
Accrued compensated absences	(34,221)	(13,000)
Deferred outflows	(214,958)	(108,539)
Deferred inflows	(115,110)	(539,705)
Net pension liability	311,021	485,620
Other	<u>11,044</u>	<u>85,199</u>
Net cash flows from operating activities	<u>\$ 4,444,172</u>	<u>\$ 3,751,166</u>

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

SOUTHWEST SUBURBAN SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
As of and For the Years Ended December 31, 2016 and 2015

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 operating revenue and expenses from nonoperating activities. Operating revenue and expenses generally result from providing sewer services. The District's principal operating revenue are charges to customers for service. Operating expenses for the District include the cost of services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

Accounts Receivable

Accounts receivable are due from sewer customers and are reported at their principal amounts, less any allowance for accounts that may be uncollectible. Management reviews receivable balances regularly to determine if an allowance is necessary. No allowance was considered necessary at December 31, 2016 or 2015. If an account receivable was written off, it would be written off against the allowance. Accounts receivable are considered past due when payments are not made within 30 days after billing.

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 straight-line method in computing depreciation for all 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 compensated absences related to vacation and sick leave as earned.

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.

Reclassifications

Certain items in the 2015 financial statements have been reclassified to conform to the current year presentation.

Note 2. Accounting and Reporting Changes

The District implemented GASB 72, Fair Value Measurement and Application. This Statement addresses accounting and financial reporting issues related to fair value measurements. The definition of fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This Statement provides guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements.

The District implemented GASB 76, The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments. This statement identifies the hierarchy of generally accepted accounting principles for governmental financial reporting and establishes the framework for selecting those principles.

The District implemented GASB 79, Certain External Investment Pools and Pool Participants. This statement provides criteria for an external investment pool to qualify for making an election to measure all of its investments at amortized cost for financial reporting purposes, and requires pool participants to report using the same criteria. This standard adds note disclosure requirements for the District with regard to pool investments.

Note 3. Statements of Cash Flows

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

	2016	2015
Held for operations and construction		
Maintenance fund invested in the Pool (see Note 4)	\$ 6,361,115	\$ 5,205,506
Maintenance fund invested in the Impaired Pool	8,237	11,708
Maintenance fund - demand deposits	34,849	52,628
	6,404,201	5,269,842
Construction fund invested in the Pool (see Note 4)	10,533,088	11,033,763
Construction fund invested in the Impaired Pool	11,929	17,050
Construction fund invested in the Pool (see Note 4)- restricted	5,491,680	8,613,584
	16,036,697	19,664,397
Held for the redemption of bonds		
Bond fund invested in the Pool (see Note 4)	1,945,774	1,955,175
Bond fund invested in the Impaired Pool	467	665
	1,946,241	1,955,840
Total cash and cash equivalents	\$ 24,387,138	\$ 26,890,079

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 4. 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, 2016, the District had the following invested in the Pool:

Investment Type	Amortized Cost (as adjusted)	Fair Value	Effective Duration
Maintenance Fund	\$ 6,361,115	\$ 6,347,757	1.10 Years
Construction Fund	16,024,768	15,991,116	1.10 Years
Bond Fund	1,945,774	1,941,687	1.10 Years

As of December 31, 2015, the District had the following invested in the Pool:

Investment Type	Amortized Cost (as adjusted)	Fair Value	Effective Duration
Maintenance Fund	\$ 5,205,506	\$ 5,199,259	1.23 Years
Construction Fund	19,647,347	19,623,770	1.23 Years
Bond Fund	1,955,175	1,952,829	1.23 Years

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

	2016	2015
Principal (maximum risk of loss)	\$ 33,205	\$ 46,874
Unrealized loss	(12,573)	(17,451)
Fair value	<u>\$ 20,632</u>	<u>\$ 29,423</u>

Interest Rate Risk: As of December 31, 2016 and 2015, the Pool's average duration was 1.23 years. As a means of limiting its exposure to rising interest rates, securities purchased in the Pool must have a final maturity, or weighted average life, no longer than five years. While the Pool's market value is calculated on a monthly basis, unrealized gains

and losses are not distributed to participants. The Pool distributes earnings monthly using an amortized cost methodology.

Credit Risk. As of December 31, 2016, the district's investment in the Pool was not rated by a nationally recognized statistical rating organization (NRSRO). In compliance with state statutes, Pool policies authorize investments in U.S. Treasury securities, U.S. agency securities and mortgage-backed securities, 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.

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 5. Capital Assets

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

	2015	Increase	Decrease	Transfers	2016
Utility plant not being depreciated					
Land	\$ 3,441,905	\$ -	\$ -	\$ 543,045	\$ 3,984,950
Construction work in progress	3,727,750	6,154,623		(2,091,508)	7,790,865
Total utility plant not being depreciated	7,169,655	6,154,623	-	(1,548,463)	11,775,815
Utility plant and machinery and equipment					
Collection and transmission lines	67,610,901			110,233	67,721,134
Plant structures and improvements	41,855,495	10,764	(127,495)	1,438,230	43,176,994
Pump stations	4,965,025	17,516			4,982,541
Machinery and equipment	10,358,669	33,457	(17,103)		10,375,023
Other	2,529,666	57,551	(220)		2,586,997
Total utility plant and machinery and equipment being depreciated	127,319,756	119,288	(144,818)	1,548,463	128,842,688
Less accumulated depreciation for:					
Collection and transmission lines	26,678,813	1,357,336			28,036,149
Plant structures and improvements	28,972,692	907,095	(127,495)		29,752,292
Pump stations	2,592,600	147,816			2,740,416
Machinery and equipment	9,630,735	132,180			9,762,915
Other	1,738,873	124,374	(5,423)		1,857,824
Total accumulated depreciation	69,613,713	2,668,801	(132,918)	-	72,149,595
Total utility plant and machinery and equipment being depreciated, net	57,706,043	(2,549,513)	(11,900)	1,548,463	56,693,093
Total capital assets	\$ 64,875,698	\$ 3,605,110	\$ (11,900)	\$ -	\$ 68,468,908

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

	<u>2014</u>	<u>Increase</u>	<u>Decrease</u>	<u>Transfers</u>	<u>2015</u>
Utility plant not being depreciated					
Land	\$ 3,441,905	\$ -	\$ -	\$ -	\$ 3,441,905
Construction work in progress	<u>2,397,933</u>	<u>1,335,206</u>	<u>(5,389)</u>	<u>-</u>	<u>3,727,750</u>
Total utility plant not being depreciated	5,839,838	1,335,206	(5,389)	-	7,169,655
Utility plant and machinery and equipment					
Collection and transmission lines	67,562,023	48,878		-	67,610,901
Plant structures and improvements	41,786,387	69,108		-	41,855,495
Pump stations	4,965,025	-		-	4,965,025
Machinery and equipment	10,262,670	95,999		-	10,358,669
Other	<u>2,489,607</u>	<u>40,059</u>			<u>2,529,666</u>
Total utility plant and machinery and equipment being depreciated	127,065,712	254,044		-	127,319,756
Less accumulated depreciation for:					
Collection and transmission lines	25,324,738	1,354,075			26,678,813
Plant structures and improvements	28,103,394	869,298			28,972,692
Pump stations	2,452,700	139,900			2,592,600
Machinery and equipment	9,453,027	177,708			9,630,735
Other	<u>1,590,311</u>	<u>148,562</u>			<u>1,738,873</u>
Total accumulated depreciation	<u>66,924,170</u>	<u>2,689,543</u>			<u>69,613,713</u>
Total utility plant and machinery and equipment being depreciated, net	<u>60,141,542</u>	<u>(2,435,499)</u>		<u>-</u>	<u>57,706,043</u>
Total capital assets	<u>\$ 65,981,380</u>	<u>\$ (1,100,293)</u>	<u>\$ (5,389)</u>	<u>\$ -</u>	<u>\$ 64,875,698</u>

Construction in progress at December 31, 2016, consists primarily of the new office and maintenance facility (SWAMP) and Pump Station 14&15 upgrade projects. No interest was capitalized in 2016 or 2015 because the amounts would have been immaterial.

Note 6. Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2015, was as follows:

	2015	Additions	Reductions	2016	Amount Due Within One Year
Loans Payable:					
1997 Public Works Trust Fund Loan	225,196		112,599	112,597	112,599
2000 Public Works Trust Fund Loan	395,018		79,003	316,015	79,003
2006 Public Works Trust Fund Loan	2,302,038		209,276	2,092,762	209,276
2008 Public Works Trust Fund Loan	1,483,096		114,085	1,369,011	114,085
Total loans payable	4,405,348		514,963	3,890,385	514,963
Bonds Payable:					
2008 Sewer Revenue Bonds	1,575,000		95,000	1,480,000	100,000
2011 Sewer Revenue Bonds	3,251,888		154,180	3,097,708	155,000
2014 A Sewer Revenue Bonds	10,205,961		340,402	9,865,559	580,000
2014 B Sewer Revenue Bonds	255,000		255,000	-	-
Total bonds payable	15,287,849		844,582	14,443,267	835,000
Compensated Absences	567,628		34,220	533,407	
Long-Term Liabilities	<u>\$ 20,260,825</u>	<u>\$ -</u>	<u>\$ 1,393,765</u>	<u>\$ 18,867,059</u>	<u>\$ 1,349,963</u>

Long-term liability activity for the year ended December 31, 2015, was as follows:

	2014	Additions	Reductions	2015	Amount Due Within One Year
Loans Payable:					
1997 Public Works Trust Fund Loan	337,795		112,599	225,196	112,599
2000 Public Works Trust Fund Loan	474,021		79,003	395,018	79,003
2006 Public Works Trust Fund Loan	2,511,314		209,276	2,302,038	209,276
2008 Public Works Trust Fund Loan	1,597,181		114,085	1,483,096	114,085
Total loans payable	4,920,311		514,963	4,405,348	514,963
Bonds Payable:					
2005 Sewer Revenue Bonds	150,000		150,000	-	-
2008 Sewer Revenue Bonds	1,665,000		90,000	1,575,000	95,000
2011 Sewer Revenue Bonds	3,401,068		149,180	3,251,888	150,000
2014 A Sewer Revenue Bonds	10,264,044		58,083	10,205,961	315,000
2014 B Sewer Revenue Bonds	620,000		365,000	255,000	255,000
Total bonds payable	16,100,112		812,263	15,287,849	815,000
Compensated Absences	580,628		13,000	567,628	
Long-Term Liabilities	<u>\$ 21,601,051</u>	<u>\$ -</u>	<u>\$ 1,340,226</u>	<u>\$ 20,260,825</u>	<u>\$ 1,329,963</u>

The terms associated with loans payable at December 31, 2016 and 2015, are as follows:

	<u>2016</u>	<u>2015</u>
1997 Public Works Trust Fund Loan, due in annual installments of \$112,598, plus interest at 1% through July 1, 2017	112,597	225,196
2000 Public Works Trust Fund Loan, due in annual installments of \$79,003, plus interest at 1% through July 1, 2020	316,015	395,018
2006 Public Works Trust Fund Loan, due in annual installments of \$209,277, plus interest at 0.5% through July 1, 2026	2,092,762	2,302,038
2008 Public Works Trust Fund Loan, due in annual installments of \$170,580, plus interest at 0.5% through July 1, 2028	<u>1,369,011</u>	<u>1,483,096</u>
	<u>\$ 3,890,385</u>	<u>\$ 4,405,348</u>

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 514,963	\$ 21,595	\$ 536,558
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
2022-2026	1,616,802	29,957	1,646,759
2027-2028	<u>228,169</u>	<u>1,711</u>	<u>229,880</u>
	<u>\$ 3,890,386</u>	<u>\$ 111,069</u>	<u>\$ 4,001,455</u>

The terms associated with bonds payable at December 31, 2016 and 2015, are as follows:

	<u>2016</u>	<u>2015</u>
\$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%.	1,480,000	1,575,000
\$3,750,000 2011 revenue and refunding bonds due in remaining annual principal installments of \$155,000 to \$265,000 through May 2031; interest varies from 3.00% to 4.00%. Includes unamortized premium of \$62,708 and \$66,888 at December 31, 2016 and 2015, respectively.	3,097,709	3,251,888
\$9,995,000 2014 A revenue and refunding bonds due in remaining annual principal installments of \$580,000 to \$640,000 through May 2034; interest varies from 2.00% to 4.00%; includes unamortized premium of \$252,878 and \$260,961 at December 31, 2016 and 2015, respectively.	9,865,559	10,205,961
\$620,000 2014 B revenue and refunding bonds due in remaining annual principal installments of \$255,000 through May 2016; interest at 0.60%	-	255,000
	<u>\$ 14,443,267</u>	<u>\$ 15,287,849</u>

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

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 835,000	\$ 469,860	\$ 1,304,860
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
2022-2026	3,950,000	1,437,359	5,387,359
2027-2031	4,205,000	697,047	4,902,047
2032-2034	<u>1,850,000</u>	<u>107,920</u>	<u>1,957,920</u>
	14,145,000	<u>\$ 4,327,094</u>	<u>\$ 18,472,094</u>
Unamortized premium	<u>298,267</u>		
	<u>\$ 14,443,267</u>		

Note 7– Pension Plans

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

	2016	2015
Pension liabilities	\$ 2,488,768	\$ 2,177,747
Deferred outflows of resources	\$ 438,706	\$ 246,863
Deferred inflows of resources	\$ 95,700	\$ 335,808
Pension expense/expenditures	\$ 183,028	\$ 62,492

State Sponsored Pension Plans

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

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

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

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

Public Employees’ Retirement System (PERS)

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

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

Contributions

The **PERS Plan 1** member contribution rate is established by State statute at 6 percent. The employer contribution rate is developed by the Office of the State Actuary and includes an administrative expense component that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates. The PERS Plan 1 required contribution rates (expressed as a percentage of covered payroll) for 2016 were as follows:

PERS Plan 1		
Actual Contribution Rates:	Employer	Employee*
PERS Plan 1	6.23%	6.00%
PERS Plan 1 UAAL	4.77%	6.00%
Total	11.18%	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 2016 were as follows:

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

The District's actual PERS plan contributions were \$131,807 to PERS Plan 1 and \$172,150 to PERS Plan 2/3 for the year ended December 31, 2016.

Actuarial Assumptions

The total pension liability (TPL) for each of the DRS plans was determined using the most recent actuarial valuation completed in 2016 with a valuation date of June 30, 2015. The actuarial assumptions used in the valuation were based on the results of the Office of the State Actuary's (OSA) *2007-2012 Experience Study*.

Additional assumptions for subsequent events and law changes are current as of the 2015 actuarial valuation report. The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2016. Plan liabilities were rolled forward from June 30, 2015, to June 30, 2016, reflecting each plan's normal cost (using the entry-age cost method), assumed interest and actual benefit payments.

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

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

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

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

Discount Rate

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

To determine that rate, an asset sufficiency test included an assumed 7.7 percent long-term discount rate to determine funding liabilities for calculating future contribution rate requirements. 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. Based on these assumptions, the pension plans' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return of 7.5 percent was used to determine the total liability.

Long-Term Expected Rate of Return

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

Estimated Rates of Return by Asset Class

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

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

Sensitivity of the Net Pension Liability (NPL)

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

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
PERS 1	\$ 1,364,481	\$ 1,131,504	\$ 931,014
PERS 2/3	\$ 2,498,966	\$ 1,357,264	\$ (706,534)
Total	\$ 3,863,447	\$ 2,488,768	\$ 224,480

Pension Plan Fiduciary Net Position

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

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

At June 30, 2016 and 2015, the District's reported a total pension liability of \$2,488,768 and \$2,177,747, respectively for its proportionate share of the net pension liabilities as follows:

	2016	2015
PERS 1	\$ 1,131,504	\$ 1,156,925
PERS 2/3	\$ 1,357,264	\$ 1,020,822
	\$ 2,488,768	\$ 2,177,747

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

	Proportionate Share 6/30/16	Proportionate Share 6/30/15	Change in Proportion
PERS 1	0.021069%	0.022117%	0.001048%
PERS 2/3	0.026957%	0.028570%	0.001613%

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

Pension Expense

For the year ended December 31, 2016 and 2015, the District recognized pension expense as follows:

	2016	2015
PERS 1	\$ 5,226	\$ (98,305)
PERS 2/3	\$ 177,802	\$ 191,496
TOTAL	\$ 183,028	\$ 93,191

Deferred Outflows of Resources and Deferred Inflows of Resources

At December 31, 2016, 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	\$28,490	\$0
Changes of assumptions	\$0	\$
Changes in proportion and differences between contributions and proportionate share of contributions	\$0	\$
Contributions subsequent to the measurement date	\$67,907	\$
TOTAL	\$96,397	\$

PERS 2/3	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$72,273	(\$44,805)
Net difference between projected and actual investment earnings on pension plan investments	\$166,090	\$0
Changes of assumptions	\$14,028	\$0
Changes in proportion and differences between contributions and proportionate share of contributions	\$1,227	\$(50,895)
Contributions subsequent to the measurement date	\$88,691	\$0
TOTAL	\$342,309	(\$95,700)

ALL Plans	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$72,273	(\$44,805)
Net difference between projected and actual investment earnings on pension plan investments	\$194,580	\$0
Changes of assumptions	\$14,028	\$0
Changes in proportion and differences between contributions and proportionate share of contributions	\$1,227	\$(50,895)
Contributions subsequent to the measurement date	\$156,598	\$0
TOTAL	\$438,706	(\$95,700)

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

Year ended December 31:	PERS 1
2017	\$(7,015)
2018	\$(7,015)
2019	\$26,165
2020	\$16,354
2021	\$
Thereafter	\$
TOTAL	\$28,490

Year ended December 31:	PERS 2/3
2017	\$(14,456)
2018	\$(14,456)
2019	\$111,295
2020	\$75,536
2021	\$
Thereafter	\$
TOTAL	\$157,918

Note 8– 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 Government Agreement to fund their self-insured losses and jointly purchase insurance and administrative services. As of August 31, 2015, there are 507 Enduris members representing a broad array of special purpose districts throughout the state.

Enduris members share in the self-insured retention, jointly purchase excess and/or reinsurance coverage, and provide risk management services and other related administrative services. Enduris provides "per occurrence" based policies 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, electronic data processing equipment, business interruption, course of construction and additions, property in transit, fine arts, and automobile physical damage to insured vehicles. Boiler and machinery coverage is included on a blanket limit of \$100 million for all members. Enduris offers employee dishonesty coverage up to a liability limit of \$1,000,000.

Members make an annual contribution to fund Enduris. Enduris acquires insurance from unrelated insurance companies that is subject to a "per occurrence":

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

Insurance carriers cover all losses over the deductibles as shown to the policy maximum limits. 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.

SOUTHWEST SUBURBAN SEWER DISTRICT

Schedule of Proportionate Share of the Net Pension Liability

PERS 1

As of June 30 2016, 2015 and 2014

	2016	2015	2014
Employer's proportion of the net pension liability (asset)	0.021069%	0.022117%	0.022148%
Employer's proportionate share of the net pension liability	\$ 1,131,504	\$ 1,156,925	\$ 1,115,716
Covered payroll	\$ 0	\$ 0	\$ 0
Employer's proportionate share of the net pension liability as a percentage of covered payroll	N/A	N/A	N/A
Plan fiduciary net position as a percentage of the total pension liability	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 2016, 2015 and 2014

	2016	2015	2014
Employer's proportion of the net pension liability (asset)	0.026957%	0.028570%	0.028516%
Employer's proportionate share of the net pension liability	\$ 1,357,264	\$ 1,020,822	\$ 576,411
Covered payroll	\$ 2,763,245	\$ 2,514,680	\$ 2,491,827
Employer's proportionate share of the net pension liability as a percentage of covered payroll	49.12%	40.59%	23.13%
Plan fiduciary net position as a percentage of the total pension liability	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 *2016, 2015 and 2014*

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Statutorily or contractually required contributions	\$ 131,807	\$ 109,995	\$ 100,451
Contributions in relation to the statutorily or contractually required contributions	<u>\$ (131,807)</u>	<u>\$ (109,995)</u>	<u>\$ (100,451)</u>
Contribution deficiency (excess)	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
Covered payroll	\$ 2,763,245	\$ 2,514,680	\$ 2,491,827
Contributions as a percentage of covered payroll	4.78%	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 2016, 2015 and 2014

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Statutorily or contractually required contributions	\$ 172,150	\$ 141,150	\$ 124,560
Contributions in relation to the statutorily or contractually required contributions	<u>\$ (172,150)</u>	<u>\$ (141,150)</u>	<u>\$ (124,560)</u>
Contribution deficiency (excess)	<u><u>\$ 0</u></u>	<u><u>\$ 0</u></u>	<u><u>\$ 0</u></u>
Covered payroll	\$ 2,763,245	\$ 2,514,680	\$ 2,491,827
Contributions as a percentage of covered payroll	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	
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