



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

**Financial Statements Audit Report**  
**Skyway Water and Sewer District**

**For the period January 1, 2016 through December 31, 2017**

**Published March 14, 2019**

**Report No. 1023283**





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

March 14, 2019

Board of Commissioners  
Skyway Water and Sewer District  
Seattle, Washington

**Report on Financial Statements**

Please find attached our report on the Skyway Water and Sewer District's financial statements.  
We are issuing this report in order to provide information on the District's financial condition.

Sincerely,

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

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**

**Skyway Water and Sewer District  
January 1, 2016 through December 31, 2017**

Board of Commissioners  
Skyway Water and Sewer District  
Seattle, 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 Skyway Water and Sewer District, as of and for the years ended December 31, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated February 13, 2019.

**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 opinions 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

February 13, 2019

# INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

## **Skyway Water and Sewer District January 1, 2016 through December 31, 2017**

Board of Commissioners  
Skyway Water and Sewer District  
Seattle, Washington

### **REPORT ON THE FINANCIAL STATEMENTS**

We have audited the accompanying financial statements of the Skyway Water and Sewer District, as of and for the years ended December 31, 2017 and 2016, 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 Skyway Water and Sewer District, as of December 31, 2017 and 2016, and the changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## **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 February 13, 2019 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 style with a large initial "P" and "M".

Pat McCarthy  
State Auditor  
Olympia, WA

February 13, 2019



## FINANCIAL SECTION

### **Skyway Water and Sewer District January 1, 2016 through December 31, 2017**

#### **REQUIRED SUPPLEMENTARY INFORMATION**

Management's Discussion and Analysis – 2017 and 2016

#### **BASIC FINANCIAL STATEMENTS**

Statement of Net Position – 2017 and 2016

Statement of Revenues, Expenses and Changes in Fund Net Position – 2017 and 2016

Statement of Cash Flows – 2017 and 2016

Notes to Financial Statements – 2017 and 2016

#### **REQUIRED SUPPLEMENTARY INFORMATION**

Schedule of Proportionate Share of the Net Pension Liability – PERS 1, PERS 2/3 – 2017

Schedule of Employer Contributions – PERS 1, PERS 2/3 – 2017

Notes to Required Supplementary Information

Skyway Water and Sewer District  
Management's Discussion and Analysis  
Years Ended December 31, 2017 and 2016

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**Introduction**

Skyway Water and Sewer District is a municipal corporation governed by an elected 3 member board. The District's primary activity is to provide water and sewer services to residential and commercial customers within the District's boundaries.

**Brief Discussion of the Basic Financial Statements**

The District's financial statements include a Statement of Net Position, a Statement of Revenues, Expenses and Changes in Fund Net Position, a Statement of Cash Flows, and Notes to the Financial Statements. The financial statements are prepared using the accrual basis of accounting and conform to generally accepted accounting principles as applicable to proprietary funds of governments. The intent of the management's discussion and analysis is to provide highlights of the District's financial activities for the years ended December 31, 2017 and 2016. Readers are encouraged to read this section in conjunction with the accompanying financial statements.

The statement of net position provides a record, or snap shot, of the total assets and deferred outflows of resources and total liabilities and deferred inflows of resources of the District at the close of the year. It provides information about the nature and amounts of investments in resources (assets), and the obligations to District creditors (liabilities). It provides the basis for evaluating the capital structure of the District and assessing the liquidity and financial flexibility of the District.

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

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

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

**Condensed Comparative Statement of Net Position**

The following condensed statements of net position present an overview of the District's financial position as of December 31, 2017 and 2016.

	<u>2017</u>	<u>2016</u>	<u>2015</u>
<b><u>Assets</u></b>			
Current Assets	\$ 11,613,214	\$ 9,665,339	\$ 8,757,139
Noncurrent Assets:			
Capital Assets - Net	31,390,308	31,572,476	32,108,187
Other	<u>-</u>	<u>-</u>	<u>-</u>
Total Assets	<u>\$ 43,003,522</u>	<u>\$ 41,237,815</u>	<u>\$ 40,865,326</u>
<b><u>Deferred Outflows of Resources</u></b>	<u>\$ 84,119</u>	<u>\$ 135,835</u>	<u>\$ 71,568</u>

Skyway Water and Sewer District  
Management's Discussion and Analysis  
Years Ended December 31, 2017 and 2016

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**Liabilities**

Current Liabilities	\$ 926,417	\$ 926,640	\$ 1,039,005
Noncurrent Liabilities:			
Long-Term Debt	5,575,779	6,314,971	7,034,332
Other	<u>687,319</u>	<u>866,663</u>	<u>666,728</u>
Total Liabilities	<u>\$ 7,189,515</u>	<u>\$ 8,108,274</u>	<u>\$ 8,740,065</u>

**Deferred Inflows of Resources**

	<u>\$ 106,662</u>	<u>\$ 21,411</u>	<u>\$ 101,652</u>
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**Net Position**

Net Investment in Capital Assets	\$ 25,981,407	\$ 25,437,128	\$ 25,163,960
Restricted for Debt Service	536,792	530,146	524,648
Unrestricted	<u>9,273,265</u>	<u>7,276,691</u>	<u>6,406,569</u>
Total Net Position	<u>\$ 35,791,464</u>	<u>\$ 33,243,965</u>	<u>\$ 32,095,177</u>

**Analysis of the Condensed Comparative Statement of Net Position**

Assets

Current assets include cash and cash equivalents held in various funds. Cash balances in the various funds vary from year to year based on income from operations, capital contributions, expenses paid for operations and construction costs, transfers between funds, borrowings and debt service payments. Total cash and cash equivalents increased by \$1,850,270 in 2017 due to a rate increase at January 1, 2017 in anticipation of future construction projects and due to capital facilities charges of \$482,536. Total cash and cash equivalents increased by \$978,491 in 2016 mainly due to a rate increase at January 1, 2016 in anticipation of future construction projects.

Current assets also include customer and developer accounts receivable, accrued utility revenue, inventories and prepaid expenses. Accrued utility revenue increased by \$93,482 in 2017 primarily due to the rate increase at January 1, 2017. Customer accounts receivable decreased by \$79,089 in 2016. This balance fluctuates based on the timing of payments by customers.

Noncurrent assets include net capital assets, which include land, construction work in progress, utility plant, equipment and intangible assets, less accumulated depreciation. Net capital assets decreased by \$182,168 in 2017 which reflects the District's capital spending offset by depreciation of \$1,075,203. Net capital assets decreased by \$535,711 in 2016 which reflects the District's capital spending offset by depreciation expense of \$1,064,119.

Deferred Outflows of Resources

Deferred outflows related to pensions decreased by \$51,716 in 2017 primarily due to a decrease in the deferred outflows related to pensions of the pension plan as a whole. Deferred outflows related to pensions totaled \$135,835 in 2016. Accounting for deferred outflows related to pensions began in 2015 with the implementation of GASB 68 which required that all public entities with defined benefit pensions recognize that pension liability.

Skyway Water and Sewer District  
Management's Discussion and Analysis  
Years Ended December 31, 2017 and 2016

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Liabilities

Current liabilities include accounts payable, deposits, accrued interest payable on debt, and the current portion of long-term debt. Current liabilities did not change significantly in 2017. Current liabilities decreased by \$112,365 in 2016 primarily due to a decrease in accounts payable of \$45,355 and a decrease of \$74,227 in the current portion of Public Works Trust Fund loans. Maintenance and capital improvement accounts payable vary from year to year based on the timing of invoices received from vendors and on the capital projects underway at the time.

Noncurrent liabilities include compensated absences, the net pension liability, and the long-term portions of Public Works Trust Fund loans and revenue bonds outstanding. Noncurrent liabilities decreased by \$918,536 in 2017 primarily due to required payments of bond and loan principal made during the year, as well as a decrease in the net pension liability of \$185,833. Noncurrent liabilities decreased by \$519,426 in 2016 primarily due to required payments of bond and loan principal made during the year. This decrease was partially offset by an increase in the net pension liability of \$158,499. The net pension liability began being recognized in 2015 due to the adoption of GASB 68. See Note 5 for the detail of changes in long-term liabilities.

Deferred Inflows of Resources

Deferred inflows related to pensions increased by \$85,251 in 2017 primarily due to an increase in the net difference between projected and actual investment earnings on pension plan investments. Deferred inflows related to pensions totaled \$21,411 in 2016. In accordance with GASB 68, the District began recognizing the deferred inflows related to pensions in 2015.

Net Position

Net position consists of total assets and deferred outflows of resources minus total liabilities and deferred inflows of resources. Net position increased by \$2,547,499 in 2017. Net position increased by \$1,148,788 in 2016. Over time, increases or decreases in the District's net position are an indicator of the District's overall financial growth. An increase in net position is a positive sign of the District's financial strength.

Skyway Water and Sewer District  
Management's Discussion and Analysis  
Years Ended December 31, 2017 and 2016

**Condensed Comparative Statement of Revenues, Expenses & Changes in Fund Net Position**

The following statements of revenues, expenses and changes in fund net position present the annual surplus or deficiency of revenues over expenses (the change in net position):

	<u>2017</u>	<u>2016</u>	<u>2015</u>
<b><u>Revenues</u></b>			
Water Service	\$ 2,309,852	\$ 2,172,852	\$ 2,152,318
Sewer Service	5,527,891	5,011,681	4,934,675
Other Operating Revenue	167,751	153,824	163,592
Nonoperating Revenues	<u>170,836</u>	<u>141,088</u>	<u>147,958</u>
Total Revenues	<u>\$ 8,176,330</u>	<u>\$ 7,479,445</u>	<u>\$ 7,398,543</u>
<b><u>Expenses</u></b>			
Operating Expenses	\$ 5,361,021	\$ 5,099,367	\$ 5,011,944
Depreciation and Amortization	1,075,203	1,064,119	1,067,522
Nonoperating Expenses	<u>176,228</u>	<u>190,647</u>	<u>200,440</u>
Total Expenses	<u>\$ 6,612,452</u>	<u>\$ 6,354,133</u>	<u>\$ 6,279,906</u>
Change in Net Position before Capital Contributions	\$ 1,563,878	\$ 1,125,312	\$ 1,118,637
Capital Contributions	<u>983,621</u>	<u>105,211</u>	<u>267,586</u>
Change in Net Position	\$ 2,547,499	\$ 1,230,523	\$ 1,386,223
<b><u>Total Net Position, January 1</u></b>	33,243,965	32,095,177	31,368,198
Prior Period Adjustment to Update			
Accumulated Depreciation	-	(81,735)	-
Change in Accounting Principle - GASB 68	<u>-</u>	<u>-</u>	<u>(659,244)</u>
<b><u>Total Net Position, December 31</u></b>	<u>\$ 35,791,464</u>	<u>\$ 33,243,965</u>	<u>\$ 32,095,177</u>

**Analysis of the Condensed Comparative Statement of Revenues, Expenses & Changes in Fund Net Position**

**Revenues**

Water service revenue increased by \$137,000 in 2017 due to a 4% rate increase effective January 1, 2017 and due to increased consumption. Sewer service revenue increased by \$516,210 due to a 13% rate increase effective January 1, 2017 in anticipation of future construction projects and due to increased consumption. Nonoperating revenues increased by \$29,748 in 2017 primarily due to an increase in interest on investments and an increase in tower rental income. Interest income varies from year to year depending on the average balances being invested, changes in interest rates, and changes in the fair market value of the District's investments.

Water service revenue increased by \$20,534 in 2016 due to a 4% rate increase effective January 1, 2016 that was offset by a decrease in consumption. Sewer service revenue increased by \$77,006 due to a 13% rate increase effective January 1, 2016 offset by a decrease in consumption. Other operating revenue decreased by \$9,768 mainly due to a decrease in late penalty charges and turn on/turn off charges and fees. A prior period adjustment to update accumulated depreciation

Skyway Water and Sewer District  
Management's Discussion and Analysis  
Years Ended December 31, 2017 and 2016

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decreased net position by \$81,735. It was determined that several capital assets that should have been fully depreciated had not been fully depreciated.

Expenses

Operating expenses increased by \$261,654 in 2017. Water purchases increased by \$43,770 and King County sewer treatment charges increased by \$208,950 due to higher usage by customers because of above normal temperatures. Operations labor decreased by \$34,455 due to the capitalization of \$24,809 of operations labor to a construction project, as well as staff position vacancies, offset by a cost of living increase of 2% in 2017. Administrative labor increased by \$16,746 primarily due to a cost of living increase of 2%. Payroll taxes and benefits decreased by \$61,700 due to a decrease in the net pension liability, as well as the capitalization of \$8,770 of payroll taxes and benefits to a construction project. Line/Hydrant repair decreased by \$19,117 because 2016 was higher than usual due to an increase in line breaks. Vehicles/fuel expense increased by \$25,350 due to higher than normal repairs and maintenance.

Operating expenses increased by \$87,423 in 2016. Water purchases decreased by \$10,386 and King County sewer treatment charges decreased by \$22,211 due to conservation by customers. Operations and administrative labor increased by \$47,245 due to a cost-of-living increase of 1.1% and staff promotions. Line/Hydrant repair increased by 19,558 due to an increase in line breaks in 2016. Technology support and maintenance decreased by \$16,091 in 2016 because 2015 was higher than usual due to an email server upgrade and the implementation of a chip card reader that year. Building maintenance and security decreased by \$8,563 in 2016 because 2015 was higher than usual.

Nonoperating expenses consist primarily of interest expense on long-term debt. Interest expense decreased by \$13,755 in 2017 due to decreasing principal balances on long-term debt. Interest expense decreased by \$11,555 in 2016 due to decreasing principal balances on long-term debt.

Capital Contributions

Capital contributions increased by \$878,410 in 2017 primarily due to an increase in property deeded to the District by developers, as well as an increase in water and sewer facilities charges. Capital contributions decreased by \$162,375 in 2016 primarily due to a decrease in property deeded to the District by developers.

Change in Net Position

Net position increased by \$2,547,499 in 2017 and increased by \$1,148,788 in 2016, reflecting the fact that total revenues exceeded total expenses.

**Analysis of Overall Financial Condition**

The District's overall financial condition remained strong in 2017 and 2016, with increases in net position, adequate liquid assets and positive operating cash flow.

In order to ensure that the District's financial condition remains strong, a rate increase was enacted effective January 1, 2017 and January 1, 2018.

Skyway Water and Sewer District  
Management's Discussion and Analysis  
Years Ended December 31, 2017 and 2016

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**Capital Assets**

Capital assets consist of land, construction in progress, utility plant and equipment. The net capital assets of the District, after recording depreciation, decreased by \$182,168 during 2017. Capital spending in 2017 consisted of various projects, including well improvements, automatic meter reading systems, and pump station upgrades.

The net capital assets of the District, after recording depreciation, decreased by \$535,711 during 2016. Capital spending in 2016 consisted of various projects, including water main replacements, sewer main replacements and sewer lift station consolidation.

Over the next five years it is anticipated that capital spending will be in the range of \$44,999,000. The areas of major emphasis in the capital budget include water main/fire flow improvements, water main replacements, sewer main replacements and sewer pump station replacements.

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

	<u>Balance</u> <u>12/31/17</u>	<u>Balance</u> <u>12/31/16</u>	<u>Change</u>
Land	\$ 270,515	\$ 270,515	\$ -
Construction in Progress	1,807,862	2,089,280	(281,418)
Utility Plant	49,083,153	47,946,189	1,136,964
Equipment	903,124	865,635	37,489
Intangibles	738,118	738,118	-
Accumulated Depreciation	<u>(21,412,464)</u>	<u>(20,337,261)</u>	<u>(1,075,203)</u>
Total Capital Assets, Net	<u>\$ 31,390,308</u>	<u>\$ 31,572,476</u>	<u>\$ (182,168)</u>

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

	<u>Balance</u> <u>12/31/16</u>	<u>Balance</u> <u>12/31/15</u>	<u>Change</u>
Land	\$ 270,515	\$ 270,515	\$ -
Construction in Progress	2,089,280	1,938,070	151,210
Utility Plant	47,946,189	47,509,714	436,475
Equipment	865,635	854,063	11,572
Intangibles	738,118	738,118	-
Accumulated Depreciation	<u>(20,337,261)</u>	<u>(19,202,293)</u>	<u>(1,134,968)</u>
Total Capital Assets, Net	<u>\$ 31,572,476</u>	<u>\$ 32,108,187</u>	<u>\$ (535,711)</u>

See Note 3 for more information regarding capital assets.

Skyway Water and Sewer District  
Management's Discussion and Analysis  
Years Ended December 31, 2017 and 2016

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**Long-Term Debt**

At December 31, 2017, the District had total Public Works Trust Fund loans outstanding of \$2,452,449 and total revenue bonds outstanding, including bond premiums, of \$3,862,523. The total long-term debt of the District decreased by \$739,192 during 2017 due to principal payments on long-term debt. No new borrowing were made, and principal payments of \$717,462 were made on revenue bonds and Public Works Trust Fund loans.

At December 31, 2016, the District had total Public Works Trust Fund loans outstanding of \$2,804,911 and total revenue bonds outstanding, including bond premiums, of \$4,229,420. The total long-term debt of the District decreased by \$719,361 during 2016 due to principal payments on long-term debt. No new borrowing were made, and principal payments of \$786,691 were made on revenue bonds and Public Works Trust Fund loans.

See Note 5 for more information regarding long-term debt.

**Additional Comments**

The District was required to implement GASB 68 in 2015. For more information, please refer to the notes attached to the financial statements.



Skyway Water and Sewer District  
Statement of Net Position  
December 31, 2017 and 2016

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<u>ASSETS</u>	<u>2017</u>	<u>2016</u>
<u>Current Assets</u>		
Cash & Cash Equivalents	\$ 8,372,868	\$ 6,534,838
Accrued Interest Receivable	10,221	6,071
Receivables: (Net)		
Customer Accounts Receivable	421,821	419,766
Accrued Utility Revenue	1,240,888	1,147,406
Developer Accounts Receivable	30,470	36,250
Miscellaneous Receivable	0	3,045
Restricted Assets:		
Cash & Cash Equivalents	1,460,788	1,448,548
Accrued Interest Receivable	593	433
Inventories	8,994	1,313
Prepayments	<u>66,571</u>	<u>67,669</u>
Total Current Assets	<u>\$ 11,613,214</u>	<u>\$ 9,665,339</u>
<u>Noncurrent Assets</u>		
Capital Assets Not Being Depreciated:		
Land	\$ 270,515	\$ 270,515
Construction in Progress	1,807,862	2,089,280
Capital Assets Being Depreciated:		
Plant	49,083,153	47,946,189
Machinery & Equipment	903,124	865,635
Intangibles	738,118	738,118
Less Accumulated Depreciation	<u>(21,412,464)</u>	<u>(20,337,261)</u>
Total Capital Assets	<u>\$ 31,390,308</u>	<u>\$ 31,572,476</u>
Total Noncurrent Assets	<u>\$ 31,390,308</u>	<u>\$ 31,572,476</u>
Total Assets	<u>\$ 43,003,522</u>	<u>\$ 41,237,815</u>
 <u>DEFERRED OUTFLOWS OF RESOURCES</u>		
Deferred Outflows Related to Pensions	<u>\$ 84,119</u>	<u>\$ 135,835</u>

The accompanying notes are an integral part of this statement.

Skyway Water and Sewer District  
Statement of Net Position  
December 31, 2017 and 2016

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	<u>2017</u>	<u>2016</u>
<u>LIABILITIES</u>		
<u>Current Liabilities</u>		
Accounts Payable	\$ 115,889	\$ 112,299
Public Works Trust Fund Loans (Current Portion)	352,463	352,463
Interest Payable - PWTF Loans	6,132	7,013
Taxes Payable	3,456	3,171
Security Deposits	27,952	27,952
Developer Deposits	15,277	19,283
Retainage Due Contractors	0	17,710
Payable from Restricted Assets:		
Revenue Bonds Outstanding, Net of Unamortized		
Bond Premium (Current Portion)	386,730	366,897
Bond Interest Payable	<u>18,518</u>	<u>19,852</u>
Total Current Liabilities	<u>\$ 926,417</u>	<u>\$ 926,640</u>
<u>Noncurrent Liabilities</u>		
Public Works Trust Fund Loans		
(Less Current Portion)	\$ 2,099,986	\$ 2,452,448
Compensated Absences	128,928	122,439
Payable from Restricted Assets:		
Revenue Bonds Outstanding, Net of Unamortized		
Bond Premium (Less Current Portion)	3,475,793	3,862,523
Net Pension Liability	<u>558,391</u>	<u>744,224</u>
Total Noncurrent Liabilities	<u>\$ 6,263,098</u>	<u>\$ 7,181,634</u>
Total Liabilities	<u>\$ 7,189,515</u>	<u>\$ 8,108,274</u>
<u>DEFERRED INFLOWS OF RESOURCES</u>		
Deferred Inflows Related to Pensions	<u>\$ 106,662</u>	<u>\$ 21,411</u>
<u>NET POSITION</u>		
Net Investment in Capital Assets	\$ 25,981,407	\$ 25,437,128
Restricted for Debt Service	536,792	530,146
Unrestricted	<u>9,273,265</u>	<u>7,276,691</u>
Total Net Position	<u>\$ 35,791,464</u>	<u>\$ 33,243,965</u>

The accompanying notes are an integral part of this statement.

Skyway Water and Sewer District  
Statement of Revenues, Expenses and Changes in Fund Net Position  
Years Ended December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
<u>Operating Revenues</u>		
Water Service	\$ 2,309,852	\$ 2,172,852
Sewer Service	5,527,891	5,011,681
Late Penalty Charges	127,253	118,241
Turn On/Turn Off Charges & Fees	15,510	14,610
Miscellaneous Account Fees	5,645	5,596
Availability Certificates, Permits & Misc. Fees	18,600	14,300
Interest on Liens	<u>743</u>	<u>1,077</u>
Total Operating Revenues	\$ 8,005,494	\$ 7,338,357
<u>Operating Expenses</u>		
Maintenance & Operations	\$ 4,124,586	\$ 3,918,006
Administrative & General	1,236,435	1,181,361
Depreciation & Amortization	<u>1,075,203</u>	<u>1,064,119</u>
Total Operating Expenses	\$ 6,436,224	\$ 6,163,486
Operating Income	\$ 1,569,270	\$ 1,174,871
<u>Nonoperating Revenues (Expenses)</u>		
Interest on Investments	\$ 73,675	\$ 57,215
Gain (Loss) on Disposal of Assets	0	46
Investment Service Fees	(1,216)	(777)
Interest Expense	(174,062)	(187,817)
Tower Rental	97,161	83,827
Bond Fund Service Fees	<u>(950)</u>	<u>(2,053)</u>
Total Nonoperating Revenues (Expenses)	\$ (5,392)	\$ (49,559)
Income Before Contributions	\$ 1,563,878	\$ 1,125,312
Capital Contributions	<u>983,621</u>	<u>105,211</u>
Change in Net Position	\$ 2,547,499	\$ 1,230,523
<u>Total Net Position, January 1</u>	33,243,965	32,095,177
Prior Period Adjustment to Update Accumulated Depreciation	<u>-</u>	<u>(81,735)</u>
<u>Total Net Position, December 31</u>	<u>\$ 35,791,464</u>	<u>\$ 33,243,965</u>

The accompanying notes are an integral part of this statement.

Skyway Water and Sewer District  
Statement of Cash Flows  
Years Ended December 31, 2017 and 2016

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	<u>2017</u>	<u>2016</u>
<u>Cash Flows From Operating Activities</u>		
Receipts from Customers	\$ 8,010,164	\$ 7,498,194
Payments to Suppliers	(4,352,997)	(4,019,327)
Payments to Employees	<u>(1,029,620)</u>	<u>(1,011,296)</u>
Net Cash Provided by Operating Activities	<u>\$ 2,627,547</u>	<u>\$ 2,467,571</u>
 <u>Cash Flows From Capital &amp; Related Financing Activities</u>		
Acquisition & Construction of Capital Assets	\$ (424,138)	\$ (663,465)
Proceeds from Disposal of Capital Assets	-	5,425
Principal Payments on Public Works Trust Fund Loans	(352,462)	(426,691)
Principal Payments on Revenue Bonds	(365,000)	(360,000)
Capital Contributions	475,298	96,267
Interest Paid on Revenue Bonds & Public Works Trust Fund Loans	<u>(179,124)</u>	<u>(194,506)</u>
Net Cash Provided (Used) by Capital & Related Financing Activities	<u>\$ (845,426)</u>	<u>\$ (1,542,970)</u>
 <u>Cash Flows From Investing Activities</u>		
Interest Received on Investments	\$ 69,365	\$ 54,667
Investment Service Fees	<u>(1,216)</u>	<u>(777)</u>
Net Cash Provided by Investing Activities	<u>\$ 68,149</u>	<u>\$ 53,890</u>
 Net Increase (Decrease) in Cash & Cash Equivalents	\$ 1,850,270	\$ 978,491
 <u>Cash &amp; Cash Equivalents - January 1</u>	<u>\$ 7,983,386</u>	<u>\$ 7,004,895</u>
 <u>Cash &amp; Cash Equivalents - December 31</u>	<u>\$ 9,833,656</u>	<u>\$ 7,983,386</u>
 <u>Noncash Investing, Capital and Financing Activities</u>		
Contributions of Capital Assets from Developers	\$ 510,097	\$ -
Book Value of Plant Removals	<u>\$ -</u>	<u>\$ 16,266</u>

The accompanying notes are an integral part of this statement.

Skyway Water and Sewer District  
Statement of Cash Flows  
Years Ended December 31, 2017 and 2016

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	<u>2017</u>	<u>2016</u>
<u>Reconciliation of Operating Income (Loss)</u> <u>to Net Cash Provided by Operating Activities</u>		
Operating Income	\$ 1,569,270	\$ 1,174,871
<u>Adjustments to Reconcile Operating Income</u> <u>to Net Cash Provided by Operating Activities:</u>		
Depreciation & Amortization	\$ 1,075,203	\$ 1,064,119
Rental Income	97,161	83,827
<u>Changes in Assets, Deferred Outflows of Resources,</u> <u>Liabilities, &amp; Deferred Inflows of Resources:</u>		
(Increase) Decrease in Accounts Receivable	(2,055)	79,089
(Increase) Decrease in Accrued Revenue	(93,482)	(34)
(Increase) Decrease in Miscellaneous Receivables	3,045	(3,045)
(Increase) Decrease in Prepayments	1,098	4,752
(Increase) Decrease in Inventories	(7,681)	2,465
(Increase) Decrease in Deferred Outflows Related to Pensions	51,716	(64,267)
Increase (Decrease) in Accounts Payable	27,080	6,343
Increase (Decrease) in Taxes Payable	285	(243)
Increase (Decrease) in Accrued Vacation & Sick Pay	6,489	41,436
Increase (Decrease) in Deferred Inflows Related to Pensions	85,251	(80,241)
Increase (Decrease) in Net Pension Liability	<u>(185,833)</u>	<u>158,499</u>
Total Adjustments	<u>\$ 1,058,277</u>	<u>\$ 1,292,700</u>
Net Cash Provided by Operating Activities	<u>\$ 2,627,547</u>	<u>\$ 2,467,571</u>

The accompanying notes are an integral part of this statement.

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

The accounting policies of Skyway Water and Sewer 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 policies of the District:

a. Reporting Entity

Skyway Water and Sewer District is a municipal corporation governed by an elected three-member board. The District's primary activity is to provide water and sewer services to residential and commercial customers within the District's boundaries. 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.

b. 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 Class A and B Water Utilities and 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. Unbilled utility service receivables are recorded at year end.

The District distinguishes between operating revenues and expenses and nonoperating revenues and expenses. Operating revenues and expenses result from providing services and producing and delivering goods in connection with the District's principal ongoing operations. The principal operating revenues of the District are charges to customers for water sales, sewer collections, and related services. Operating expenses pertain to the furnishing of those services which include the cost of sales and services, administration expenses and depreciation expense. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

c. Cash and Cash Equivalents

For purposes 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.

Skyway Water and Sewer District  
Notes to Financial Statements  
December 31, 2017 and 2016

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NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

d. Capital Assets

Utility plant in service is recorded at cost. Donations by developers are recorded at the developer's cost. Depreciation is computed on the straight-line method with the following useful lives:

Utility Plant	5 - 50 years
Machinery & Equipment	5 - 10 years
Intangibles	5 - 20 years

Upon retirement of an asset, the cost of the asset and the related accumulated depreciation are removed from the property accounts and the gain or loss is reflected in the statement of revenues, expenses and changes in fund net position.

Repairs and maintenance are expensed as incurred, while major renewals, replacements and betterments are capitalized.

Preliminary planning and design costs incurred for proposed projects are held pending construction of the facility. Costs relating to projects which are ultimately constructed 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.

See Note 3.

e. Restricted Funds

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

	<u>12/31/17</u>	<u>12/31/16</u>
Construction Funds	\$ 906,071	\$ 898,983
Bond Reserve Funds	554,717	549,565

Assets and liabilities shown as current in the accompanying statement of net position exclude current maturities on defeased revenue bonds and accrued interest thereon because debt service funds have been set aside for their payment.

f. Receivables

Receivables consist primarily of amounts due from water and sewer customers. 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.

Skyway Water and Sewer District  
Notes to Financial Statements  
December 31, 2017 and 2016

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NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

g. Inventories

Inventory of materials is recorded at cost on the first-in/first-out basis, and a physical inventory is taken at the end of each calendar year.

h. Investments

Investments are recorded at market value. See Note 2.

i. Compensated Absences

Compensated absences are absences for which employees will be paid, such as vacation and sick leave. The District records unpaid leave for compensated absences as an expense and liability when incurred. Vacation pay accumulated by an employee is payable upon termination of employment. Employees can carry over from one year to the next 50% of the vacation hours they earned in the prior year. Sick leave can accumulate up to 720 hours. Any excess over 720 hours will be cashed out and paid directly to the employee's medical savings account. Upon separation from service the entire accumulated and unused sick leave will be payable to the employee's medical savings account. When employees work overtime, they have the choice of being paid or receiving comp time. Comp time can accrue up to 80 hours, with a maximum of 40 hours carrying over from one year to the next. Upon separation from service the unused comp time is cashed out and paid to the employee.

j. 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.

k. Subsequent Events

Management has evaluated subsequent events through May 30, 2018, the date the financial statements were available to be issued.

NOTE 2 - DEPOSITS AND INVESTMENTS

The District's cash and investment balances at December 31, 2017 and 2016 are listed below:

	<u>2017</u>	<u>2016</u>
Petty Cash	\$ 600	\$ 600
Bank Checking Account	4,937	4,876
Investment in King County Investment Pool	<u>9,828,119</u>	<u>7,977,910</u>
Total Cash & Investments	<u>\$ 9,833,656</u>	<u>\$ 7,983,386</u>



Skyway Water and Sewer District  
Notes to Financial Statements  
December 31, 2017 and 2016

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NOTE 2 - DEPOSITS AND INVESTMENTS (Continued)

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

In accordance with State law, the District's governing body has entered into a formal interlocal agreement with the District's *ex officio* treasurer, King County, to have all its funds not required for immediate expenditure to be invested in the King County Investment Pool (Pool).

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

<u>Investment Type</u>	<u>Fair Value</u>	<u>Effective Duration</u>
King County Investment Pool	\$ 9,828,119	1.02 Years

**Impaired Investments.** As of December 31, 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 two commercial paper assets that were part of completed enforcement events, where the Impaired Pool accepted the cash-out option. The District's share of the impaired investment pool principal is \$6,521, and the District's fair value of these investments is \$4,395.

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

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

Investment in King County Investment Pool by Fund

	<u>12/31/17</u>	<u>12/31/16</u>
Maintenance Fund	\$ 854,593	\$ 783,843
Capital Improvements Fund	7,512,738	5,745,518
Construction Funds	906,071	898,983
Revenue Bond Fund	<u>554,717</u>	<u>549,566</u>
Total Investment in King County Investment Pool	<u>\$ 9,828,119</u>	<u>\$ 7,977,910</u>

Skyway Water and Sewer District  
Notes to Financial Statements  
December 31, 2017 and 2016

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NOTE 2 - DEPOSITS AND INVESTMENTS (Continued)

**Investments Measured at Fair Value**

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

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

At December 31, 2017, the District had the following investments measured at fair value:

- Investments in the King County Investment Pool are valued using quoted market prices (Level 1 inputs)

NOTE 3 - CAPITAL ASSETS

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

	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>
Capital assets not being depreciated:				
Land	\$ 270,515	\$ -	\$ -	\$ 270,515
Construction in Progress	<u>2,089,280</u>	<u>309,608</u>	<u>(591,026)</u>	<u>1,807,862</u>
<b><u>Total capital assets not being depreciated</u></b>	<u>2,359,795</u>	<u>309,608</u>	<u>(591,026)</u>	<u>2,078,377</u>
Capital assets being depreciated:				
Plant	47,946,189	1,136,964	-	49,083,153
Machinery & Equipment	865,635	37,489	-	903,124
Intangibles	<u>738,118</u>	<u>-</u>	<u>-</u>	<u>738,118</u>
<b><u>Total capital assets being depreciated</u></b>	49,549,942	1,174,453	-	50,724,395
Less Accumulated Depreciation	<u>20,337,261</u>	<u>1,075,203</u>	<u>-</u>	<u>21,412,464</u>
<b><u>Total capital assets being depreciated, net</u></b>	<u>29,212,681</u>	<u>99,250</u>	<u>-</u>	<u>29,311,931</u>
<b><u>TOTAL CAPITAL ASSETS, NET</u></b>	<u>\$ 31,572,476</u>	<u>\$ 408,858</u>	<u>\$ (591,026)</u>	<u>\$ 31,390,308</u>

Skyway Water and Sewer District  
Notes to Financial Statements  
December 31, 2017 and 2016

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NOTE 3 - CAPITAL ASSETS (Continued)

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

	<u>Beginning</u> <u>Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending</u> <u>Balance</u>
Capital assets not being depreciated:				
Land	\$ 270,515	\$ -	\$ -	\$ 270,515
Construction in Progress	<u>1,938,070</u>	<u>568,592</u>	<u>(417,382)</u>	<u>2,089,280</u>
<u>Total capital assets not being</u> <u>depreciated</u>	<u>2,208,585</u>	<u>568,592</u>	<u>(417,382)</u>	<u>2,359,795</u>
Capital assets being depreciated:				
Plant	47,509,714	452,741	(16,266)	47,946,189
Machinery & Equipment	854,063	11,572	-	865,635
Intangibles	<u>738,118</u>	<u>-</u>	<u>-</u>	<u>738,118</u>
<u>Total capital assets being</u> <u>depreciated</u>	49,101,895	464,313	(16,266)	49,549,942
Less Accumulated Depreciation	<u>19,202,293</u>	<u>1,145,854</u>	<u>(10,886)</u>	<u>20,337,261</u>
<u>Total capital assets being</u> <u>depreciated, net</u>	<u>29,899,602</u>	<u>(681,541)</u>	<u>(5,380)</u>	<u>29,212,681</u>
<u>TOTAL CAPITAL</u> <u>ASSETS, NET</u>	<u>\$ 32,108,187</u>	<u>\$ (112,949)</u>	<u>\$ (422,762)</u>	<u>\$ 31,572,476</u>

The District capitalizes the interest cost during the construction period of its utility plant if the construction period exceeds one year. In the year ended December 31, 2017, the total interest expense was \$174,062 of which \$0 was capitalized as construction period interest. In the year ended December 31, 2016, the total interest expense was \$187,817 of which \$0 was capitalized as construction period interest.

The District also capitalizes employee wage and benefit costs in connection with construction of the utility plant. In the year ended December 31, 2017 the total wage and benefit expense was \$1,041,118 of which \$33,579 was capitalized. In the year ended December 31, 2016 the total wage and benefit expense was \$1,066,480 of which \$0 was capitalized.

The practice of the District is to use a capitalization threshold of \$1,000.

Skyway Water and Sewer District  
Notes to Financial Statements  
December 31, 2017 and 2016

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**NOTE 4 - CONSTRUCTION IN PROGRESS**

Construction in progress represents expenses to date on projects whose authorizations total \$3,779,000. Of the committed balance of \$1,971,138, the District will not be required to raise any future financing.

	Project Estimate	Expended to 12/31/17	Remaining	Required Future Financing
Emergency Plan Update	\$ 15,000	\$ 9,658	\$ 5,342	\$ -
Geographic Information System	30,000	21,767	8,233	-
Construction Guidelines	30,000	24,264	5,736	-
Automatic Meter Reading	700,000	100,195	599,805	-
Water System Model Update	5,000	3,263	1,737	-
Well Site Upgrade: Ph. 2 Design/ Permitting	520,000	507,416	12,584	- *
Tanks #3 & #4 Coating Replacement	662,000	1,558	660,442	-
78 <sup>th</sup> Ave S Watermain Loop	75,000	45,201	29,799	-
District Wide Lift Stn Consol. Study	42,000	41,847	153	-
Skyway Park Pump Station Design & Permitting	690,000	673,575	16,425	- *
Skyway Park North Ph. 1 PreDesign	400,000	298,497	101,503	-
Sunset Force Main Replacement	330,000	28,193	301,807	-
First Cities Pump Station Upgrade	280,000	52,428	227,572	-
	<u>\$ 3,779,000</u>	<u>\$ 1,807,862</u>	<u>\$ 1,971,138</u>	<u>\$ -</u>

\* 2013 PWTF construction loan awarded to the District for future phases of this project.

**NOTE 5 - LONG-TERM DEBT**

a. Revenue Bonds

A summary of bonds outstanding at December 31, 2017 and 2016 is as follows:

	<u>2017</u>	<u>2016</u>
2010 Series A Water & Sewer Revenue Bonds, 2.347% - 6.301%, maturing serially through 2030 Original debt: \$5,150,000	\$ 3,695,000	\$ 3,915,000
2010 Series B Water & Sewer Improvement and Refunding Revenue Bonds, 2.50% - 4.00%, maturing serially through 2018 Original debt: \$1,230,000	155,000	300,000
	<u>\$ 3,850,000</u>	<u>\$ 4,215,000</u>
Unamortized Bond Premium	12,523	14,420
	<u>\$ 3,862,523</u>	<u>\$ 4,229,420</u>

Skyway Water and Sewer District  
Notes to Financial Statements  
December 31, 2017 and 2016

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NOTE 5 - LONG-TERM DEBT (Continued)

a. Revenue Bonds (Continued)

The principal and interest on water and sewer revenue bonds are payable from and secured by a pledge of net operating revenues, collection of Utility Local Improvement District assessments, if any, including interest thereon, Federal Credit Payments on the 2010 Series A “Build America Bonds”, and certain money and investments held in the Bond Fund. The 2010 Series A bonds are “Build America Bonds”. The District will be allowed a credit payable by the United States Treasury in an amount equal to 35% of the interest payable on the bonds on each interest payment date. (See Note 10).

The annual requirements to amortize all revenue bond debts outstanding as of December 31, 2017, including interest, are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 385,000	\$ 222,207	\$ 607,207
2019	235,000	204,574	439,574
2020	240,000	192,892	432,892
2021	250,000	180,961	430,961
2022	260,000	166,586	426,586
2023 - 2027	1,455,000	595,529	2,050,529
2028 - 2030	<u>1,025,000</u>	<u>130,746</u>	<u>1,155,746</u>
	<u>\$ 3,850,000</u>	<u>\$ 1,693,495</u>	<u>\$ 5,543,495</u>

b. Public Works Trust Fund Loans

The District has entered into agreements with the Department of Community, Trade and Economic Development of the State of Washington to receive the following Public Works Trust Fund loans:

	<u>12/31/17</u>	<u>12/31/16</u>
2001 loan - payable at \$56,088 annually through the year 2021, plus interest at ½% per annum Original debt: \$1,051,644	224,351	280,438
2004 loan - payable at \$217,800 annually through the year 2024, plus interest at ½% per annum Original debt: \$4,114,000	1,524,600	1,742,400
2005 loan - payable at \$59,851 annually through the year 2025, plus interest at ½% per annum Original debt: \$1,130,526	478,811	538,662
2009 loan - payable at \$18,724 annually through the year 2029, plus interest at ½% per annum Original debt: \$416,854	<u>224,687</u>	<u>243,411</u>
	<u>\$ 2,452,449</u>	<u>\$ 2,804,911</u>

Skyway Water and Sewer District  
Notes to Financial Statements  
December 31, 2017 and 2016

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NOTE 5 - LONG-TERM DEBT (Continued)

b. Public Works Trust Fund Loans (Continued)

The annual requirements to amortize all Public Works Trust Fund loans outstanding as of December 31, 2017, including interest, are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 352,463	\$ 12,262	\$ 364,725
2019	352,463	10,500	362,963
2020	352,463	8,738	361,201
2021	352,463	6,975	359,438
2022	296,375	5,213	301,588
2023 - 2027	708,774	7,403	716,177
2028 - 2029	<u>37,448</u>	<u>281</u>	<u>37,729</u>
	<u>\$ 2,452,449</u>	<u>\$ 51,372</u>	<u>\$ 2,503,821</u>

On October 16, 2012 the District was awarded a Public Works Trust Fund Loan in the amount of \$1,916,000 to fund the Skyway Park Sewer Pump Station Consolidation project. On October 16, 2012 the District was also awarded a Public Works Trust Fund Loan in the amount of \$2,125,000 to fund the Well Development Phase II project. As of December 31, 2017 the District had not taken draws on either of these loans.

c. Changes in Long-Term Liabilities

During the year ended December 31, 2017, the following changes occurred in long-term liabilities:

	<u>Balance</u> <u>1/1/17</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>12/31/17</u>	<u>Due Within</u> <u>One Year</u>
Revenue Bonds					
Payable	\$ 4,215,000	\$ -	\$ (365,000)	\$ 3,850,000	\$ 385,000
Unamortized Bond					
Premium	14,420	-	(1,897)	12,523	1,730
Public Works Trust					
Fund Loans	2,804,911	-	(352,462)	2,452,449	352,463
Compensated					
Absences	122,439	6,489	-	128,928	-
Net Pension					
Liability	<u>744,224</u>	<u>-</u>	<u>(185,833)</u>	<u>558,391</u>	<u>-</u>
Totals	<u>\$ 7,900,994</u>	<u>\$ 6,489</u>	<u>\$ (905,192)</u>	<u>\$ 7,002,291</u>	<u>\$ 739,193</u>

Skyway Water and Sewer District  
Notes to Financial Statements  
December 31, 2017 and 2016

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NOTE 6 - LEASE COMMITMENTS

The District has entered into seven long-term operating lease agreements, as the lessor. The leases are with telecommunications companies and allow them to mount antennas on the District's water towers. As of December 31, 2017, two of the leases had expired, and the lessees were paying on a month-to-month basis. The other leases have termination dates ranging from July 31, 2018 to September 7, 2022 with options to renew for additional five year terms.

Future minimum rents receivable are as follows:

2018	\$ 87,730
2019	66,855
2020	49,643
2021	37,326
2022	18,912
	<u>\$ 260,466</u>

NOTE 7 - PENSION PLAN

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

<b>Aggregate Pension Amounts - All Plans</b>	
Pension liabilities	\$558,391
Pension assets	\$ -
Deferred outflows of resources	\$84,119
Deferred inflows of resources	\$106,662
Pension expense/expenditures	\$42,610

**State Sponsored Pension Plans**

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

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

NOTE 7 - PENSION PLAN (Continued)

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](http://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.



Skyway Water and Sewer District  
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NOTE 7 - PENSION PLAN (Continued)

The PERS Plan 1 required contribution rates (expressed as a percentage of covered payroll) for 2017 were as follows:

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

**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.

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NOTE 7 - PENSION PLAN (Continued)

**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:

<b>PERS Plan 2/3</b>		
<b>Actual Contribution Rates</b>	<b>Employer 2/3</b>	<b>Employee 2</b>
January - June 2017:		
PERS Plan 2/3	6.23%	6.12%
PERS Plan 1 UAAL	4.77%	
Administrative Fee	0.18%	
Employee PERS Plan 3		Varies
<b>Total</b>	<b>11.18%</b>	<b>6.12%</b>
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
<b>Total</b>	<b>12.70%</b>	<b>7.38%</b>

The District's actual contributions to the plan were \$37,543 to PERS Plan 1 and \$52,363 to PERS Plan 2/3 for the year ended December 31, 2017.

**Actuarial Assumptions**

The total pension liability (TPL) for each of the DRS plans was determined using the most recent actuarial valuation completed in 2017 with a valuation date of June 30, 2016. The actuarial assumptions used in the valuation were based on the results of the Office of the State Actuary's (OSA) 2007-2012 Experience Study and the 2015 Economic Experience Study.

NOTE 7 - PENSION PLAN (Continued)

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.

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

- How terminated and vested member benefits are valued was corrected.
- How the basic minimum COLA in PERS Plan 1 is valued for legal order payees was improved.
- The average expected remaining service lives calculation was revised.

**Discount Rate**

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

To determine that rate, an asset sufficiency test included an assumed 7.7 percent long-term discount rate to determine funding liabilities for calculating future contribution rate requirements. 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 employers, whose rates include a component for the PERS 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.

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 over various time horizons.

**Estimated Rates of Return by Asset Class**

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan’s target asset allocation as of June 30, 2017, are summarized in the table below. The inflation component used to create the table is 2.2 percent and represents the WSIB’s most recent long-term estimate of broad economic inflation.

Asset Class	Target Allocation	% Long-Term Expected Real Rate of Return Arithmetic
Fixed Income	20%	1.70%
Tangible Assets	5%	4.90%
Real Estate	15%	5.80%
Global Equity	37%	6.30%
Private Equity	23%	9.30%
	<b>100%</b>	

**Sensitivity of NPL**

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

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
PERS 1	\$350,293	\$287,552	\$233,204
PERS 2/3	\$729,669	\$270,839	\$(105,104)

NOTE 7 - PENSION PLAN (Continued)

**Pension Plan Fiduciary Net Position**

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

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

At June 30, 2017, the District reported a total pension liability of \$558,391 for its proportionate share of the net pension liabilities as follows:

	<b>Liability (or Asset)</b>
PERS 1	\$287,552
PERS 2/3	\$270,839

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

	<b>Proportionate Share 6/30/16</b>	<b>Proportionate Share 6/30/17</b>	<b>Change in Proportion</b>
PERS 1	.006291%	.006060%	(.000231%)
PERS 2/3	.008071%	.007795%	(.000276%)

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

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

**Pension Expense**

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

	<b>Pension Expense</b>
PERS 1	\$5,709
PERS 2/3	\$36,901

Skyway Water and Sewer District  
Notes to Financial Statements  
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NOTE 7 - PENSION PLAN (Continued)

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

At December 31, 2017, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

<b>PERS 1</b>	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$ -	\$ -
Net difference between projected and actual investment earnings on pension plan investments	\$ -	\$(10,731)
Changes of assumptions	\$ -	\$ -
Changes in proportion and differences between contributions and proportionate share of contributions	\$ -	\$ -
Contributions subsequent to the measurement date	\$ 18,255	\$ -
<b>TOTAL</b>	<b>\$ 18,255</b>	<b>\$(10,731)</b>

<b>PERS 2/3</b>	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$ 27,442	\$ (8,907)
Net difference between projected and actual investment earnings on pension plan investments	\$ -	\$(72,199)
Changes of assumptions	\$ 2,877	\$ -
Changes in proportion and differences between contributions and proportionate share of contributions	\$ 8,373	\$(14,824)
Contributions subsequent to the measurement date	\$ 27,172	\$ -
<b>TOTAL</b>	<b>\$ 65,864</b>	<b>\$(95,930)</b>

<b>All Plans</b>	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$ 27,442	\$(8,907)
Net difference between projected and actual investment earnings on pension plan investments	\$ -	\$(82,930)
Changes of assumptions	\$ 2,877	\$ -
Changes in proportion and differences between contributions and proportionate share of contributions	\$ 8,373	\$(14,824)
Contributions subsequent to the measurement date	\$ 45,427	\$ -
<b>TOTAL</b>	<b>\$ 84,119</b>	<b>\$(106,661)</b>

Skyway Water and Sewer District  
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NOTE 7 - PENSION PLAN (Continued)

Deferred outflows of resources related to pensions resulting from the District's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 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
2018	\$ (7,253)
2019	\$ 2,290
2020	\$ (532)
2021	\$ (5,236)
2022	\$ -
Thereafter	\$ -

Year ended December 31:	PERS 2 & 3
2018	\$(29,905)
2019	\$ 8,543
2020	\$ (7,128)
2021	\$(30,651)
2022	\$ 828
Thereafter	\$ 1,076

NOTE 8 - RISK MANAGEMENT

The District is member of the Water and Sewer Risk Management Pool (Pool). Chapter 48.62 RCW authorizes the governing body of any one or more governmental entities to form together into or join a pool or organization for the joint purchasing of insurance, and/or joint self-insuring, and/or joint hiring or contracting for risk management services to the same extent that they may individually purchase insurance, self-insurance, or hire or contract for risk management services. An agreement to form a pooling arrangement was made pursuant to the provisions of Chapter 39.34 RCW, the Interlocal Cooperation Act. The Pool was formed in November 1987 when water and sewer districts in the State of Washington joined together by signing an Interlocal Governmental Agreement to pool their self-insured losses and jointly purchase insurance and administrative services. The Pool currently has 62 members. The Pool's fiscal year is November 1<sup>st</sup> through October 31<sup>st</sup>.

The Pool allows members to jointly purchase insurance coverage, establish a plan of self-insurance coverage, and provide related services, such as risk management and loss prevention. The Pool provides the following forms of group purchased insurance coverage for its members: Property (including Building, Electronic Data Processing, Boiler and Machinery, and Mobile

Skyway Water and Sewer District  
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NOTE 8 - RISK MANAGEMENT (Continued)

Equipment); General Liability; Automotive Liability; Excess Liability; Crime; Public Officials Liability; Identity Fraud Reimbursement Program; and bonds of various types. All coverages are on an “occurrence” basis.

Members make an annual contribution to fund the Pool. The Pool purchases insurance policies from unrelated underwriters as follows:

TYPE OF COVERAGE	MEMBER DEDUCTIBLE	SELF-INSURED RETENTION/GROUP	EXCESS LIMITS
<b>Property Loss:</b>			
Buildings and Contents	\$1,000 - \$25,000 and See (C) below	\$25,000	\$1,000,000,000
Flood	See (A) below	See (A) below	\$50,000,000
Earthquake	See (B) below	See (B) below	\$110,000,000 (\$75,000,000 shared by all members, \$25,000,000 dedicated to Alderwood, \$5,000,000 dedicated to Sammamish Plateau, and \$5,000,000 dedicated to Cascade Water Alliance)
Terrorism	\$1,000 - \$25,000	\$25,000 Primary layer	\$100,000,000 Primary layer
Boiler & Machinery	\$1,000 - \$350,000 depending on object	\$25,000 - \$350,000 depending on object	\$100,000,000
Auto - Physical Damage	\$1,000 - \$25,000	\$25,000	\$10,000,000
<b>Liability:</b>			
Commercial General Liability	\$1,000 - \$25,000	\$200,000	\$10,000,000
Auto Liability	\$1,000 - \$25,000	\$200,000	\$10,000,000
Public Officials Errors and Omissions	\$1,000 - \$25,000	\$200,000	\$10,000,000
Employment Practices	\$1,000 - \$25,000	\$200,000	\$10,000,000
<b>Other:</b>			
Public Officials Bonds	Various	N/A	Various
Crime	\$1,000 - \$25,000	\$25,000	\$2,000,000
Identity Fraud	\$0	\$0	\$25,000
A. \$100,000 member deductibles, per occurrence, in Flood zones except Zones A&V; \$250,000 member deductible, per occurrence, in Flood Zones A&V.			
B. Member deductible for earthquakes is 5% subject to \$100,000 minimum Earthquake Shock. The deductible will apply per occurrence on a per unit basis, as defined in the policy form, subject to the stated minimum.			
C. Member deductible for Cyber liability is \$100,000 and where applicable the dollar amount of the business interruption loss during the policy’s required 8 hour waiting period.			

Pool members are responsible for a deductible on each coverage and the Pool is responsible for the remainder of the self-insured retention listed in the table above except where noted as follows. The insurance carriers then cover the loss to the maximum limit of the policy. Each member is responsible for the full deductible applicable to the perils of earthquake and flood



NOTE 8 - RISK MANAGEMENT (Continued)

(the Pool is not responsible for any deductible or self-insured retention for earthquake and flood claims). Each member is also responsible for the full deductible applicable to the Cyber Liability, and that part of a Boiler & Machinery deductible which exceeds \$25,000.

Upon joining, the members contract to remain in the Pool for one full policy period. Following completion of one full policy period, members must give six months' notice before terminating participation (e.g. to withdraw from the Pool on November 1, 2018, written notice must be in the possession of the Pool by April 30, 2018). The Interlocal Governmental Agreement is renewed automatically each year. Even after termination of relationship with the Pool, a member is still responsible for contributions to the Pool for any unresolved, unreported, and in process claims, for the period that the District was a signatory to the Interlocal Governmental Agreement.

The Pool is fully funded by its member participants. Claims are filed by members with the Pool who determines coverage and performs claims adjustment in consultation with Arcadia Claims Services and Adjusters Northwest.

The Pool is governed by a Board of Directors, which is comprised of one designated representative from each participating member. An Executive Committee is elected at the annual meeting, and is responsible for overseeing the business affairs of the Pool and providing policy direction to the Pool's Executive Director.

For years ending December 31, 2015, 2016, and 2017 the District had no claims in excess of their insurance coverage.

NOTE 9 - COMMITMENTS AND CONTINGENT LIABILITIES

a. Reservoir Lease

The District has entered into an agreement with Water District No. 125 of King County for the joint lease, construction and operation of a 1.3 million gallon reservoir. The District is leasing a 25% interest in the facilities to Water District No. 125 for 50 years beginning November 1, 1996. Water District No. 125 will pay 25% of direct costs of maintaining the facilities and 25% of overhead incurred by Skyway Water and Sewer District in administering them.

b. Joint Municipal Utility Services Agreement

On April 1, 1999, the District entered into an Interlocal Contract with other water providers in the region to create the Cascade Water Alliance (CWA). The purpose of CWA is to provide a safe, reliable and high quality water supply to meet the current and projected demands of the CWA Members in a coordinated, cost-effective, and environmentally sensitive manner. As of December 31, 2017, CWA consisted of seven Members. CWA is governed by a Board of Directors consisting of one individual representative appointed by resolution of the Member's legislative authority. Each Member entity must pay annual dues based on the number of residential units served by the water system within their jurisdiction.

NOTE 9 - COMMITMENTS AND CONTINGENT LIABILITIES (Continued)

b. Joint Municipal Utility Services Agreement (Continued)

The District paid dues of \$75,624 to CWA in 2017 and paid dues of \$71,468 to CWA in 2016. The District also paid CWA \$243,203 in Regional Capital Facilities Charges in 2017 for new residential hookups to the water distribution system. The District paid CWA \$3,003 in Regional Capital Facilities Charges in 2016.

A Member may withdraw from CWA with a resolution of its legislative authority expressing such intent. The CWA board will then determine the withdrawing Member's allocable share of the then-existing obligations of CWA, as well as the withdrawing Member's obligations to CWA. The Member's withdrawal shall be effective on payment of such allocable share and obligations. Members do not hold legal ownership rights in any assets owned by CWA.

Audited financial statements can be obtained from the Cascade Water Alliance, 520 112<sup>th</sup> Avenue NE, Suite 400, Bellevue, WA 98004.

NOTE 10 - BUILD AMERICA BONDS SEQUESTRATION

On March 1, 2013 the sequestration provision of the Budget Control Act of 2011 went into effect. As a result, the federal subsidy payments of 35% of the interest paid on the 2010 Series A Build America Bonds were reduced. There was a 6.9% reduction to the 35% interest rebate rate on the June 1, 2017 interest payment. This reduction was in the amount of \$2,740. There was a 6.6% reduction to the 35% interest rebate rate on the December 1, 2017 interest payment. This reduction was in the amount of \$2,621. There was a 6.8% reduction to the 35% interest rebate rate on the June 1, 2016 interest payment. This reduction was in the amount of \$2,828. There was a 6.9% reduction to the 35% interest rebate rate on the December 1, 2016 interest payment. This reduction was in the amount of \$2,869. Similar reductions will occur in future years unless Congress takes action.

NOTE 11 - USE OF ESTIMATES

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

NOTE 12 - CHANGE IN ACCOUNTING PRINCIPLE

The 2015 financial information in Management's Discussion and Analysis is presented in accordance with GASB statement No. 68 - Accounting and Financial Reporting for Pensions. This reporting change resulted in a change to the Net Position in the amount of \$659,244.

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NOTE 13 - PRIOR PERIOD ADJUSTMENT

The 2016 financial statements reflect a prior period adjustment to update accumulated depreciation after it was discovered that several capital assets that should have been fully depreciated had not been fully depreciated and were continuing to be depreciated.

**REQUIRED SUPPLEMENTARY INFORMATION**

Skyway Water and Sewer District  
 Schedule of Proportionate Share of the Net Pension Liability  
 As of June 30, 2017  
 Last 10 Fiscal Years

	2017	2016	2015	20XX	20XX	20XX	20XX	20XX	20XX	20XX
<b>PERS 1</b>										
Employer's proportion of the net pension liability (asset)	% 0.006600%	0.006291%	0.005948%							
Employer's proportionate share of the net pension liability	\$ 287,552	337,856	311,136							
<b>TOTAL</b>	\$ 287,552	337,856	311,136							
Covered payroll	\$ 0	0	0							
Employer's proportionate share of the net pension liability as a percentage of covered payroll	% 0.00%	0.00%	0.00%							
Plan fiduciary net position as a percentage of the total pension liability	% 61.24%	57.03%	59.10%							
<b>PERS 2/3</b>										
Employer's proportion of the net pension liability (asset)	% 0.007795%	0.008071%	0.007685%							
Employer's proportionate share of the net pension liability	\$ 270,839	406,368	274,589							
<b>TOTAL</b>	\$ 270,839	406,368	274,589							
Covered payroll	\$ 767,341	748,270	681,838							
Employer's proportionate share of the net pension liability as a percentage of covered payroll	% 35.30%	54.31%	40.27%							
Plan fiduciary net position as a percentage of the total pension liability	% 90.97%	85.82%	89.20%							

**REQUIRED SUPPLEMENTARY INFORMATION**

Skyway Water and Sewer District  
 Schedule of Employer Contributions  
 Year Ended December 31, 2017  
 Last 10 Fiscal Years

	2017	2016	2015	20XX	20XX	20XX	20XX	20XX	20XX	20XX
<b>PERS 1</b>										
Statutorily or contractually required contributions	\$ 37,543	34,653	32,534							
Contributions in relation to the statutorily or contractually required contributions	\$ 37,543	34,653	32,534							
Contribution deficiency (excess)	\$ 0	0	0							
Covered payroll	\$ 0	0	0							
Contributions as a percentage of covered payroll	% 0.00%	0.00%	0.00%							
<b>PERS 2/3</b>										
Statutorily or contractually required contributions	\$ 52,363	45,259	41,791							
Contributions in relation to the statutorily or contractually required contributions	\$ 52,363	45,259	41,791							
Contribution deficiency (excess)	\$ 0	0	0							
Covered payroll	\$ 767,341	726,747	740,312							
Contributions as a percentage of covered payroll	% 6.82%	6.23%	5.65%							

**Notes to Required Supplementary Information**

Note 1

These schedules will be built prospectively until they contain 10 years of data.

Note 2: Changes of Benefit Terms

There were no changes of benefit terms for the pension plans.

Note 3: Changes of Assumptions

Refer to Notes to Financial Statements, Note 7, Actuarial Assumptions.

## 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.

<b>Contact information for the State Auditor's Office</b>	
<b>Public Records requests</b>	<a href="mailto:PublicRecords@sao.wa.gov">PublicRecords@sao.wa.gov</a>
<b>Main telephone</b>	(360) 902-0370
<b>Toll-free Citizen Hotline</b>	(866) 902-3900
<b>Website</b>	<a href="http://www.sao.wa.gov">www.sao.wa.gov</a>