



Office of the Washington State Auditor
Pat McCarthy

Financial Statements Audit Report

Soos Creek Water and Sewer District

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

Published May 2, 2019

Report No. 1023565





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

May 2, 2019

Board of Commissioners
Soos Creek Water and Sewer District
Renton, Washington

Report on Financial Statements

Please find attached our report on the Soos Creek 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 blue ink that reads "Pat McCarthy".

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**

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

Board of Commissioners
Soos Creek Water and Sewer District
Renton, 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 Soos Creek 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 March 6, 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.

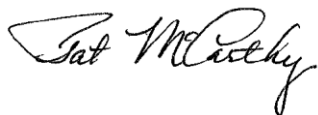
COMPLIANCE AND OTHER MATTERS

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

March 6, 2019

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Soos Creek Water and Sewer District January 1, 2016 through December 31, 2017

Board of Commissioners
Soos Creek Water and Sewer District
Renton, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the Soos Creek 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 Soos Creek 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 March 6, 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, flowing style.

Pat McCarthy
State Auditor
Olympia, WA

March 6, 2019

FINANCIAL SECTION

Soos Creek 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 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 Net Pension Liability – PERS 1 and PERS 2/3 – 2017
and 2016

Schedule of Employer Contributions – PERS 1 and PERS 2/3 – 2017 and 2016

SOOS CREEK WATER AND SEWER DISTRICT

MANAGEMENT DISCUSSION AND ANALYSIS

December 31, 2017 and 2016

INTRODUCTION

The following Management Discussion and Analysis is an introduction to the Soos Creek Water and Sewer District (the District) financial statements and the notes to the financial statements. The District is a Special Purpose District organized under the laws of the State of Washington, Revised Code of Washington, Title 57, to provide water and sewer services to specific areas in southeast King County, Washington. The District is not a segment or component of any other local government. The District reports its activities as an enterprise fund, which presents financial statements in a style similar to a private-sector business. The District is not legally required to adopt a budget; however, the District does so as a tool for monitoring and controlling revenues and expenses.

The Statement of Net Position presents information on all the District's assets and liabilities, with the difference between the two reported as Net Position. Over time, changes in Net Position can serve as an indicator of whether the financial position of the District is improving or deteriorating.

The Statement of Revenues, Expenses, and Changes in Net Position, like a traditional income statement, shows the impact of revenues and expenses on the most recent fiscal year. Except for interest and penalties on ULID assessments (See Note 1), changes to net assets are reported as the underlying event occurs regardless of the timing of related cash flows.

The Statement of Cash Flows presents cash flow from operations, from capital and related financing activities, and from investing activities.

COMPARATIVE FINANCIAL INFORMATION

	NET POSITION		
	2017	2016	2015
Assets			
Current	\$ 23,936,992.	\$ 21,740,590.	\$ 34,185,661.
Restricted	7,044,252.	8,589,891.	6,279,971.
Non-current assets			
Receivable	162,860.	223,840.	295,977.
Capital assets (net of depreciation)	219,912,157.	214,290,301.	196,779,606.
Total Assets	251,056,260.	244,844,622.	237,541,215.
Deferred Outflows of Resources - Pensions	343,784.	484,155.	278,851.
Current liabilities	4,160,443.	4,438,619.	5,864,199.
Liabilities on Restricted Assets	657,943.	652,682.	641,889.
Net Pension Liabilities	2,296,757.	2,858,158.	2,381,190.
Other Non-current Liabilities	2,179,785.	2,964,841.	3,728,514.
Total Liabilities	9,294,928.	10,914,299.	12,615,792.
Deferred Inflows of Resources - Pensions	356,618.	47,967.	348,584.
Net position:			
Net investment in capital assets	217,401,730.	210,990,828.	192,706,204.
Restricted	7,095,958.	8,666,305.	6,392,657.
Unrestricted	17,250,810.	14,709,376.	25,756,830.
Total Net Position	\$ 241,748,498.	\$ 234,366,509.	\$ 224,855,691.

SOOS CREEK WATER AND SEWER DISTRICT

MANAGEMENT DISCUSSION AND ANALYSIS

December 31, 2017 and 2016

COMPARATIVE FINANCIAL INFORMATION (Continued)

	CHANGE IN NET POSITION		
	2017	2016	2015
Operating Revenues:			
Sewer	\$ 29,753,021.	\$ 28,099,788.	\$ 27,438,355.
Water	9,242,704.	8,926,180.	9,002,689.
Other	2,633,750.	2,321,355.	2,329,681.
Non-operating Revenues	257,051.	301,775.	259,968.
Total Revenues	41,886,526.	39,649,098.	39,030,693.
Operating Expenses	40,530,303.	37,667,963.	37,140,973.
Non-operating Expenses	88,900.	109,544.	151,180.
Total Expenses	40,619,203.	37,777,506.	37,292,153.
Income Before Contributions	1,267,323.	1,871,592.	1,738,541.
Capital Contributions	6,114,665.	7,639,227.	6,540,371.
Change in Net Assets	7,381,988.	9,510,819.	8,278,912.
Net Position, Jan. 1	234,366,509.	224,855,690.	219,076,951.
Change In Accounting Principle	0.	0.	(2,500,174.)
Net Position, Dec. 31	<u>\$ 241,748,498.</u>	<u>\$ 234,366,509.</u>	<u>\$ 224,855,690.</u>

FINANCIAL POSITION AND RESULTS OF OPERATIONS

2017

The District posted income before contributions of \$1,267,323 in 2017. Growth in sewer and water connections increased with the growth in residential construction. At yearend 2017, the District served 37,832 sewer equivalent residential units (ERUs) and 23,262 water ERUs, an increase over 2016 of 1.5% in sewer ERUs and 0.4% in water ERUs.

Financial highlights include:

- At the end of 2017, the net position of the District was \$241,748,498. Of this amount \$217,401,730 was invested in capital assets (net of related debt), \$17,250,810 was unrestricted assets and available for meeting the District's ongoing obligations, and \$7,095,958 was restricted assets. The restricted asset amount was composed of \$6,182,730 set aside for capital projects related to District growth and \$913,228 reserved for bond payments.
- The District's Net Assets increased \$7,381,989. This increase was due to Income of \$1,267,323 and Capital Contributions, also called Contributions in Aid of Construction, of \$6,114,665. Developers installed \$3,671,271 of water and sewer infrastructure. These capital contributions are water and sewer lines and associated appurtenances that are constructed by private developers, according to the District's strict construction standards, and upon project completion are donated to the District. The District then maintains these water and sewer lines in perpetuity. An additional \$2,443,394 in system connection fees were collected.

SOOS CREEK WATER AND SEWER DISTRICT

MANAGEMENT DISCUSSION AND ANALYSIS

December 31, 2017 and 2016

FINANCIAL POSITION AND RESULTS OF OPERATIONS (Continued)

2017

- District total liabilities decreased \$1,619,371 in 2017. This change was the result of a decrease of \$278,176 in current liabilities created by a reduction in accounts payable, a decrease of \$561,401 in pension liabilities (see Note 13 for information on pensions), and a \$785,056 decrease in other non-current liabilities due primarily to scheduled principal reductions in bond and loan balances.
- Total District total revenues increased \$2,237,428. Created by an average rate increase of 4% in 2017 plus a 1.5% increase in the customer base, sewer revenue made up \$1,653,233 of the total revenue increase. In addition, water revenue increased \$316,524, primarily the result of a 2% rate increase.
- The \$2,862,340 year-over-year increase in operating expenses was mainly due to an increase of \$1,137,803 in sewage treatment costs, a \$165,255 increase in purchased water, a \$956,441 increase in maintenance costs, and increased depreciation expense of \$264,403.

2016

The District posted income before contributions of \$1,871,592 in 2016. Growth in sewer and water connections increased with the growth in residential construction. At yearend 2016, the District served 37,274 sewer equivalent residential units (ERUs) and 23,163 water ERUs, an increase over 2015 of 1.2% in sewer ERUs and 0.7% in water ERUs.

Financial highlights include:

- At the end of 2016 the net position of the District was \$234,366,509. Of this amount \$210,990,828 was invested in capital assets (net of related debt), \$14,709,376 was unrestricted assets and available for meeting the District's ongoing obligations, and \$8,666,305 was restricted assets. The restricted asset amount was composed of \$7,841,423 set aside for capital projects related to District growth and \$824,882 reserved for bond payments.
- The District's Net Assets increased \$9,510,819. This increase was due to Income of \$1,871,592 and Capital Contributions, also called Contributions in Aid of Construction, of \$7,639,227. Developers installed \$3,809,946 of water and sewer infrastructure. These capital contributions are water and sewer lines and associated appurtenances that are constructed by private developers, according to the District's strict construction standards, and upon project completion are donated to the District. The District then maintains these water and sewer lines in perpetuity. An additional \$3,829,281 in system connection fees were collected.

SOOS CREEK WATER AND SEWER DISTRICT

MANAGEMENT DISCUSSION AND ANALYSIS

December 31, 2017 and 2016

FINANCIAL POSITION AND RESULTS OF OPERATIONS (Continued)

2016

- District total liabilities decreased \$1,701,491 in 2016. This change was the result of a decrease of \$1,425,580 in current liabilities, mostly accounts payable and retainage on construction contracts, and a \$763,673 decrease in other non-current liabilities due primarily to scheduled principal reductions in bond and loan balances. These decreases were partially offset by a \$476,968 increase in net pension liability; see Note 13 for information on pensions.
- Total District total revenues increased \$618,405. This increase was created by a sewer rate increase of 2% yielding a year-over-year sewer revenue increase of \$661,433. Water revenue, however, decreased year-over-year by \$76,509, the result of a 2% decrease in the volume of water sold partially offset by an increase in water rates of 1%. The \$41,807 increase in non-operating revenue is composed of a \$15,266 increase in interest revenue and a \$26,541 gain on the sale of surplus property.
- The \$526,990 year-over-year increase in operating expenses was due mostly to an increase in depreciation expense of \$513,798.

CAPITAL ASSETS AND LONG-TERM DEBT

Capital Assets

2017

The District's total capital assets at yearend 2017, including work in progress, exceeded \$219 million (net of accumulated depreciation). This total includes land, sewer collection and transmission mains and lines, water transmission and distribution mains and lines, buildings, sewer and water pump stations, and construction work in progress on the sewer and water systems. Significant capital asset activity during the year included:

- The District added \$27,180,026 (net) in sewer infrastructure and other assets. Of this total, \$3,056,655 represented 15 completed developments that connected to the District's sewer system. A major sewer construction project capitalized by the District was the Lift Station 46 Trenchless Crossing of WA Hwy 18 for \$23,812,893.
- The District added \$5,371,412 (net) in water infrastructure and other assets. Of this total, \$1,053,225 represented six completed developments that connected to the District's water system. Key water construction projects completed by the District included the District's Maintenance Building Expansion for \$3,802,617 and the 116th Ave Water Main Replacement for \$469,241
- At yearend 2017, work in progress totaled \$11,298,498. Of this total \$8,348,547 was for sewer system projects and \$2,949,951 was water system projects.

SOOS CREEK WATER AND SEWER DISTRICT

MANAGEMENT DISCUSSION AND ANALYSIS

December 31, 2017 and 2016

CAPITAL ASSETS AND LONG-TERM DEBT (Continued)

Capital Assets

2017

Work in progress at yearend included:

	2017	2016	2015
Lift Station 46	\$ 8,013,958.	\$ 25,780,280.	\$ 19,992,709.
Water Meter Change-out	1,072,476.	278,561.	0.
GIS Implementation	875,388.	380,867.	68,376.
Cell Service Telemetry	807,287.	615,569.	215,459.
Lift Station 24B Removal	178,916.	178,916.	178,916.
Reservoir #6 Seismic Work	94,082.	0.	0.
Cascade Hills AC Replcement, Ph. 3	52,086.	0.	0.
PRV 2 Replacement	45,202.	0.	0.
Maintenance Facility Expansion	0.	3,314,525.	922,287.
Cascade Interceptor Rehabilitation	0.	636,125.	0.
116th Av SE AC Pipe Replacement	0.	369,242.	0.
Cascade Village AC Pipe Replacement	0.	0.	2,115,851.
Lift Station 11B	0.	0.	687,418.
Water System Air-vac Study	0.	0.	20,398.
Other projects	159,103.	118,307.	128,222.
	<u>\$ 11,298,498.</u>	<u>\$ 31,672,392.</u>	<u>\$ 24,329,636.</u>

2016

The District's total capital assets at yearend 2017, including work in progress, exceeded \$214 million (net of accumulated depreciation). This total includes land, sewer collection and transmission mains and lines, water transmission and distribution mains and lines, buildings, sewer and water pump stations, and construction work in progress on the sewer and water systems. Significant capital asset activity during the year included:

- The District added \$12,293,328 (net) in sewer infrastructure and other assets. Of this total, \$2,773,432 represented 14 completed developments that connected to the District's sewer system. A major sewer construction project capitalized by the District in 2016 was Lift Station 46 Conveyance for \$6,898,393.
- The District added \$3,956,080 (net) in water infrastructure and other assets. Of this total, \$1,133,947 represented six completed developments that connected to the District's water system. A key water project completed by the District in 2016 was the Cascade Village AC Pipe Replacement at a cost of \$2,744,071.
- At yearend 2016, work in progress totaled \$31,672,392. Of this total, \$26,699,604 was for sewer system projects and \$4,973,328 was water system projects.

SOOS CREEK WATER AND SEWER DISTRICT

MANAGEMENT DISCUSSION AND ANALYSIS

December 31, 2017 and 2016

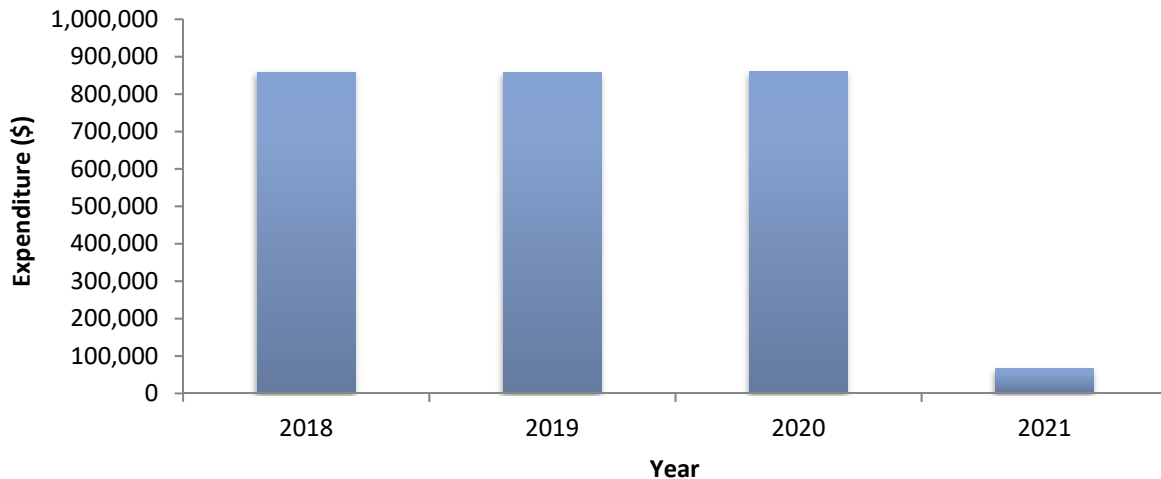
CAPITAL ASSETS AND LONG-TERM DEBT (Continued)

Long-term Debt

At yearend 2017, the District's long-term debt, including current portion, stood at \$2,510,426, composed of \$1,973,565 in revenue bonds (net of bond premium) and \$536,861 in loans from the Washington State Public Works Trust Fund. These borrowed funds were used to complete projects that expanded, upgraded, and replaced sewer and water infrastructure. During 2017, long-term debt decreased \$799,038, the result of scheduled payments on debt principal.

The District is obligated to pay a total of \$2,634,279 in principal and interest on bonds and loans from 2018 through 2021. Standard & Poor's rates the District's revenue bonds AA+.

Annual Debt Service



See Notes 4, 5, 9, 10 and 11 of the notes to the financial statements for more information on capital assets and long-term debt.

Outlook

The District's ongoing capital improvement plan calls for the expenditure of \$19.8 million through 2022. It is the District's intent to fund these capital expenditures through a combination of utility receipts, sewer and water system connection fees, and assets currently on hand. The District has no current plans for additional revenue bond financing; however, should they become available the District would pursue grants and/or additional low-interest rate loans.

SOOS CREEK WATER AND SEWER DISTRICT

STATEMENT OF NET POSITION

December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents - Notes 1 & 3	\$ 14,925,794	\$ 13,202,284
Receivables - Note 1	7,519,661	7,182,368
Inventory - Note 1	462,701	294,492
Prepays	1,028,836	1,061,446
Restricted assets - Notes 2 & 3		
Capital Improvement Fund		
Cash and cash equivalents	6,124,311	7,752,569
Receivables	7,689	10,355
Revenue Bond Fund		
Cash and cash equivalents	860,703	775,713
Investments	50,683	50,683
Receivables	866	571
TOTAL CURRENT ASSETS	<u>30,981,244</u>	<u>30,330,481</u>
NON-CURRENT ASSETS		
Contractual obligation receivable - Note 17	94,625	126,166
Assessments receivable - Note 2	17,283	18,834
Accounts receivable general facility and connection charges - Note 7	50,953	78,839
TOTAL NON-CURRENT ASSETS	<u>162,860</u>	<u>223,840</u>
CAPITAL ASSETS - Notes 1 & 4		
Capital assets not being depreciated:		
Land and land rights	1,611,327	1,414,054
Intangible property rights	1,800,706	1,800,706
Construction work in process - Note 5	11,298,498	31,672,392
Capital assets being depreciated:		
Utility plant in service	323,492,109	291,181,919
Less accumulated depreciation	(118,290,484)	(111,778,770)
TOTAL CAPITAL ASSETS	<u>219,912,157</u>	<u>214,290,301</u>
TOTAL NON-CURRENT AND CAPITAL ASSETS	220,075,017	214,514,141
TOTAL ASSETS	251,056,260	244,844,621
DEFERRED OUTFLOWS OF RESOURCES		
Deferred outflows related to pensions	343,784	484,155
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>343,784</u>	<u>484,155</u>

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

SOOS CREEK WATER AND SEWER DISTRICT

STATEMENT OF NET POSITION

December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
LIABILITIES AND NET POSITION		
CURRENT LIABILITIES		
Accounts payable	3,446,292	3,650,471
Current portion of Public Works Trust Fund loans	157,623	157,623
Accrued interest payable on Public Works Trust Fund loans	2,044	2,673
Deposits of developers and customers - Note 6	326,604	470,562
Contract retainage - Note 8	227,880	157,290
Payables from Restricted Assets:		
Accounts payable - Capital Improvement Fund	223	340
Current portion of revenue and refunding bonds	641,414	631,423
Accrued interest payable on revenue and refunding bonds	<u>16,306</u>	<u>20,919</u>
TOTAL CURRENT LIABILITIES	4,818,386	5,091,301
NON-CURRENT LIABILITIES		
Accrued vacation and sick leave - Note 1	468,396	454,414
Revenue and refunding bonds, net of current portion, bond discount and premium - Notes 9 & 10	1,332,151	1,973,565
Public Works Trust Fund loans, net of current portion - Note 11	379,238	536,862
Net pension liability - Note 13	<u>2,296,757</u>	<u>2,858,158</u>
TOTAL NON-CURRENT LIABILITIES	4,476,542	5,822,999
TOTAL LIABILITIES	9,294,928	10,914,300
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows related to pensions	<u>356,618</u>	<u>47,967</u>
TOTAL DEFERRED INFLOWS OF RESOURCES	356,618	47,967
NET POSITION		
Net investment in capital assets	217,401,730	210,990,828
Restricted	7,095,958	8,666,305
Unrestricted	<u>17,250,810</u>	<u>14,709,377</u>
TOTAL NET POSITION	<u>\$ 241,748,498</u>	<u>\$ 234,366,509</u>

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

SOOS CREEK WATER AND SEWER DISTRICT

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

Years ended December 31, 2017 and 2016

	2017	2016
OPERATING REVENUES		
Sewer	\$ 29,753,021	\$ 28,099,788
Water	9,242,704	8,926,180
Street lights	248,547	244,006
Other operating revenue	2,385,203	2,077,349
TOTAL OPERATING REVENUES	<u>41,629,475</u>	<u>39,347,323</u>
OPERATING EXPENSES		
Sewage treatment	19,461,178	18,323,375
Water purchased for resale	3,482,764	3,317,509
Street light power	250,792	247,350
Maintenance	5,489,000	4,523,559
Business and accounting	1,831,015	1,740,343
Administration	2,419,233	2,210,213
Business and payroll taxes	962,655	936,350
Depreciation	6,633,667	6,369,264
TOTAL OPERATING EXPENSES	<u>40,530,303</u>	<u>37,667,962</u>
OPERATING INCOME (LOSS)	1,099,171	1,679,362
NON-OPERATING REVENUES (EXPENSES)		
Assessment interest	279	6,046
Investment interest	255,729	269,188
Gain on sale of surplus property	1,043	26,541
Interest paid on debt	(82,991)	(102,089)
Loss on abandonment of utility plant	(5,909)	(7,455)
TOTAL NON-OP REVENUES (EXPENSES)	<u>168,151</u>	<u>192,231</u>
INCOME (LOSS) BEFORE CONTRIBUTIONS	1,267,323	1,871,592
Contributions in aid of construction	<u>6,114,665</u>	<u>7,639,227</u>
CHANGE IN NET POSITION	7,381,988	9,510,819
NET POSITION, JANUARY 1	234,366,509	224,855,690
NET POSITION, DECEMBER 31	<u><u>\$ 241,748,498</u></u>	<u><u>\$ 234,366,509</u></u>

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

SOOS CREEK WATER AND SEWER DISTRICT

STATEMENTS OF CASH FLOWS Years ended December 31, 2017 and 2016

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from customers	\$ 41,323,723	\$ 39,260,895
Payments to suppliers	(29,458,162)	(28,594,154)
Payments to employees	(4,837,639)	(4,471,841)
	<u>7,027,922</u>	<u>6,194,900</u>
NET CASH FROM OPERATING ACTIVITIES	7,027,922	6,194,900
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Acquisition and construction of capital assets	(8,733,992)	(20,139,966)
Principal and interest paid on revenue bonds	(698,675)	(696,525)
Principal and interest paid on loans	(125,293)	(132,037)
Proceeds from assessments	1,830	13,612
Proceeds from deferred facility and connection charges	32,396	39,733
Proceeds from sale of capital assets	1,043	26,541
Cash contributed in aid of construction	2,443,394	3,829,281
	<u>(7,079,297)</u>	<u>(17,059,361)</u>
NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	(7,079,297)	(17,059,361)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest on investments	231,617	240,304
	<u>231,617</u>	<u>240,304</u>
NET CASH FROM INVESTING ACTIVITIES	231,617	240,304
NET CHANGE IN CASH BALANCES	180,242	(10,624,157)
CASH BALANCES AT BEGINNING OF YEAR	<u>21,730,566</u>	<u>32,354,723</u>
CASH BALANCES AT END OF YEAR	<u>\$ 21,910,808</u>	<u>\$ 21,730,566</u>
CASH BALANCES AT END OF YEAR CONSIST OF:		
Restricted	6,985,014	8,528,282
Unrestricted	<u>14,925,794</u>	<u>13,202,284</u>
TOTAL CASH BALANCE	<u>\$ 21,910,808</u>	<u>\$ 21,730,566</u>

SOOS CREEK WATER AND SEWER DISTRICT

STATEMENTS OF CASH FLOWS Years ended December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income (loss)	\$ 1,099,171	\$ 1,679,361
ADJUSTMENTS TO RECONCILE OPERATING INCOME (LOSS) TO CASH PROVIDED BY OPERATING ACTIVITIES:		
Depreciation expense	6,633,667	6,369,264
Change in assets and liabilities:		
(Increase) decrease in accounts receivable	(337,294)	(117,970)
(Increase) decrease in contractual receivable	31,542	31,542
(Increase) decrease in inventory	(168,209)	(13,080)
(Increase) decrease in prepaid expenses	32,610	(354,637)
Increase (decrease) in accounts payable	(204,179)	(712,567)
Increase (decrease) in accrued vacation and sick leave	13,982	25,373
Increase (decrease) in deposits of developers and customers	(143,959)	(76,054)
Increase (decrease) in contract retainage	<u>70,590</u>	<u>(636,331)</u>
TOTAL ADJUSTMENTS	5,928,750	4,515,540
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 7,027,922</u>	<u>\$ 6,194,900</u>
NON-CASH CAPITAL FINANCING ACTIVITIES:		
Developer contributed capital	<u>\$ 3,671,271</u>	<u>\$ 3,809,946</u>

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

SOOS CREEK WATER AND SEWER DISTRICT

NOTES TO FINANCIAL STATEMENTS

December 31, 2017 and 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The summary of significant accounting policies of Soos Creek Water and Sewer District (the District) is to assist in understanding the District's financial statements. The financial statements and notes are representations of the District's management who are responsible for their integrity and objectivity. The accounting policies of the District conform to generally accepted accounting principles as applicable to proprietary funds of governmental units, except for interest and penalties earned on utility local improvement district assessments which are recorded as received. This practice is not in accordance with generally accepted accounting principles, but does not result in a material difference. The following is a summary of the more significant policies.

Reporting Entity

The District is a municipal corporation formed in King County, State of Washington, governed by an elected five-member board. The District's primary activity is to provide water and sewer services to residential and commercial customers within the District's boundaries. 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 RCW Chapter 43.09. The District uses the BARS System of Accounts for governmental units.

The District uses the full-accrual basis of accounting where revenues are recognized when earned and expenses are recognized when incurred, except that accrued assessment interest is not reflected therein. The District's financial statements include the financial position and results of all operations that the District manages.

Revenues and expenses are distinguished between operating and non-operating items. Operating revenues result from providing services related to the District's water and sewer systems. Operating expenses include costs associated with providing District services, general and administrative expenses, and depreciation on assets. All revenues and expenses not meeting these definitions are classified as non-operating.

Cash and Cash Equivalents

The District presents its cash flow statements using the direct method. For purposes of the statements of cash flows, the District considers all highly liquid investments with maturities of three months or less when purchased to be cash equivalents. For more information, see Note 3, Deposits and Investments.

Cash and cash equivalents at the balance sheet dates consisted of the following:

	2017	2016
Cash in bank	\$ 891,704.	\$ 965,219.
Cash in bank lockbox facility	61,668.	41,970.
Deposits in transit	3,151.	1,870.
Cash in King County Investment Pool	13,969,271.	12,193,225.
Total	<u>\$ 14,925,794.</u>	<u>\$ 13,202,284.</u>

SOOS CREEK WATER AND SEWER DISTRICT

NOTES TO FINANCIAL STATEMENTS

December 31, 2017 and 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Accounts Receivable

Unbilled utility service receivables are recorded at yearend. The District takes advantage of its authority to file liens against properties with delinquent utility balances. Such liens are recorded at the King County Recorder's Office and are maintained until balances are paid in full. Interest is assessed until these accounts are paid. For this reason the District does not provide an allowance for doubtful accounts, all accounts are considered collectible. Use of this method does not result in a material difference from the valuation method required by generally accepted accounting principles.

The following amounts were due the District at December 31:

	2017	2016
Utilities	\$ 7,102,612.	\$ 7,031,899.
Developers	99,842.	102,935.
Contractual obligation, current portion	31,542.	31,542.
Interest	16,740.	11,189.
Other	268,927.	4,803.
Total	<u>\$ 7,519,661.</u>	<u>\$ 7,182,368.</u>

Inventories

Inventories are valued at the average acquisition cost, which approximates market value. The District conducts an annual physical inventory count. Inventories consisted of the following as of December 31:

	2017	2016
Materials and supplies	\$ 291,053.	\$ 123,108.
Small tools	171,648.	171,384.
Total	<u>\$ 462,701.</u>	<u>\$ 294,492.</u>

Utility Plant and Depreciation

Utility plant in service and other capital assets are stated at cost where the historical cost is known. Where historical cost is not known, assets are recorded at the District engineer's estimated cost. Donations by developers and customers are recorded at the contract price or donor cost or appraised value.

Expenditures for maintenance, repairs, and minor renewals are accounted for as expenses when incurred. Renewals and betterments that materially extend the life of the assets are capitalized. At the time property is sold, retired or otherwise disposed of, the original cost is removed from the utility plant accounts, accumulated depreciation is charged with the accumulated depreciation related to the property sold, and the net gain or loss on disposition is credited or charged to income.

Depreciation is computed on the straight-line method with useful lives of five to fifty years. Initial depreciation on utility plant is recorded in the year subsequent to purchase. Depreciation expense for the years ended December 31, 2017 and 2016 were \$6,633,667 and \$6,369,264 respectively. Preliminary costs incurred for proposed projects are deferred pending construction of the facility. Costs related to projects ultimately constructed are transferred to utility plant; charges related to abandoned projects are expensed.

SOOS CREEK WATER AND SEWER DISTRICT

NOTES TO FINANCIAL STATEMENTS

December 31, 2017 and 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capitalization of Expenses

The District incurs engineering, legal, and other expenses in connection with the design and construction of utility plant. These costs are capitalized and recorded as a cost of utility plant. Expenditures for capital assets that exceed \$5,000, including capital leases and repairs that extend useful lives in excess of one year are capitalized. Interest costs incurred are subject to capitalization. Total interest costs incurred for the years ending December 31, 2017 and 2016 were \$82,991 and \$102,089 respectively; there was no capitalized interest in 2017 or 2016.

Income and Property Taxes

The District is a municipal corporation and as such is exempt from income and property taxes.

Compensated Absences

The District accrues accumulated unpaid vacation and sick leave benefits as earned. Sick leave is accrued at 50% of the amount due, as that portion would be paid on termination. The liabilities for unpaid vacation and sick leave benefits at December 31, 2017 and 2016 were \$468,396 and \$454,414 respectively.

Vacation

Each full-time employee receives vacation benefits as follows:

<u>Years of Continuous Service</u>	<u>Monthly Vacation Credit</u>	<u>Equivalent Annual Vacation Earned</u>
First year	1 day	12 working days
After two years	1.083 days	13 working days
After three years	1.167 days	14 working days
After five years	1.25 days	15 working days
After ten years	1.50 days	18 working days
After fifteen years	1.67 days	20 working days
After twenty years	1.75 days	21 working days
After twenty-five years	1.833 days	22 working days

During the first year of employment, an employee is not entitled to take any vacation. If an employee's employment with the District terminates prior to completing one year of employment, the employee is not entitled to any prorated vacation pay. During the second and subsequent years of employment, vacation will accrue and be eligible on a continuing basis each month. An employee may not accumulate more than 1.5 times his/her annual vacation days. At the end of the year, or at the time of termination or retirement, vacation accruals will be adjusted accordingly. Each December 31st all vacation accruals in excess of the allowable amount are dropped.

SOOS CREEK WATER AND SEWER DISTRICT

NOTES TO FINANCIAL STATEMENTS

December 31, 2017 and 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Compensated Absences

Sick Leave

Each fulltime regular employee of the District accrues sick leave benefits at the rate of one day per calendar month, beginning with the first calendar month following the commencement of employment. The sick leave accruing each month is credited to the employee at the end of that month. The amount of accumulated sick leave is limited to 520 hours.

Upon retirement, an employee receives 50% of any remaining unused accumulated sick leave at the employee's then current rate of pay.

Upon the death of an employee who leaves a surviving spouse or surviving minor child, the surviving spouse or surviving minor child, but not both, is entitled to 50% of the employee's unused accumulated sick leave at the employee's then current rate of pay.

An employee who voluntarily terminates, and is not on probation at the time of termination, receives 50% of the employee's unused accumulated sick leave at the employee's then current rate of pay. An employee terminated by the District without cause receives 50% of the employee's unused accumulated sick leave at the employee's then current rate of pay; terminated with cause receives no sick leave accrual.

Pensions

For purposes of measuring the net pension liability, deferred outflows and 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.

NOTE 2 - RESTRICTED ASSETS

The King County Treasurer's Office maintains cash, investments, and bond funds. For more information, see Note 3, Deposits and Investments.

Revenue Bond Funds

In accordance with bond resolutions and certain related agreements, several restricted funds were established. Assets held in these funds are restricted for specific uses, including debt service and other special reserve requirements. Restricted bond funds included the following at the balance sheet dates:

	2017	2016
Bond fund cash	\$ 860,703.	\$ 775,713.
Bond fund investments	50,683.	50,683.
Accrued interest receivable	866.	571.
Total	<u>\$ 912,252.</u>	<u>\$ 826,967.</u>

SOOS CREEK WATER AND SEWER DISTRICT

NOTES TO FINANCIAL STATEMENTS

December 31, 2017 and 2016

NOTE 2 - RESTRICTED ASSETS (Continued)

Revenue Bond Funds

These restricted funds are for redemption of revenue bonds and related interest costs. Restricted bond fund assets shown on the balance sheets included the following investments:

	<u>2017</u>	<u>2016</u>
King County Investment Pool	\$ 860,703.	\$ 775,713.
Land	<u>50,683.</u>	<u>50,683.</u>
Total	<u><u>\$ 911,386.</u></u>	<u><u>\$ 826,396.</u></u>

Assessments Receivable

Assessment levies are recorded as filed with the King County Treasurer for Utility Local Improvement District (ULID) projects, payments are deposited to the revenue bond fund. The following sewer assessments were outstanding as of the balance sheet dates:

	<u>2017</u>	<u>2016</u>
ULID No. 101	833.	1,667.
ULID No. 107	<u>16,449.</u>	<u>17,168.</u>
Total	<u><u>\$ 17,283.</u></u>	<u><u>\$ 18,834.</u></u>

Special Funds

In accordance with District resolutions, separate restricted funds are required. Assets held in these funds are restricted for specific uses, including construction and replacement of utility plant. Restricted funds included the following special funds at the balance sheet dates:

	<u>2017</u>	<u>2016</u>
Capital Improvement Fund		
King County Investment Pool	\$ 6,124,311.	\$ 7,752,569.
Interest receivable	<u>7,689.</u>	<u>10,355.</u>
Total	<u><u>\$ 6,132,000.</u></u>	<u><u>\$ 7,762,924.</u></u>

Restricted and special fund assets shown on the balance sheets included the following investments:

	<u>2017</u>	<u>2016</u>
King County Investment Pool	\$ 6,985,014.	\$ 8,528,282.

SOOS CREEK WATER AND SEWER DISTRICT

NOTES TO FINANCIAL STATEMENTS December 31, 2017 and 2016

NOTE 3 - DEPOSITS AND INVESTMENTS

The District's *ex officio* treasurer, King County, maintains cash and investments. In accordance with state investment laws, the District has entered into a formal inter-local agreement with King County to have funds not required for immediate expenditure be invested in the King County Investment Pool (Pool).

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

Investment	Par Value	Fair Value	Effective Duration
Main pool	\$20,886,023.	\$20,783,682.	1.02 years
Impaired pool	68,262.	46,009.	
Total	<u>\$20,954,285.</u>	<u>\$20,829,690.</u>	

As of December 31, 2016, the District had the following investments in the Pool:

Investment	Par Value	Fair Value	Effective Duration
Main pool	\$20,641,078.	\$20,597,732.	1.10 years
Impaired pool	80,429.	49,938.	
Total	<u>\$20,721,507.</u>	<u>\$20,647,670.</u>	

Impaired Investments. As of Dec. 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 (maximum risk of loss) on December 31, 2017 and 2016 were \$68,262 and \$80,429 respectively; the fair value of these investments on December 31, 2017 and 2016 were \$46,009 and \$49,938 respectively.

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 Dec. 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 notes (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.

SOOS CREEK WATER AND SEWER DISTRICT

NOTES TO FINANCIAL STATEMENTS December 31, 2017 and 2016

NOTE 4 – UTILITY PLANT

Major expenses for capital assets, including major repairs that increase useful lives, are capitalized. Maintenance, repairs, and minor renewals are expensed when incurred. Utility plant in service is recorded at cost. Donations by developers are recorded at the donor cost.

Utility plant activity for the year ended December 31, 2017, was as follows:

	Balance Dec. 31, 2016	Increase	Decrease	Balance Dec. 31, 2017
Utility plant not being depreciated:				
Land & land rights	\$ 1,414,054.	\$ 197,273.	\$ 0.	\$ 1,611,327.
Intangible property rights	1,800,706.	0.	0.	1,800,706.
Construction in progress	31,672,392.	8,512,258.	28,886,152.	11,298,498.
Total	34,887,152.	8,709,531.	28,886,152.	14,710,531.
Utility plant being depreciated:				
Sewer collection mains & pipes	162,650,846.	26,677,120.	6,469.	189,321,498.
Water transmission mains & pipes	68,286,220.	1,534,911.	20,223.	69,800,908.
Pumping stations & reservoirs	42,431,819.	0.	0.	42,431,819.
Buildings	4,356,342.	3,815,688.	0.	8,172,029.
Machinery, equipment, & other	13,456,692.	410,333.	101,170.	13,765,855.
Total	291,181,919.	32,438,052.	127,862.	323,492,109.
Less accumulated depreciation:				
Sewer collection mains & pipes	60,926,792.	3,233,654.	2,458.	64,157,988.
Water transmission mains & pipes	21,432,372.	1,388,082.	18,325.	22,802,129.
Pumping stations & reservoirs	15,905,908.	1,383,439.	0.	17,289,347.
Buildings	2,289,087.	103,424.	0.	2,392,511.
Machinery, equipment, & other	11,224,609.	525,067.	101,170.	11,648,506.
Total	111,778,770.	6,633,666.	121,953.	118,290,484.
Total depreciable assets, net	179,403,149.	25,804,386.	5,909.	205,201,625.
Total capital assets, net	\$ 214,290,301.	\$ 34,513,917.	\$ 28,892,061.	\$ 219,912,157.

SOOS CREEK WATER AND SEWER DISTRICT

NOTES TO FINANCIAL STATEMENTS December 31, 2017 and 2016

NOTE 4 – UTILITY PLANT (Continued)

Utility plant activity for the year ended December 31, 2016, was as follows:

	Balance Dec. 31, 2015	Increase	Decrease	Balance Dec. 31, 2016
Utility plant not being depreciated:				
Land & land rights	\$ 1,407,806.	\$ 6,248.	\$ 0.	\$ 1,414,054.
Intangible property rights	1,800,706.	0.	0.	1,800,706.
Construction in progress	24,329,636.	19,923,186.	12,580,430.	31,672,392.
Total	27,538,148.	19,929,434.	12,580,430.	34,887,152.
Utility plant being depreciated:				
Sewer collection mains & pipes	152,497,603.	10,153,243.	0.	162,650,846.
Water transmission mains & pipes	64,573,021.	3,889,301.	176,103.	68,286,220.
Pumping stations & reservoirs	40,543,184.	1,888,635.	0.	42,431,819.
Buildings	4,356,342.	0.	0.	4,356,342.
Machinery, equipment, & other	12,968,609.	607,230.	119,148.	13,456,692.
Total	274,938,760.	16,538,410.	295,251.	291,181,919.
Less accumulated depreciation:				
Sewer collection mains & pipes	57,891,715.	3,035,077.	0.	60,926,792.
Water transmission mains & pipes	20,289,793.	1,311,227.	168,648.	21,432,372.
Pumping stations & reservoirs	14,587,595.	1,318,313.	0.	15,905,908.
Buildings	2,185,588.	103,499.	0.	2,289,087.
Machinery, equipment, & other	10,742,611.	601,146.	119,148.	11,224,609.
Total	105,697,302.	6,369,262.	287,796.	111,778,770.
Total depreciable assets, net	169,241,458.	10,169,148.	7,455.	179,403,149.
Total capital assets, net	\$ 196,779,606.	\$ 30,098,582.	\$ 12,587,885.	\$ 214,290,301.

SOOS CREEK WATER AND SEWER DISTRICT

NOTES TO FINANCIAL STATEMENTS

December 31, 2017 and 2016

NOTE 5 - WORK IN PROGRESS

Work in progress represents expenditures to-date on projects authorized by the Board of Commissioners. Costs are accumulated on projects until completed and accepted by the Board. Upon acceptance by the Board, the projects are transferred to Utility Plant.

Work in progress at December 31, 2017 and 2016 was composed of the following:

	2017	2016
Lift Station 46	\$ 8,013,958.	\$ 25,780,280.
Water Meter Change-out	1,072,476.	278,561.
GIS Implementation	875,388.	380,867.
Cell Service Telemetry	807,287.	615,569.
Lift Station 24B Removal	178,916.	178,916.
Reservoir #6 Seismic Work	94,082.	0.
Cascade Hills AC Replacement, Ph. 3	52,086.	0.
PRV 2 Replacement	45,202.	0.
Maintenance Facility Expansion	0.	3,314,525.
Cascade Interceptor Rehabilitation	0.	636,125.
116th Av SE AC Pipe Replacement	0.	369,242.
Other projects	159,105.	118,307.
	<u>\$ 11,298,498.</u>	<u>\$ 31,672,392.</u>

NOTE 6 - DEPOSITS OF DEVELOPERS AND CUSTOMERS

The District requires developers and customers to deposit funds upon beginning a project to which charges for District services are applied.

The following deposits of developers and customers were on hand at December 31:

	2017	2016
Guaranty deposits	\$ 127,557.	\$ 148,973.
Latecomer deposits	0.	133,083.
Developer easement deposits	71,836.	70,435.
Construction inspection deposits	32,849.	59,810.
Main extension deposits	42,309.	19,330.
Prepaid connection charges	14,174.	17,899.
Prepaid sewer area charges	8,486.	15,315.
Customer deposits	28,100.	4,425.
Prepaid water area charges	1,292.	1,292.
Total	<u>\$ 326,604.</u>	<u>\$ 470,562.</u>

SOOS CREEK WATER AND SEWER DISTRICT

NOTES TO FINANCIAL STATEMENTS

December 31, 2017 and 2016

NOTE 7 - ACCOUNTS RECEIVABLE GENERAL FACILITY CHARGES AND SPECIAL CONNECTION CHARGES

The District has recorded as receivable unpaid general facility charges and connection charges. The payment agreements include an interest rate of 6.0% with final payments due 2018 to 2020. The total general facility and special connection charge balances due December 31, 2017 and 2016 were \$50,953 and \$78,839 respectively.

NOTE 8 – CONTRACT RETAINAGE

The following amounts were due to contractors for District construction contracts at December 31:

	2017	2016
Coluccio Construction	\$ 198,767.	\$ 0.
Par-Tech Construction	29,112.	123,983.
Hoffman Construction	0.	22,993.
Bonner Brothers	0.	10,314.
	<u>\$ 227,880.</u>	<u>\$ 157,290.</u>

NOTE 9 – REVENUE BONDS

Water and Sewer Revenue Bonds, 2011

The District issued \$5,375,000 of Water and Sewer Revenue Bonds, 2011, dated March 16, 2011. The bonds were issued to pay a portion of the costs to construct and equip sewer Lift Station 11B and to pay a portion of the costs of issuance of the Bonds. The Bonds are fully registered as to both principal and interest and bear interest from March 16, 2011, payable semiannually on March 1 and September 1. The District's revenue bonds are rated AA+ by Standard & Poor's.

The maturity and interest schedule for the remaining 2011 Bonds is as follows:

Maturity Schedule for 2011 Bonds

Year	Principal	Interest	Total
2018	\$ 630,000.	\$ 65,225.	\$ 695,225.
2019	650,000.	44,750.	694,750.
2020	<u>675,000.</u>	<u>23,625.</u>	<u>698,625.</u>
	<u>\$ 1,955,000.</u>	<u>\$ 133,600.</u>	<u>\$ 2,088,600.</u>

SOOS CREEK WATER AND SEWER DISTRICT

NOTES TO FINANCIAL STATEMENTS

December 31, 2017 and 2016

NOTE 9 – REVENUE BONDS (Continued)

Summary

Summary of Revenue Bonds Outstanding and accrued interest thereon as of December 31:

2017		2016	
Principal	Accrued Interest	Principal	Accrued Interest
\$ 1,995,000.	\$ 16,306.	\$ 2,570,000.	\$ 20,919.

NOTE 10 – PREMIUM ON BOND ISSUES

Bond Premium Amortization

The District, upon issuance of the 2011 Revenue Bonds, received \$223,100 in offering premium. The District is amortizing the bond premium in a systematic fashion over the life of the bonds. The remaining premium, \$18,565 as of December 31, 2017, will be recorded as interest on revenue bonds.

NOTE 11 - PUBLIC WORKS TRUST FUND LOANS

2001 Public Works Trust Fund Loan

The District entered into an agreement with the Department of Community Development of the State of Washington on May 4, 2001, to obtain a loan of \$1,224,484.

The loan bears interest at one-half of one percent (0.5%) per annum on the outstanding principal balance. The term of the loan is twenty (20) years, with the final payment due July 1, 2021. The loan is being repaid solely from utility revenues. The first loan repayment under the agreement was due July 1, 2000, and subsequent installments are due on July 1 of each year during the term of the loan.

The proceeds were used for the construction of the Meridiana Sewer Extension and Water Main Project.

2000 Public Works Trust Fund Loan

The District entered into an agreement with the Department of Community Development of the State of Washington on March 30, 2000, to obtain a loan of \$1,779,000.

The loan bears interest at one percent (1.0%) per annum on the outstanding principal balance. The term of the loan is twenty (20) years, with the final payment due July 1, 2020. The loan is being repaid solely from utility revenues. The first loan repayment under the agreement was due July 1, 2000, and subsequent installments are due on July 1 of each year during the term of the loan.

The proceeds were used for the construction of Lift Station 38 and the Witte Road conveyance.

SOOS CREEK WATER AND SEWER DISTRICT

NOTES TO FINANCIAL STATEMENTS December 31, 2017 and 2016

NOTE 11 - PUBLIC WORKS TRUST FUND LOANS (Continued)

Summary

Public Works Trust Fund loans at the balance sheet dates consisted of the following:

	2017	2016
Balance	\$ 536,861.	\$ 694,485.
Less: current portion	(157,623.)	(157,623.)
Long term debt	<u>\$ 379,238.</u>	<u>\$ 536,862.</u>
Accrued interest payable on loans	\$ 2,044.	\$ 2,673.

The following annual debt service costs will be due on Public Works Trust Fund loans:

	Principal	Interest	Total
2018	\$ 157,623.	\$ 4,089.	\$ 161,712.
2019	157,623.	2,833.	160,456.
2020	157,623.	1,576.	159,199.
2021	<u>63,992.</u>	<u>320.</u>	<u>64,312.</u>
Total	<u>\$ 536,861.</u>	<u>\$ 8,818.</u>	<u>\$ 545,679.</u>

NOTE 12 – CHANGES IN LONG-TERM LIABILITIES

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

	Balance Dec. 31, 2016	Additions	Reductions	Balance Dec. 31, 2017	Due Within One Year
Revenue Bonds Payable	\$ 2,570,000.	\$ 0.	\$ 615,000.	\$ 1,955,000.	\$ 630,000.
Plus Bond Premium	34,988.	0.	16,423.	18,565.	11,414.
Total Bonds Payable	<u>2,604,988.</u>	<u>0.</u>	<u>631,423.</u>	<u>1,973,565.</u>	<u>641,414.</u>
Public Works Trust Fund Loans	694,484.	0.	157,623.	536,861.	157,623.
Compensated Absences	454,414.	13,982.	0.	468,396.	0.
Pension Obligations	<u>2,858,158.</u>	<u>0.</u>	<u>561,401.</u>	<u>2,296,757.</u>	<u>0.</u>
Total Long-term Liabilities	<u>\$ 6,612,045.</u>	<u>\$ 13,982.</u>	<u>\$ 1,350,447.</u>	<u>\$ 5,275,579.</u>	<u>\$ 799,038.</u>

SOOS CREEK WATER AND SEWER DISTRICT

NOTES TO FINANCIAL STATEMENTS December 31, 2017 and 2016

NOTE 12 – CHANGES IN LONG-TERM LIABILITIES (Continued)

During the year ended December 31, 2016, the following changes occurred in long-term liabilities:

	Balance Dec. 31, 2015	Additions	Reductions	Balance Dec. 31, 2016	Due Within One Year
Revenue Bonds Payable	\$ 3,165,000.	\$ 0.	\$ 595,000.	\$ 2,570,000.	\$ 615,000.
Plus Bond Premium	56,294.	0.	21,306.	34,988.	16,423.
Total Bonds Payable	3,221,294.	0.	616,306.	2,604,988.	631,423.
Public Works Trust Fund Loans	852,108.	0.	157,623.	694,484.	157,623.
Compensated Absences	429,041.	25,373.	0.	454,414.	0.
Pension Obligations	2,381,190.	476,968.	0.	2,858,158.	0.
Total Long-term Liabilities	<u>\$ 6,883,633.</u>	<u>\$ 502,341.</u>	<u>\$ 773,929.</u>	<u>\$ 6,612,045.</u>	<u>\$ 789,046.</u>

NOTE 13 – PENSION PLANS

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

Aggregate Pension Amounts – All Plans	
Pension liabilities	\$ 2,296,757.
Pension assets	-
Deferred outflows of resources	345,346.
Deferred inflows of resources	356,618.
Pension expense/expenditures	251,867.

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.

SOOS CREEK WATER AND SEWER DISTRICT

NOTES TO FINANCIAL STATEMENTS

December 31, 2017 and 2016

NOTE 13 – PENSION PLANS (Continued)

Public Employees' Retirement System (PERS)

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

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

Contributions

The **PERS Plan 1** member contribution rate is established by State statute at 6 percent. The employer contribution rate is developed by the Office of the State Actuary and includes an administrative expense component that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates. The PERS Plan 1 required contribution rates (expressed as a percentage of covered payroll) for 2017 were as follows:

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

PERS Plan 2/3 provides retirement, disability and death benefits. Retirement benefits are determined as two percent of the member's average final compensation (AFC) times the member's years of service for Plan 2 and 1 percent of AFC for Plan 3. The AFC is the average of the member's 60 highest-paid consecutive service months. There is no cap on years of service credit. Members are eligible for retirement with a full benefit at 65 with at least five years of service credit. Retirement before age 65 is considered an early retirement. PERS Plan 2/3 members who have at least 20 years of service credit and are 55 years of age or older, are eligible for early retirement with a benefit that is reduced by a factor that varies according to age for each year before age 65.

NOTE 13 – PENSION PLANS (Continued)

SOOS CREEK WATER AND SEWER DISTRICT

NOTES TO FINANCIAL STATEMENTS

December 31, 2017 and 2016

PERS Plan 2/3 members who have 30 or more years of service credit and are at least 55 years old can retire under one of two provisions:

- With a benefit that is reduced by three percent for each year before age 65; or
- With a benefit that has a smaller (or no) reduction (depending on age) that imposes stricter return-to-work rules.

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

PERS Plan 3 defined contribution benefits are totally dependent on employee contributions and investment earnings on those contributions. PERS Plan 3 members choose their contribution rate upon joining membership and have a chance to change rates upon changing employers. As established by statute, Plan 3 required defined contribution rates are set at a minimum of 5 percent and escalate to 15 percent with a choice of six options. Employers do not contribute to the defined contribution benefits. PERS Plan 3 members are immediately vested in the defined contribution portion of their plan. As of December 31, 2017, the District had no employees in PERS Plan 3.

Contributions

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

PERS Plan 2/3		
Actual Contribution Rates:	Employer	Employee
January – June 2017:		
PERS Plan 2/3	6.23%	6.12%
PERS Plan 1 UAAL	4.77%	
Administrative Fee	0.18%	
Employee PERS Plan 3		varies
Total	11.18%	6.12%
July – December 2017:		
PERS Plan 1	7.49%	7.38%
PERS Plan 1 UAAL	5.03%	
Administrative Fee	0.18%	
Employee PERS Plan 3		varies
Total	12.70%	7.38%

SOOS CREEK WATER AND SEWER DISTRICT

NOTES TO FINANCIAL STATEMENTS

December 31, 2017 and 2016

NOTE 13 – PENSION PLANS (Continued)

The District's actual PERS plan contributions were \$165,931 to Plan 1 and \$198,315 to Plan 2/3 for the year ended December 31, 2017.

Actuarial Assumptions

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

Additional assumptions for subsequent events and law changes are current as of the 2016 actuarial valuation report. The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2017. Plan liabilities were rolled forward from June 30, 2016, to June 30, 2017, reflecting each plan's normal cost (using the entry-age cost method), assumed interest and actual benefit payments.

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

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

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

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

SOOS CREEK WATER AND SEWER DISTRICT

NOTES TO FINANCIAL STATEMENTS

December 31, 2017 and 2016

NOTE 13 – PENSION PLANS (Continued)

Discount Rate

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

To determine that rate, an asset sufficiency test included an assumed 7.7 percent long-term discount rate to determine funding liabilities for calculating future contribution rate requirements. (All plans use 7.7 percent except LEOFF 2, which has assumed 7.5 percent). Consistent with the long-term expected rate of return, a 7.5 percent future investment rate of return on invested assets was assumed for the test. Contributions from plan members and employers are assumed to continue being made at contractually required rates (including PERS 2/3, PSERS 2, SERS 2/3, and TRS 2/3 employers, whose rates include a component for the PERS 1, and TRS 1 plan liabilities). Based on these assumptions, the pension plans' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return of 7.5 percent was used to determine the total liability.

Long-Term Expected Rate of Return

The long-term expected rate of return on the DRS pension plan investments of 7.5 percent was determined using a building-block-method. In selecting this assumption, the Office of the State Actuary (OSA) reviewed the historical experience data, considered the historical conditions that produced past annual investment returns, and considered capital market assumptions and simulated expected investment returns provided by the Washington State Investment Board (WSIB). The WSIB uses the capital market assumptions and their target asset allocation to simulate future investment returns over various time horizons.

Estimated Rates of Return by Asset Class

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

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

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	\$1,538,977.	\$1,263,330.	\$1,024,560.
PERS 2/3	2,784,161.	1,033,427.	(401,039)

SOOS CREEK WATER AND SEWER DISTRICT

NOTES TO FINANCIAL STATEMENTS

December 31, 2017 and 2016

NOTE 13 – PENSION PLANS (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 \$2,296,757 for its proportionate share of the net pension liabilities as follows:

	<u>Liability (or Asset)</u>
PERS 1	\$1,263,330.
PERS 2/3	1,033,427.

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

	<u>Proportionate Share 6/30/16</u>	<u>Proportionate Share 6/30/17</u>	<u>Change in Proportion</u>
PERS 1	0.026164%	0.026624%	0.000460%
PERS 2/3	0.028859%	0.029743%	0.000884%

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 Non-employer Allocations* for all plans except LEOFF 1.

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:

	<u>Pension Expense</u>
PERS 1	\$ (65,058.)
PERS 2/3	(47,321.)
TOTAL	<u>\$ (112,379.)</u>

SOOS CREEK WATER AND SEWER DISTRICT

NOTES TO FINANCIAL STATEMENTS

December 31, 2017 and 2016

NOTE 13 – PENSION PLANS (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:

PERS 1	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	0.	0.
Net difference between projected and actual investment earnings on pension plan investments	0.	47,144.
Changes of assumptions	0.	0.
Changes in proportion and differences between contributions and proportionate share of contributions	0.	0.
Contributions subsequent to the measurement date	83,856.	0.
TOTAL	\$ 83,856.	\$ 47,144.

PERS 2/3	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	104,711.	33,988.
Net difference between projected and actual investment earnings on pension plan investments	0.	275,487.
Changes of assumptions	10,977.	0.
Changes in proportion and differences between contributions and proportionate share of contributions	40,723.	0.
Contributions subsequent to the measurement date	105,079.	0.
TOTAL	\$ 261,490.	\$ 309,474.

SOOS CREEK WATER AND SEWER DISTRICT

NOTES TO FINANCIAL STATEMENTS

December 31, 2017 and 2016

NOTE 13 – PENSION PLANS (Continued)

Deferred outflows of resources related to pensions resulting from the District's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2018. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31	PERS 1
2018	(31,866.)
2019	10,061.
2020	(2,336.)
2021	(23,002.)
2022	0.
Thereafter	0.

Year ended December 31	PERS 2/3
2018	(99,161.)
2019	37,085.
2020	(18,643.)
2021	(105,637.)
2022	14,475.
Thereafter	18,818.

NOTE 14 –HEALTHCARE REIMBURSEMENT ACCOUNT

Description of the Plan

The District adopted a healthcare reimbursement account VEBA plan (HRA/VEBA) effective January 1, 2001. The intention of the District is that the HRA/VEBA qualify as a tax-exempt trust as authorized by Internal Revenue Code section 501(c)(9). The HRA/VEBA is a pre- and post-retirement, tax-exempt, medical expense reimbursement account.

Contributions

The HRA/VEBA accounts are funded in two ways, through annual sick leave cash-outs and through medical and dental benefits equalization.

Sick Leave Cash-outs. In January of each year, annual net sick leave (annual hours earned less hours used) is deposited to the employees' HRA/VEBA accounts. The number of sick leave hours and the employees' rate of pay are as of December 1 of the prior year. The HRA/VEBA deposit schedule for fulltime employees is as follows:

Accumulated Sick Leave as of December 1	Deposit to HRA/VEBA Account
0 to 167 hours	0
168 to 300 hours	25% of annual net sick leave (24 hours max)
301 to 520 hours	50% of annual net sick leave (48 hours max)
> 520 hours	100% of sick leave accrual over 520 hours

The deposit schedule for regular part-time employees would be on a pro-rated basis.

NOTE 14 –HEALTHCARE REIMBURSEMENT ACCOUNT (Continued)

SOOS CREEK WATER AND SEWER DISTRICT

NOTES TO FINANCIAL STATEMENTS

December 31, 2017 and 2016

Benefits Equalization. The District determined that it was prudent to pay all employees the same medical and dental insurance benefit regardless of marital and/or family status. Those employees that waive medical and/or dental insurance coverage offered by the District for spouses and/or children receive an amount equal to the difference between full coverage (employee, spouse, and children) and their elected coverage. This difference is deposited monthly into the employees' HRA/VEBA accounts.

The District's 2017 and 2016 contributions to the employees' HRA/VEBA accounts totaled \$479,697 and \$294,436 respectively. Employees are always 100% vested in their HRA/VEBA accounts.

NOTE 15 – RISK MANAGEMENT

Property and Liability Insurance

The District is exposed to the risk of loss from torts, theft of or damage to assets, business interruption, errors and omissions, contractual actions, natural disasters, environmental regulations, and other third-party liabilities. The District has implemented programs to protect against accidental and criminal losses that would significantly affect personnel, property, or finances by using a combination of loss control programs, participation in a risk-sharing pool, and self-insurance.

For property and liability insurance, 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 inter-local governmental agreement to fund their self-insured losses and jointly purchase insurance and administrative services. As of August 31, 2017, there are 540 Enduris members representing a broad array of special purpose districts throughout the state. Enduris provides property and liability coverage as well as risk management services and other related administrative services.

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

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

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

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

SOOS CREEK WATER AND SEWER DISTRICT

NOTES TO FINANCIAL STATEMENTS

December 31, 2017 and 2016

NOTE 15 – RISK MANAGEMENT (Continued)

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.

Unemployment Compensation Self-insurance

The District is self-insured for unemployment compensation exposure. Claims are administered by the Washington State Department of Employment Security and are subsequently reimbursed by the District. Actual costs are paid by the District as incurred.

NOTE 16 – OTHER POSTEMPLOYMENT BENEFITS (OPEB)

There exists a potential postemployment benefits liability arising out of the cost of providing health care insurance to retired District employees. The State of Washington, through the Health Care Authority (HCA), provides and administers the District's health insurance plans. The HCA designs the benefits and the terms and conditions of employee and retiree eligibility, participation, and coverage. Employers participating in the plan include the State of Washington (general government and higher education institutions), K-12 school districts, and over 200 political subdivisions and tribal governments. As the District participates in this plan, eligible retired employees may receive health care insurance coverage through the HCA.

The District has no control over the benefits offered to retirees, the rates they are charged, or the fees paid to HCA by employers for coverage. The monthly insurance premiums paid by enrolled retirees throughout the State are not sufficient to meet the cost of their coverage; this shortfall is included, by statute, as an implicit component of the monthly charges for health care coverage of current employees. The District's share of this annual shortfall is treated as an operating expenditure. As the District provides no other healthcare or postemployment benefits directly to former employees, and that the cost of any benefits provided to eligible District retirees by the State of Washington are liabilities of the State, the District has determined that there is no material OPEB obligation requiring disclosure or accrual under GASB Statements Number 74 and 75, *Accounting and Financial Reporting for Employers for Postemployment Benefits other than Pensions*.

SOOS CREEK WATER AND SEWER DISTRICT

NOTES TO FINANCIAL STATEMENTS

December 31, 2017 and 2016

NOTE 17 – OTHER DISCLOSURES

Contractual Receivable

On May 17, 2000, the District entered into an inter-local agreement with King County Water District 111 (WD 111) for the joint construction of the Meridiana project, a District sewer line and a WD 111 water line. As project administrator the District borrowed \$1,224,484 from the Department of Community Development of the State of Washington (See Note 11). Based upon proportional construction costs, WD 111's pro-rata share of the loan was 49.29% or \$603,548.

The following schedule depicts the remaining annual obligation WD 111 has to the District:

Year	Principal	Interest	Total
2018	31,542.	631.	32,172.
2019	31,542.	473.	32,015.
2020	31,542.	315.	31,857.
2021	31,542.	158.	31,699.
	<u>\$ 126,166.</u>	<u>\$ 1,577.</u>	<u>\$ 127,743.</u>

Funds Transfer, Construction Project Funding

In 2016, the District completed significant portions of sewer Lift Station 46, a capital project that will handle both future growth in connections and replace existing facilities. District management and engineers determined that the payment of this project should be split between restricted funds dedicated to growth-related capital projects and unrestricted funds. During the course of the project, to facilitate bookkeeping and cost tracking, project expenditures were paid from restricted funds. In July 2016, the District made an \$11,500,000 transfer from unrestricted to restricted funds to recognize the funding split.

Project	% Unrestricted Funds	% Restricted Funds	Approximate Expenditures thru June 2016	Transfer
Lift Station 46	50%	50%	\$ 23,000,000.	\$ 11,500,000.

In 2017, the District completed Lift Station 11B, a capital project that will handle both future growth in connections and replace existing facilities. District management and engineers determined that the payment of this project should be split between restricted funds dedicated to growth-related capital projects and unrestricted funds. During the course of the project, to facilitate bookkeeping and cost tracking, project expenditures were paid from unrestricted funds. The 2011 Revenue Bond proceeds, \$5,580,412, reduced this transfer amount. In May 2017, the District made a \$1,386,948 transfer from restricted to unrestricted funds to recognize the funding split.

Project	% Unrestricted Funds	% Restricted Funds	Total Expenditures	Transfer less Bond Proceeds
Lift Station 11B	56%	44%	\$ 15,834,910.	\$ 1,386,948.

SOOS CREEK WATER AND SEWER DISTRICT

REQUIRED SUPPLEMENTARY INFORMATION

December 31, 2017 and 2016

Schedule of Proportionate Share of the Net Pension Liability PERS 1 As of June 30 Last 10 Fiscal Years*

	2015	2016	2017
Employer's proportion of the net pension liability (asset) PERS 1	0.025858%	0.026164%	0.026624%
Employer's proportionate share of the net pension liability	\$1,352,614	\$1,405,130	\$1,263,330
Employer's covered employee payroll	\$ 181,879	\$ 189,113	\$ 193,342
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	743.69%	743.01%	653.42%
Plan fiduciary net position as a percentage of the total pension liability	59.10%	57.03%	61.24%

Schedule of Proportionate Share of the Net Pension Liability PERS 2/3 As of June 30 Last 10 Fiscal Years*

	2015	2016	2017
Employer's proportion of the net pension liability (asset) PERS 2/3	0.028787%	0.028859%	0.029743%
Employer's proportionate share of the net pension liability	\$1,028,576	\$1,453,028	\$1,033,427
Employer's covered employee payroll	\$2,554,319	\$2,716,839	\$2,825,876
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	40.27%	53.48%	36.57%
Plan fiduciary net position as a percentage of the total pension liability	89.20%	85.82%	90.97%

* Until a full 10-year trend is compiled, information is presented only for those years for which it is available.

SOOS CREEK WATER AND SEWER DISTRICT

REQUIRED SUPPLEMENTARY INFORMATION

December 31, 2017 and 2016

Schedule of Employer Contributions

PERS 1

As of December 31

Last 10 Fiscal Years*

	2015	2016	2017
Statutorily or contractually required contributions	\$ 131,848	\$ 154,838	\$ 165,931
Contributions in relation to the statutorily or contractually required contributions	\$ (131,848)	\$ (154,838)	\$ (165,931)
Contribution deficiency (excess)	\$ -	\$ -	\$ -
Covered employer payroll	\$ 185,495	\$ 190,394	\$ 187,846
Contributions as a percentage of covered employee payroll	71.08%	81.32%	88.33%

Schedule of Employer Contributions

PERS 2/3

As of December 31

Last 10 Fiscal Years*

	2015	2016	2017
Statutorily or contractually required contributions	\$ 145,416	\$ 174,877	\$ 198,315
Contributions in relation to the statutorily or contractually required contributions	\$ (145,416)	\$ (174,877)	\$ (198,315)
Contribution deficiency (excess)	\$ -	\$ -	\$ -
Covered employer payroll	\$2,626,286	\$2,807,009	\$2,905,619
Contributions as a percentage of covered employee payroll	5.54%	6.23%	6.83%

* Until a full 10-year trend is compiled, information is presented only for those years for which it is available.

ABOUT THE STATE AUDITOR'S OFFICE

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

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

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

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

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

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

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

Contact information for the State Auditor's Office	
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