Office of the Washington State Auditor
Pat McCarthy

Financial Statements Audit Report

Stevens Pass Sewer District

King County

For the period October 1, 2016 through September 30, 2017

Published August 16, 2018

Report No. 1021869

Office of the Washington State Auditor

Pat McCarthy

August 16, 2018

Board of Commissioners
Stevens Pass Sewer District
Leavenworth, Washington

Report on Financial Statements

Please find attached our report on the Stevens Pass 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*

Stevens Pass Sewer District
King County
October 1, 2016 through September 30, 2017

Board of Commissioners
Stevens Pass Sewer District
Leavenworth, 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 Stevens Pass Sewer District, King County, Washington, as of and for the year ended September 30, 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 July 20, 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

July 20, 2018

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Stevens Pass Sewer District
King County
October 1, 2016 through September 30, 2017

Board of Commissioners
Stevens Pass Sewer District
Leavenworth, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the Stevens Pass Sewer District, King County, Washington, as of and for the year ended September 30, 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 Stevens Pass Sewer District, as of September 30, 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 July 20, 2018 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Pat McCarthy

State Auditor

Olympia, WA

July 20, 2018

FINANCIAL SECTION

Stevens Pass Sewer District
King County
October 1, 2016 through September 30, 2017

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STEVENS PASS SEWER DISTRICT
Management's Discussion and Analysis
Year Ended September 30, 2017

The following Management's Discussion and Analysis is intended to serve as an introduction to the Stevens Pass Sewer District's basic financial statements and notes to the financial statements for the fiscal year ended September 30, 2017. We encourage readers to consider the information presented here in conjunction with financial statements.

SUMMARY OF ORGANIZATION AND BUSINESS

Stevens Pass Sewer District was established in 1972 as a municipal corporation organized under the laws of the state of Washington for the purpose of constructing and maintaining a sewer system for collection, transportation and treatment of sanitary sewage for the unincorporated area around Stevens Pass, Washington.

The District is governed by a three-person Board of Commissioners to serve a six-year term. The Commissioners are elected by registered voters. The Board is the District's policy-making and decision making body.

DISCUSSION OF BASIC FINANCIAL STATEMENTS

The financial statements of the District report information about the District using the full-accrual basis of accounting where revenues are recognized when earned and expenses are recognized when incurred. Capital asset purchases are capitalized and long-term liabilities are accounted for in the appropriate funds.

The *Balance Sheet* presents information on all the District's assets and liabilities with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as an indicator of whether the financial position of Stevens Pass Sewer District is improving or deteriorating.

All of the current year's revenues and expenses are accounted for in the *Statement of Revenues, Expenses and Changes in Fund Net Position.* This statement measures the success of the District's operations over the past fiscal year and can be used to determine whether the District has successfully recovered all its costs through its user fees, profitability and credit worthiness.

The primary purpose of the *Statement of Cash Flows* is to provide information about the District's cash receipts, cash payments, and net changes in cash resulting from operations, investing and financial activities; and provide answers to such questions as "where did cash come from?", "what was cash used for?", and "what was the change in the cash balance during the reporting period?".

Condensed Balance Sheets at September 30, 2016 and September 30, 2017

	2016	2017
Capital Assets (net)	$3,210,619	$3,073,208
Current and Other Assets	1,456,813	1,263,942
Deferred Outflows from Pensions	23,448	11,414
Total Assets	$4,690,880	$4,348,564
Non Current Liabilities	3,476,334	3,071,696
Other Current Liabilities	801,182	568,264
Deferred Inflows from Pensions	6,721	27,668
Total Liabilities & Deferred Inflows of Resources	4,284,237	3,667,628
Invested in Capital Assets, Net of Debt	(445,498)	(232,325)
Restricted	426,048	434,969
Unrestricted	426,093	478,292
Total Net Assets	406,643	680,936
Total Liabilities and Net Assets	$4,690,880	$4,348,564

Condensed Statement of Revenues, Expenses and Changes in Fund Net Position for the Years Ended September 30, 2016 and September 30, 2017

	2016	2017
Sewer service revenues	$1,056,455	$1,163,157
Other revenue (loss)	1,015	4,353
Net pool earnings	5,441	10,549
Total Revenue	1,062,911	1,178,059
Operations expenses	354,578	385,877
General and administrative expenses	63,673	72,674
Depreciation	434,750	427,293
Interest expense	91,314	84,558
Realized & unrealized loss on impaired investment & loss on asset disposal	(202)	(139)
Total Expenses	944,113	970,263
Income before Contribution and Extraordinary item	118,798	207,796
Capital Contribution and Extraordinary item		66,497
Change in Net Position	118,798	274,293
Net Position, Beginning of year	287,845	406,643
Total Net Position, End of year	$406,643	$680,936

CAPITAL ASSETS AND LONG-TERM DEBT

Capital Assets	
Plant	$8,100,722
Equipment & Vehicles	133,989
Non-Depreciable Capital Asset	199,500

Please refer to Capital Assets and Depreciation, Note 2 of the financial statements for more detailed information regarding capital asset activity.

As of September 30, 2017, the District had outstanding capital debt of $3,305,533. Debt repayment schedules go out to 2037. Please refer to the Long-Term Debt, Note 4 of the financial statements for more detailed information regarding long-term debt activity.

FINANCIAL POSITION AND RESULTS OF OPERATIONS

The District's financial position has improved by $274,293 over the 2016-2017 fiscal year. This is primarily due to a cash funded capital improvement of $199,500 and the increase in operating revenue of $110,040 and an increase in operating expenses of $32,843 over prior year resulting in an increase to operating income of $77,197. Revenue is being increased to improve the District's debt to asset ratio.

This District has restricted cash and cash equivalents of $434,969. This amount is primarily due to loan reserve amounts. These loan reserves will be used as part of the final payments for the associated loans. This is planned for as part of the budget planning process and is a requirement of the loans. Being in compliance of loan terms helps the ability of the District to be awarded future loans for Capital projects. Therefore, the restricted cash is viewed as beneficial to the District.

The District experienced a significant introduction of oil contaminants from its primary customer into its collection system and plant beginning in December 2015. The significant discharge has been stopped, though there is still some minor contamination being introduced to the collection system. The District is working with the customer to settle the insurance claim.

The rate the District charges the metered users is adjusted yearly depending upon the volume of wastewater processed and the budgeted expenses. This allows the District to adjust to significant negative fluctuations in volume caused by weather conditions as its user base is primarily influenced by snow, ski, and economic conditions. Several years of extremely low snow may cause financial distress to our users and is the District's biggest long term risk. The rate charged by the District is very high compared to other Districts because of its small customer base and restrictive NPDES permit.

Due to its location, with little private land available for development, the District does not have much potential for an increased customer base. The district does expect its customers to increase their use of the system over time. There will, however, be yearly fluctuations due to weather conditions, and therefore usage.

A new NPDES has been applied for and is in the process of becoming approved by the Department of Ecology. The existing permit has been administratively extended due to the workload at Ecology. Once the permit is written, the scope of capital projects and additional financing will become known to the District and will be incorporated into the Comprehensive Sewer Plan document. It is anticipated the additional financing will increase the debt service by no more than 10%. Because the District currently has an unfavorable debt to asset ratio, it is anticipated the District will pay down existing debt before it seeks financing.

STEVENS PASS SEWER DISTRICT

Balance Sheet

September 30, 2017

ASSETS		
Current Assets		
Cash - maintenance fund	$	587,267
Accounts receivable		239,232
Prepaid expenses		1,295
Total Current Assets		827,794
Non-Current Assets		
Cash and Cash Equivalents - Restricted		
Loan reserve funds		435,211
Impaired investment reserves		231
Allowance for unrealized loss on impaired investments		(473)
Total Cash and Cash Equivalents - Restricted		434,969
Cash and Cash Equivalents		
Impaired investment reserves		1,179
Total Cash and Cash Equivalents		436,148
Capital Assets		
Plant		8,100,722
Equipment		133,232
		8,233,954
Less: Accumulated Depreciation		(5,360,246)
Non-Depreciable Capital Assets		199,500
Total Capital Assets, net		3,073,208
Total Non-Current Assets		3,509,356
Total Assets		4,337,150
DEFERRED OUTFLOWS OF RESOURCES		
Deferred outflows from pensions		11,414
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	$	4,348,564

See accompanying notes to the financial statements. .

STEVENS PASS SEWER DISTRICT

Balance Sheet (Continued)

September 30, 2017

LIABILITIES	
Current Liabilities	
Accounts payable	$ 163,119
Accrued wages	7,361
Accrued payroll liability	6,118
Accrued interest	22,979
Current portion of compensated absences	12,093
Current maturities of long-term debt	356,594
Total Current Liabilities	568,264
Non-Current Liabilities	
Long-term debt, net of current maturities	2,513,728
Long-term debt payable from restricted assets	435,211
Net pension liability	122,757
Total Non-Current Liabilities	3,071,696
Total Liabilities	3,639,960
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows from pensions	27,668
Total liabilities and deferred inflows of resources	3,667,628
NET POSITION	
Net investment in capital assets	(232,325)
Unrestricted	478,292
Restricted	434,969
Total Net Position	680,936
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES AND NET POSITION	$ 4,348,564

See accompanying notes to the financial statements.

STEVENS PASS SEWER DISTRICT

Statement of Revenues, Expenses, and Changes in Fund Net Position

For The Year Ended September 30, 2017

OPERATING REVENUES	
Utility sales and sewer services	$ 1,163,157
Other revenue	4,353
Total Operating Revenues	1,167,510
OPERATING EXPENSES	
Personnel costs -	
Salaries and wages	159,077
Payroll taxes	7,921
Medical benefits	29,564
Employer pension contributions	2,971
Operations -	
Engineering services	2,268
Power	21,571
Chemicals and lab	22,505
Fees, permits and dues	8,049
Supplies and small equipment	33,438
Fuel and oil	6,903
State business and utility tax	30,936
Repairs and maintenance	59,242
Solids disposal	1,432
Depreciation	427,293
General and administrative -	
Insurance	31,395
Outside services	30,646
Office, telephone and other costs	8,410
Training	2,223
Total Operating Expenses	885,844
OPERATING INCOME	281,666
NON-OPERATING REVENUES (EXPENSES)	
Pool earnings, net of fees	10,549
Interest expense	(84,558)
Loss on disposal of capital assets	(122)
Realized & unrealized gain on impaired investments	261
Total Non-Operating Revenues (Expenses)	(73,870)
Income Before Contributions and Extraordinary Items	207,796
CONTRIBUTIONS AND EXTRAORDINARY ITEMS	
Capital contributions	90,504
Pollution remediation outlays `	(24,007)
CHANGE IN NET POSITION	274,293
NET POSITION - BEGINNING OF YEAR	406,643
NET POSITION - END OF YEAR	$ 680,936

See accompanying notes to the financial statements.

STEVENS PASS SEWER DISTRICT

Statement of Cash Flows

For The Year Ended September 30, 2017

CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	$	1,253,553
Payments for goods and services		(242,878)
Payments for personnel costs		(211,153)
Other revenue		4,353
Net cash provided by operating activities		803,875
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Payments for pollution remediation costs		(469,185)
Receipts from recovery of pollution remediation costs		384,720
Net cash used by non-capital financing activities		(84,465)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Principal paid on capital debt		(350,584)
Capital contributions		90,504
Acquisition and construction of capital assets		(160,618)
Interest paid on capital debt		(85,867)
Net cash used by capital and related financing activities		(506,565)
CASH FLOWS FROM INVESTING ACTIVITIES		
Pool earnings, net of fees		10,549
Realized & unrealized gain on impaired investments		261
Net cash provided by investing activities		10,810
Net change in cash and cash equivalents		223,655
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR		799,760
CASH AND CASH EQUIVALENTS - END OF YEAR	$	1,023,415

See accompanying notes to the financial statements.

STEVENS PASS SEWER DISTRICT

Statement of Cash Flows (Continued)
For The Year Ended September 30, 2017

RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES

Operating Income	$	281,666
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation		427,293
Changes in assets and liabilities		
Accounts receivable		90,396
Deferred outflows related to pensions		12,034
Prepaid expenses		1,614
Accounts payable		14,526
Accrued wages and payroll taxes		(554)
Compensated absences		3,999
Net pension liability		(48,046)
Deferred inflows related to pensions		20,947
Net cash provided by operating activities	$	803,875

SCHEDULE OF NONCASH CAPITAL AND RELATED FINANCING ACITIVITES

Non-depreciable capital assets included in accounts payable at year end	$	129,386

See accompanying notes to the financial statements.

Note 1 - Summary of Significant Accounting Policies

The accounting policies of Stevens Pass Sewer District (the District) conform to generally accepted accounting principles (GAAP) as applicable to proprietary funds of governments. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

The following is a summary of the most significant accounting polices:

Reporting Entity / Nature of Business

The District is a municipal corporation organized under the laws of the State of Washington created for the purpose of constructing and maintaining a sewer system for collection, transportation and treatment of sanitary sewage for the unincorporated area around Stevens Pass, Washington. The District is governed by an elected or appointed three member board. As required by generally accepted accounting principles, 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 State Auditor under the authority of Chapter 43.09 RCW. The District uses the *Uniform System of Accounts for Sewer Utilities*.

The District uses the full-accrual basis of accounting where revenues are recognized when earned and expenses are recognized when incurred. Capital asset purchases are capitalized and long-term liabilities are accounted for in the appropriate funds.

The District distinguishes between operating revenues and expenses from non-operating ones. Operating revenues and expenses result from providing services and producing and delivering goods in connection with a District's principal ongoing operations. The principal operating revenues of the District are customer charges for sewer services and utility sales. Operating expenses for the District include personnel costs, operations, depreciation, and general & administrative expenses. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Cash and Cash Equivalents and Investments

For the purpose of the statement of cash flows, the District considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents. The District considers investments in the King County Investment Pool to be cash equivalents. These investments are recorded at fair value in accordance with GASB Statement No. 72, Fair Value Measurement and Application. Accordingly, the change in fair value of investments is recognized as an increase or decrease to investment asset and investment income.

Income Taxes and Tax Status

The District is a municipal corporation and therefore is exempt from filing federal income tax returns and paying federal income taxes.

Investments

Investments are recorded at market value. See Note 9.

Note 1 - Summary of Significant Accounting Policies (Continued)

Capital Assets

It is the policy of the District to maintain accountability over all tangible capital assets acquired having a life exceeding one year with a cost of $5,000 or more. Capital assets include plant, equipment and improvements that add to the existing useful life of the asset. Routine repairs and maintenance costs will be expensed as they are incurred and will not be capitalized. Major repairs will be capitalized if they result in betterments/improvements to the District's capital asset.

Capital assets will be recorded at cost including all costs to place the asset in use. Depreciation of capital assets will be computed on the straight-line method over the estimated useful lives of five to twenty years. The Auditing Officer shall maintain the asset records, which will be verified by a physical inventory at least once a year.

When suspected or known losses of capital assets occur the Business Manager and the Auditing officer shall be notified. The Auditing Officer shall report the known losses of capital assets to the State Auditor's office in accordance with RCW 43.09.185, and a copy of the report shall be provided to the Board of Commissioners.

See Note 2 for a listing of capital assets activity for the year ended September 30, 2017.

Restricted Assets

In accordance with bond resolutions (and certain related agreements) separate restricted funds are required to be established. The assets held in these funds are restricted for specific uses including special reserve requirements. Restricted assets currently include the following:

Loan reserve funds	$ 435,211
Impaired investment reserve	231
Allowance for unrealized loss on impaired investments	(473)
Total restricted assets	$ 434,969

Receivables

Receivables consist of amounts due from customers and recoveries of costs related to the pollution remediation activity, see note 10 for additional information. All receivables are recorded when earned. No allowance for uncollectible accounts is provided since the District has the power to record liens for its receivables and, generally, does not experience significant uncollectible amounts.

Accounting Estimates

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.

Date of Management's Review

Subsequent events have been evaluated through January 30, 2018, which is the date the financial statements were available to be issued.

Note 1 - Summary of Significant Accounting Policies (Continued)

Net Position

Net position is classified in the following three components: 1) Net investment in capital assets - This component of net position consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of related debt as of year-end. 2) Restricted - This component of net position consists of assets set aside for special reserve requirements and other obligations, net of related liabilities, are classified as restricted on the statement of net position as their use is limited by externally-imposed restrictions. 3) Unrestricted - This component of net position consists of all net position that does not meet the definition of "restricted or "net investment in capital assets."

Deferred Outlfow and Inflow of Resources

In addition to assets, financial statements may report a separate section for deferred outflow of resources. Deferred outflow of resources consists of the consumption of net position that is applicable to a future reporting period and will not be recognized as an outflow of resources until then. The pension related items represent contributions made to the plan between the measurement date of the pension obligations and the end of the fiscal year as well as certain actuarial differences and changes that are amortized over future periods. In addition to liabilities, financial statements may report a separate section for deferred inflow of resources. Deferred inflow of resources consists of the acquisition of net position that is applicable to a future reporting period and will not be recognized as inflow of resources until then. Deferred inflows of resources consist of certain changes in pension obligations that are amortized over future periods.

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.

Compensated Absences

Employees accrue personal leave to be used for vacation and family leave purposes. Annual leave granted to each employee varies in accordance with years of service and may be carried forward from year to year, capped at a maximum bank of 222 hours. The District records the cost of personal leave as earned, not as taken.

Note 2 - Capital Assets

Non-depreciable capital assets consist of assets that will be placed in service subsequent to the year ended September 30, 2017. Capital assets activities for the year ended September 30, 2017 consisted of the following:

	October 1, 2016 Beginning Balance	Increase	Decrease	September 30, 2017 Ending Balance
Plant	$ 8,078,292	$ 22,430	$ -	$ 8,100,722
Equipment	133,989	-	(757)	133,232
Total depreciable capital assets	8,212,281	22,430	(757)	8,233,954
Less: accumulated depreciation				
Plant	4,932,725	419,187	(68,074)	5,283,838
Equipment	68,937	8,106	(635)	76,408
Total accumulated depreciation	5,001,662	427,293	(68,709)	5,360,246
Non-depreciable capital assets	-	199,500	-	199,500
Total capital assets, net	$ 3,210,619	$ (205,363)	$ 67,952	$ 3,073,208

Note 3 - Net Investment in Capital Assets

This component of net position consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of notes or borrowing that are attributable to the acquisition of the asset, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds are not included in the calculation of net investment in capital assets. The following is a summary of net investment in capital assets as of September 30, 2017:

Capital Assets		
Plant	$ 8,100,722	
Equipment	133,232	
Non-depreciable capital assets	199,500	
Less: accumulated depreciation	(5,360,246)	
Total capital assets, net		$ 3,073,208
Liabilities		
Current maturities of long-term debt	(356,594)	
Long-term debt, net of current maturities	(2,513,728)	
Long-term debt payable from restricted assets	(435,211)	
		(3,305,533)
Net investment in capital assets		$ (232,325)

Note 4 - Long-Term Liabilities

Long-term liabilities at September 30, 2017 consisted of the following:

	Balance at 10/1/2016	Additions	Reductions	Balance at 9/30/2017	Current	Non-Current
Net Pension Liability	$ 170,803	$ -	$ (48,046)	$ 122,757	$ -	$ 122,757
Compensated Absences	8,094	13,201	(9,202)	12,093	12,093	-
Department of Ecology Loan	2,298,267	-	(291,713)	2,006,554	296,119	1,710,435
USDA Rural Development Bond	1,257,627	-	(38,827)	1,218,800	40,430	1,178,370
Public Works Trust Loan	100,223	-	(20,044)	80,179	20,045	60,134
	$ 3,835,014	$ 13,201	$ (407,832)	$ 3,440,383	$ 368,687	$ 3,071,696

Department of Ecology Loan

Department of Ecology (I.D.NO.263.92), original loan of $5,308,108 dated November 30, 2004, payable in semi-annual installments of $162,601 each February and August, including interest at 1.50%, matures February 12, 2024, is secured by net revenue of the Utility, is a revenue debt, and was used for upgrading the waste water treatment facility.

USDA Rural Development Bond

United States Department of Agriculture Rural Development bond (I.D. NO. 252.11), original loan of $1,544,688 dated June 1, 2007, payable in annual installments of $90,705 every June, including interest of 4.125%, matures June 1, 2037, is secured by net revenue of the Utility, is a revenue debt, and was used for upgrading the waste water treatment facility.

Public Works Trust Loan

Public Works Trust (I.D. NO. 263.82), original loan of $380,850, payable in annual installments of $20,045 plus interest at .5% due June 1, beginning July 1, 2003 through June 1, 2021, is a revenue debt, and was used for upgrading the waste water treatment facility.

Compensated Absences

Employees earn vacation based upon their date of hire and years of service, this also determines the maximum amount of hours that they can accumulate. Unused vacation at retirement or separation from the District is payable in full to the employee. Employees also earn sick time throughout the year and may accumulate a maximum of 520 hours. No amounts are paid for unused sick leave upon leaving the District. The accrual for compensated absences as of September 30, 2017 not only consists of vacation pay, but it also includes the related employer share of payroll taxes and contributions to retirement plans.

Note 4 - Long-Term Liabilities (Continued)

The annual requirements to amortize all long-term debts outstanding as of September 30, 2017 including interest are as follows:

Fiscal year ending September 30:

	Principal	Interest	Total
2018	$ 356,594	$ 79,759	$ 436,353
2019	362,733	73,519	436,252
2020	369,010	67,142	436,152
2021	375,426	60,625	436,051
2022	361,943	53,964	415,907
2023-2027	749,252	192,077	941,329
2028-2032	328,880	124,645	453,525
2033-2037	401,695	50,981	452,676
	$ 3,305,533	$ 702,712	$ 4,008,245

An amount of $435,211 included in restricted assets represents the reserve requirements contained in the United States Department of Agriculture Rural Development Bond & Department of Ecology loan.

Interest of $84,558 was incurred and expensed during the year ended September 30, 2017.

There are a number of other limitations and restrictions contained in the various loan agreements and bond indentures. Management believes that the District is in compliance with all significant limitations and restrictions at September 30, 2017.

Note 5 - Related Party Transactions and Major Customer

During the year ending September 30, 2017, the District received approximately $1,135,889 in services fees from Stevens Pass Mountain Resort, LLC (the LLC) which accounts for 97% of total operating revenue for the District. The LLC is the entity that operates the Stevens Pass Ski Area, they also have one employee who is an elected commissioners of the District.

Note 6 - Commitments

The District uses U.S. Forest Service land for its plant and transmission lines under a special use permit dated June 3, 2003. The permit expired December 31, 2012 but has been administratively extended until after the District had completed its Comprehensive Plan which would identify the projects to be completed under this permit. The District has been in consultation with the permit coordinator and is expected to be renewed. The permit requires an annual fee based on a fee schedule developed by the U.S. Forest Service. The fee for fiscal year ending September 30, 2017 was $110.

Note 7 - Pension

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

Aggregate Pension Amount - All Plans	
Net pension liability	$122,757
Deferred outflows of resources	$11,414
Deferred inflows of resources	$27,668
Pension expense	$2,971

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.

Note 7 - Pension Plan (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%**

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.

Note 7 - Pension Plan (Continued)

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

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

Contributions

The **PERS Plan 2/3** employer and employee contribution rates are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. The Plan 2/3 employer rates include a component to address the PERS Plan 1 UAAL and an administrative expense that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 2 employer and employee contribution rates and Plan 3 contribution rates. The PERS Plan 2/3 required contribution rates (expressed as a percentage of covered payroll) for 2017 were as follows:

PERS Plan 2/3		
Actual Contribution Rate:	**Employer 2/3**	**Employee 2**
January - June 2017		
PERS Plan 2/3	6.23%	6.21%
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 $7,496 to PERS Plan 1 and $10,140 to PERS Plan 2/3 for the year ended September 30, 2017.

Note 7 - Pension Plan (Continued)

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% 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.

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

Long-Term Expected Rate of Return

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

Note 7 - Pension Plan (Continued)

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 at various future times.

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	Real Rate of Return Arithmetic
Fixed Income	20.00%	1.70%
Tangible Assets	5.00%	4.90%
Real Estate	15.00%	5.80%
Global Equity	37.00%	6.30%
Private Equity	23.00%	9.30%
	100.00%	

Sensitivity of NPL

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

Plan	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
PERS 1	$ 76,995	$ 63,204	$ 51,259
PERS 2/3	$ 160,443	$ 59,553	$ (23,111)

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.

Note 7 - Pension Plan (Continued)

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

At June 30, 2017, the District's reported a total pension liability of $122,757 for its proportionate share of the net pension liabilities as follows:

Plan	Liability
PERS 1	$ 63,204
PERS 2/3	59,553
Total	$ 122,757

At June 30, 2017, the District's proportionate share of the collective net pension liabilities was as follows:

Plan	Proportionate Share of 6/30/16	Proportionate Share of 6/30/17	Change in Proportion
PERS 1	$ 77,657	$ 63,204	$ (14,453)
PERS 2/3	$ 93,146	$ 59,553	$ (33,593)

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 was measured as of June 30, 2017, and the actuarial valuation date on which the total pension liability 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 September 30, 2017, the District recognized pension expense as follows:

	Expense
PERS 1	$ (2,572)
PERS 2/3	5,543
Total	$ 2,971

Note 7 - Pension Plan (Continued)

Deferred Outflows of Resources and Deferred Inflows of Resources

At September 30, 2017, the District's 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 projected and actual earnings on pension plan investment	$ -	$ 2,359
District contributions subsequent to the measurement date	1,907	-
Total	$ 1,907	$ 2,359

PERS 2/3	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 6,034	$ 1,959
Differences between projected and actual earnings on pension plan investment	-	15,875
Changes of assumptions	633	-
Changes in proportion and differences between contributions and proportionate share of contributions	-	7,476
District contributions subsequent to the measurement date	2,840	-
Total	$ 9,507	$ 25,310

Deferred outlfows 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 September 30, 2018. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended September 30:	PERS 1	PERS 2/3
2018	$ (1,594)	$ (8,296)
2019	503	(192)
2020	(117)	(2,382)
2021	(1,151)	(7,180)
2022	-	(258)
Thereafter	-	(335)
Total	$ (2,359)	$ (18,643)

Note 8 - Risk Management

The District is a member of Enduris. Chapter 48.62 RCW provides the exclusive source of local government entity authority to individually or jointly self-insure risks, jointly purchase insurance or reinsurance, and to contract for risk management, claims, and administrative services. Enduris was formed July 10, 1987 pursuant to the provisions of Chapter 48.62 RCW, Chapter 200-100 WAC, and Chapter 39.34 RCW. Two (2) counties and two (2) cities in the State of Washington joined together by signing an interlocal governmental agreement to fund their self-insured losses and jointly purchase insurance and administrative services. As of August 31, 2017, there are 540 Enduris members representing a broad array of special purpose districts throughout the state. Enduris provides property and liability coverage as well as risk management services and other related administrative services.

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

- $1,000,000 deductible on liability loss - the member is responsible for the first $1,000 of the deductible amount of each claim, while Enduris is responsible for the remaining $999,000 on a liability loss.

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

- Enduris is responsible for the $4,000 deductible on boiler and machinery loss.

Enduris acquires reinsurance from unrelated insurance companies on a “per occurrence” basis to cover all losses over the deductibles as shown on the policy maximum limits. Liability coverage is for all lines of liability coverage including Public Official’s Liability. The Property coverage is written on an “all risk”, blanket basis using current Statement of Values. The Property coverage includes but is not limited to mobile equipment, boiler and machinery, electronic data processing equipment, business interruption, course of construction and additions, property in transit, fine arts, and automobile physical damage to insured vehicles. Liability coverage limit is $20 million per occurrence and property coverage limit is $1 billion per occurrence. Enduris offers crime coverage up to a limit of $1 million per occurrence.

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

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

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

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

Note 9 - Deposits and Investments

Custodial Credit Risk - Custodial credit risk is the risk associated with the failure of a depository financial institution. In the event of a depository financial institution's failure, it is the risk that the District would not be able to recover its deposits or collateralized securities that are in the possession of the outside parties.

The District minimizes custodial credit risk by restrictions set forth in state law. Statutes require state agencies to deposit funds in financial institutions that are physically located in Washington unless otherwise expressly permitted by statute and authorized by the Washington Public Deposit Protection Commission (PDPC). The PDPC, established under chapter 39.58 of the Revised Code of Washington (RCW), makes and enforces regulations and administers a collateral pool program to ensure public funds are protected if a financial institution becomes insolvent. All deposits not insured by the Federal Depository Insurance Corporation (FDIC) are fully collateralized by the Public Deposit Protection Commission of the State of Washington (PDPC). Assessing the District's exposure, all deposits as of September 30, 2017 are fully insured or collateralized.

Deposits and investments are maintained by the District's ***ex officio*** treasurer, King County. The District's governing body has entered into a formal interlocal agreement with King County, to have all its funds not required for immediate expenditure to be invested in the King County Investment Pool (Pool).

As of September 30, 2017, the District had the following investments:

Investment Type		Fair Value	Effective Duration
King County Investment Pool	$	1,023,415	.98 Years

Investment in State Investment Pool - The management of the King County Investment Pool has reported to its participating agencies that, as of September 31, 2017, the carrying amount of the pool was $6,559,836,210 and the estimated fair value of the pool was $6,547,277,005. The Districts proportionate share of the fair value as of September 30, 2017, was $1,023,415. The District's earning from the Investment Pool were $10,549 for the year ending September 30, 2017.

Impaired Investments - As of September 30, 2017, 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 four commercial paper assets that were part of completed enforcement events, where the Impaired Pool accepted the cash-out option. *The District's share of the impaired investment pool principal is $1,410 and the District's fair value of these investments is $937.*

Interest Rate Risk - As of September 30, 2017, the Pool's average duration was .98 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 September 30, 2017, the District's investment in the Pool was not rated by a nationally recognized statistical rating organization (NRSRO). In compliance with state statues, Pool policies authorize investments in U.S. Treasury securities, U.S. agency securities and mortgage-backed securities, bank corporate note (rated at least "A" by two NRSROs), municipal securities (rated at least "A" by two NRSROs), commercial paper (rated at least the equivalent of "A-1" by two NRSROs), certificates of deposits issued by qualified public depositories, repurchase agreements, and the Local Government Investment Pool managed by the Washington State Treasurer's office.

Note 9 - Deposits and Investments (Continued)

Concentration Credit Risk - The District's investment policy contains various limitations on the amounts that can be invested in any one governmental agency or non-governmental issuer as stipulated by the Washington State Code. There were no investments in any one non-governmental issuer that represent 5% or more of the District's total investments as of September 30, 2017.

Investment in King County Investment Pool by Fund

Maintenance funds	$	587,267
Loan reserve funds		435,211
Impaired investment reserves		1,410
Allowance for unrealized loss on impaired investments		(473)
Total Investment in King County Investment Pool	$	1,023,415

Fair Value Measurements

In accordance with GASB Statement No. 72, Fair Value Measurement and Application, defines fair value, establishes a framework for measuring fair value and establishes disclosures about fair value measurement. Investments, unless otherwise specified, recorded at fair value in the balance sheet, are categorized based upon the level of judgment associated with the inputs used to measure their fair value. Levels of inputs are as follows:

Level 1–Inputs are unadjusted, quoted prices for identical assets and liabilities in active markets at the measurement date.

Level 2– Inputs, other than quoted prices included in Level 1 that are observable for the asset or liability through corroboration with market data at the measurement date.

Level 3–Unobservable inputs that reflect management's best estimate of what market participants would use in pricing the asset or liability at the measurement date.

The District has the following recurring fair value measurements as of September 30, 2017:

Type of Invesment	Measurement Input	Fair Value	Maturity 12 Months or Less
King County Invesment Pool	Level 2	$ 1,023,415	$ 1,023,415
Total Investments		$ 1,023,415	$ 1,023,415

Note 10 - Pollution Remediation Activity

In November 2006, the Governmental Accounting Standards Board issued Statement No. 49 (GASB 49), *Accounting and Financial Reporting for Pollution Remediation Obligations*. GASB 49 requires disclosure of "obligations to address current or potential detrimental effects of existing pollution by participating in pollution remediation activities." GASB 49 identifies five distinct "obligating events" that would require the District to disclose the potential future outlays associated with remediation of contaminated sites. Once any of the five obligating events occurs, the District documents the components of expected pollution remediation outlays that are reasonably estimable. The District then determines if some or all of the future outlays are subject to capitalization under GASB 49 and records those expenditures accordingly.

In December of 2015, it was discovered that there was oil leaking into the District's waste water system from the Stevens Pass Mountain Resort's vehicle shop. The source of the leak has since been disconnected from the waste water system. Clean-up and repairs to the plant caused by this occurrence has been completed as of September 1, 2017.

There were no pollution remediation obligation and realized pollution recovery receivable as any unpaid amount or expected recoveries have been grouped with other receivables and payables as of September 30, 2017. Since the project was completed on September 1, 2017, all costs are known and any related payable has been calculated on this basis. As of September 30, 2017, amounts included in accounts receivables and payables related to the pollution remediation activity was $748 and $238,698, respectively. These amounts are considered to be current as they are expected to be received or paid within one year.

The District evaluated its Pollution Remediation Obligations by updating both forecasts for future outlays as well as recoveries, or as events occur that would cause the District to re-estimate its liability and recovery calculation. An evaluation of those events, such as changes to contracts, price of materials and recovery efforts was made as of September 30, 2017. In addition, any adjustments to liabilities are reported as more information becomes available or as projects meet subsequent GASB 49 Recognition Benchmarks.

Cost Recoveries
As of the date of these financial statements, management has indicated that the District is in negotiations with the responsible party, who is the Stevens Pass Mountain Resort, and their insurance company but no settlement has yet been reached. However, management has estimated that they expect to be reimbursed for costs up to $1,000,000. Pollution remediation costs totaled $1,057,130 which will leave an amount of $57,130 as being unrecovered, as such, this amount will be recognized currently in the Statement of Revenues, Expenses, and Changes in Fund Net Position. Based on management's estimate of expected recoveries, the following is a summary unrecovered costs that are reported in the statement of revenues, expenses, and changes in fund net position as of September 30, 2017:

Operating expenses	
Personnel costs	$ 24,286
Fuel and oil	5,217
State sales/use tax	3,489
Other costs	131
Total operating expenses	33,123
Pollution remediation outlays	24,007
Total unrecovered costs reported in the statement of revenues, expenses, and changes in fund net position	$ 57,130

Note 10 - Pollution Remediation Activity (Continued)

Based on management's estimate, the following is a summary of the projected pollution remediation obligation and realized pollution recovery receivable as of September 30, 2017:

Pollution remediation obligation as of September 30, 2017:

Total estimated pollution remediation costs	$	1,057,130
Total cost paid as of September 30, 2017		(1,056,382)
Amount outstanding included in accounts payable as of September 30, 2017		(748)
Pollution remediation obligation	$	-

Realized pollution recovery receivable as of September 30, 2017:

Total estimated pollution remediation costs	$	1,057,130
Recoveries collected as of September 30, 2017		(761,302)
Estimated unrecovered costs		(57,130)
Amount outstanding included in accounts receivable as of September 30, 2017		(238,698)
Realized pollution recovery receivable	$	-

During the year ending September 30, 2017, the District replaced a capital asset that was damaged as a result of this pollution remediation event. Based on GASB 49, the replacement of this capital assets meets the criteria for capitalizing the pollution remediation outlay that restored a pollution caused decline in service utility. Furthermore, the outlay necessary to replace the capital asset, less the book value of the replaced capital asset, indicates the amount necessary to place the new capital asset into its inteded location and condition for use, this amount is recongized as a capital contribution. Below is the calculation to determine the capital contributin recognized as of September 30, 2017:

Cost of capital asset damaged	$	112,117
Accumulated depreciation		(68,074)
Book value of capital asset damaged	$	44,043
Cost of replacement capital asset	$	134,547
Book value of capital asset damaged		(44,043)
Capital contributions	$	90,504

Schedule of Proportionate Share of the Net Pension Liability
PERS 1
As of June 30, 2017

Employer's proportion of the net pension liability (asset)	0.001332%
Employer's proportionate share of the net pension liability	$ 63,204
Employer's covered employee payroll	$ -
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	N/A
Plan fiduciary net position as a percentage of the total pension liability	61.24%

Schedule of Proportionate Share of the Net Pension Liability
PERS 2/3
As of June 30, 2017

Employer's proportion of the net pension liability (asset)	0.001714%
Employer's proportionate share of the net pension liability	$ 59,553
Employer's covered employee payroll	$ 155,106
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	38.40%
Plan fiduciary net position as a percentage of the total pension liability	90.97%

Schedule of Employer Contributions
PERS 1
As of September 30, 2017

Statutorily or contractually required contributions	$ 7,496
Contributions in relation to the statutorily or contractually required contributions	$ 7,496
Contribution deficiency (excess)	$ -
Covered employer payroll	$ -
Contributions as a percentage of covered employee payroll	N/A

Schedule of Employer Contributions
PERS 2/3
As of September 30, 2017

Statutorily or contractually required contributions	$ 10,140
Contributions in relation to the statutorily or contractually required contributions	$ 10,140
Contribution deficiency (excess)	$ -
Covered employer payroll	$ 155,091
Contributions as a percentage of covered employee payroll	6.54%

Schedule of Proportionate Share of the Net Pension Liability
PERS 1
As of June 30, 2016

Employer's proportion of the net pension liability (asset)	0.001446%
Employer's proportionate share of the net pension liability	$ 77,657
Employer's covered employee payroll	$ -
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	N/A
Plan fiduciary net position as a percentage of the total pension liability	57.03%

Schedule of Proportionate Share of the Net Pension Liability
PERS 2/3
As of June 30, 2016

Employer's proportion of the net pension liability (asset)	0.001850%
Employer's proportionate share of the net pension liability	$ 93,146
Employer's covered employee payroll	$ 193,719
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	48.08%
Plan fiduciary net position as a percentage of the total pension liability	85.82%

Schedule of Employer Contributions
PERS 1
As of September 30, 2016

Statutorily or contractually required contributions	$ 8,099
Contributions in relation to the statutorily or contractually required contributions	$ 8,099
Contribution deficiency (excess)	$ -
Covered employer payroll	$ -
Contributions as a percentage of covered employee payroll	N/A

Schedule of Employer Contributions
PERS 2/3
As of September 30, 2016

Statutorily or contractually required contributions	$ 10,578
Contributions in relation to the statutorily or contractually required contributions	$ 10,578
Contribution deficiency (excess)	$ -
Covered employer payroll	$ 187,874
Contributions as a percentage of covered employee payroll	5.63%

Schedule of Proportionate Share of the Net Pension Liability
PERS 1
As of June 30, 2015

Employer's proportion of the net pension liability (asset)	0.001512%
Employer's proportionate share of the net pension liability	$ 79,092
Employer's covered employee payroll	$ -
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	N/A
Plan fiduciary net position as a percentage of the total pension liability	59.10%

Schedule of Proportionate Share of the Net Pension Liability
PERS 2/3
As of June 30, 2015

Employer's proportion of the net pension liability (asset)	0.001954%
Employer's proportionate share of the net pension liability	$ 69,818
Employer's covered employee payroll	$ 173,583
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	40.22%
Plan fiduciary net position as a percentage of the total pension liability	89.20%

Schedule of Employer Contributions
PERS 1
As of September 30, 2015

Statutorily or contractually required contributions	$ 7,293
Contributions in relation to the statutorily or contractually required contributions	$ 7,293
Contribution deficiency (excess)	$ -
Covered employer payroll	$ -
Contributions as a percentage of covered employee payroll	N/A

Schedule of Employer Contributions
PERS 2/3
As of September 30, 2015

Statutorily or contractually required contributions	$ 9,260
Contributions in relation to the statutorily or contractually required contributions	$ 9,260
Contribution deficiency (excess)	$ -
Covered employer payroll	$ 173,761
Contributions as a percentage of covered employee payroll	5.33%

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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