



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

# **Financial Statements Audit Report**

## **Lake Chelan Reclamation District**

**For the period January 1, 2017 through December 31, 2018**

**Published October 31, 2019**

**Report No. 1024880**





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

October 31, 2019

Board of Directors  
Lake Chelan Reclamation District  
Manson, Washington

**Report on Financial Statements**

Please find attached our report on the Lake Chelan Reclamation 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, flowing style.

Pat McCarthy  
State Auditor  
Olympia, WA

## TABLE OF CONTENTS

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.....	4
Independent Auditor's Report on Financial Statements.....	6
Financial Section.....	9
About the State Auditor's Office.....	70

**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**

**Lake Chelan Reclamation District  
January 1, 2017 through December 31, 2018**

Board of Directors  
Lake Chelan Reclamation District  
Manson, 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 Lake Chelan Reclamation District, as of and for the years ended December 31, 2018 and 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated October 3, 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

October 3, 2019

# INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

## **Lake Chelan Reclamation District January 1, 2017 through December 31, 2018**

Board of Directors  
Lake Chelan Reclamation District  
Manson, Washington

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

We have audited the accompanying financial statements of the Lake Chelan Reclamation District, as of and for the years ended December 31, 2018 and 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed on page 9.

### **Management's Responsibility for the Financial Statements**

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

### **Auditor's Responsibility**

Our responsibility is to express 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 Lake Chelan Reclamation District, as of December 31, 2018 and 2017, 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 October 3, 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

October 3, 2019



## **FINANCIAL SECTION**

### **Lake Chelan Reclamation District January 1, 2017 through December 31, 2018**

#### **REQUIRED SUPPLEMENTARY INFORMATION**

Management's Discussion and Analysis – 2018  
Management's Discussion and Analysis – 2017

#### **BASIC FINANCIAL STATEMENTS**

Statement of Fund Net Position – 2018  
Statement of Fund Net Position – 2017  
Statement of Revenues, Expenses and Changes in Fund Net Position – 2018  
Statement of Revenues, Expenses and Changes in Fund Net Position – 2017  
Statement of Cash Flows – 2018  
Statement of Cash Flows – 2017  
Notes to Financial Statements – 2018  
Notes to Financial Statements – 2017

#### **REQUIRED SUPPLEMENTARY INFORMATION**

Schedules of Proportionate Share of Net Pension Liability – PERS 1, PERS 2/3 – 2018  
Schedules of Proportionate Share of Net Pension Liability – PERS 1, PERS 2/3 – 2017  
Schedule of Employer Contributions – PERS 1, PERS 2/3 – 2018  
Schedule of Employer Contributions – PERS 1, PERS 2/3 – 2017

LAKE CHELAN RECLAMATION DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Year Ended December 31, 2018

Our discussion and analysis of the Lake Chelan Reclamation District's financial performance provides an overview and analysis of the District's financial activities for the fiscal year ended December 31, 2018. Please read it in conjunction with the District's financial statements.

The statement includes:

- 1) Statement of Net Position – Similar to a balance sheet in that it reports all financial and capital resources. Assets and liabilities are listed in order of liquidity. The component of net position listed as *Net Investment in Capital Assets* consists of all capital assets, reduced by the outstanding balances of any bonds, notes or other related borrowings that are attributable to the acquisition, construction or improvement of those assets. The component *Restricted Position* consists of assets in which creditors, grantors, laws or regulations have placed constraints.
- 2) Statement of Revenues, Expenses, and Changes in Fund Net Position – Similar to an income statement, it includes operating revenues, such as domestic/sewer service and hookup fees, irrigation assessments, and non-operating revenues, such as sewer LID assessments, refundable and reimbursable income. It also includes operating expenses, such as general, administrative, operations and maintenance, and also non-operating expenses, such as interest, refundable and reimbursable expenses. *Change in Net Position* is similar to net income and loss.
- 3) Statement of Cash Flows – This statement shows net cash provided by, or used for, Operating Activities, Non-capital Financing and Capital Financing and investing activities.

Fund Accounting

Lake Chelan Reclamation District operates one enterprise fund only, but captures revenue and expenses for three subgroups; Irrigation, Domestic water and Sewer. Our financial statements reflect the combined totals of revenue and expenses for the subgroups. Please see the Segment Information in the *Notes to Financial Statement* for subgroup activity.

**Financial Highlights/Industry Overview**

The Lake Chelan Reclamation District service area continues to experience primarily residential growth of less than 3%. Domestic water equivalent residential units grew 69.75 units in the Manson area in 2018. Sewer equivalent residential units grew 46.75 units in the Manson area in 2018.

**Irrigation**

Irrigation assessments increased to \$170 per acre for 2018 assessments. Irrigation parcel fees increased to \$136.50 for 2018 assessments. The minimum payment for irrigation assessments increased to \$288.75. The area continues to develop residential properties from previous orchards.

**Domestic**

Domestic hookup fees increased to \$4700 for calendar year 2018, with tap fees and road crossings each an additional \$1000. The District continued to implement the Backflow Prevention Program in 2018 by charging \$800 to cover the installation of double check valve assemblies on all new domestic hookups and other identified higher risk customers. The water treatment plant experienced excellent reliability with no permit violations.

## Sewer

Sewer hookup fees increased to \$5300 for calendar year 2018, with tap fees and road crossings each an additional \$1000. The district continued a grinder pump replacement program for district owned and maintained grinder systems.

### STATEMENTS OF NET POSITION

	<u>2018</u>	<u>2017</u>
ASSETS		
Current and Other Assets	\$6,758,603	\$5,922,158
Capital and Other Non-Current Assets	<u>\$19,725,089</u>	<u>\$19,965,947</u>
Total Assets:	<u>\$26,483,692</u>	<u>\$25,888,105</u>
DEFERRED OUTFLOWS OF RESOURCES		
Deferred Outflows Related to Pensions	<u>\$65,281</u>	<u>\$70,926</u>
LIABILITIES		
Current and Other Liabilities	\$512,778	\$605,495
Non-Current Liabilities	\$1,539,930	\$1,929,487
Net Pension Liability	<u>\$364,098</u>	<u>\$502,733</u>
Total Liabilities	<u>\$2,416,806</u>	<u>\$3,037,715</u>
DEFERRED INFLOWS OF RESOURCES		
Deferred Inflows Related to Pensions	<u>\$141,330</u>	<u>\$88,493</u>
Net Position:		
Net Investment in Capital Assets	\$17,796,099	\$17,647,898
Unrestricted Net Position	\$6,113,162	\$5,102,852
Restricted Net Position	<u>\$81,575</u>	<u>\$82,073</u>
Total Net Position:	<u>\$23,990,836</u>	<u>\$22,832,823</u>

#### **Total Assets**

The District's Total Assets show an increase of \$595,587 from December 31, 2017 to December 31, 2018.

#### **Total Liabilities**

The District's Total Liabilities show a decrease of \$620,909 from December 31, 2017 to December 31, 2018.

#### **Total Net Position**

The District's financial position inclined as Net Position increased by \$1,158,013 during 2018.

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

	<u>2018</u>	<u>2017</u>
<b>Revenue</b>		
Operating Revenue	\$4,534,285	\$3,985,575
Non-Operating Revenue	149,844	166,919
Total Revenue:	<u>\$4,684,129</u>	<u>\$4,152,494</u>
<b>Expenses</b>		
Operating Expense	\$3,726,286	\$3,640,426
Non-Operating Expense	187,920	269,763
Total Expenses:	<u>\$3,914,206</u>	<u>\$3,910,189</u>
Income before Capital Contributions:	\$769,923	\$242,305
Capital Contributions:	388,090	87,075
<b>Change in Net Position:</b>	<u>\$1,158,013</u>	<u>\$329,380</u>
<b>Net Position, January 1st</b>	22,832,823	22,437,897
<b>Change in Accounting Principle – GASB 68</b>	-	-
Prior Year Adjustment	-	65,546
<b>Net Position, December 31st</b>	<u><u>\$23,990,836</u></u>	<u><u>\$22,832,823</u></u>

### Major Factors Affecting the Statement of Revenue, Expenses and Change in Net Position:

- Revenues for 2018 were higher than 2017 revenues due to a slight increase in irrigation assessments, a slight increase in sewer fees, as well as more domestic and sewer hookups being purchased. Expenses for 2018 were slightly higher than 2017 expenses.

### Operating Revenue and Operating Expenses:

- Operating Revenues consist of irrigation assessments, new service hookup fees, and domestic water and sewer services, including tap fees and road crossings.
- Operating Expenses consist of general, administrative, operations and maintenance.

### Non-Operating Revenue and Expenses:

- Non-Operating Revenues consist of refundable and reimbursable income.
- Non-Operating Expenses consist of refundable and reimbursable expenses.

## **Statement of Cash Flows**

### **Cash Inflows**

The majority of cash inflows resulted from services provided to customers for irrigation, domestic water and sewer, as well as proceeds received from grants and interest income on investments.

### **Cash Outflows**

Cash flow used by operating activities, principal and interest payments on revenue bonds, payroll and the acquisition and construction of capital assets were the significant sources of cash outflows.

### **Capital Assets**

As of year-end, the District has \$19,725,088 invested in a variety of capital assets. This represents a net decrease of \$240,860 over the previous year. Net decrease includes all additions, disposals and depreciation.

	<u>2018</u>	<u>2017</u>
Capital Assets, not being depreciated:	\$45,094	\$45,094
Total Capital Assets, not being depreciated:	<u>\$45,094</u>	<u>\$45,094</u>
Capital Assets, depreciated:	\$35,494,925	\$34,958,081
Accumulated Depreciation:	(15,814,931)	(15,037,227)
Total Capital Assets, depreciated:	<u>\$19,679,994</u>	<u>\$19,920,854</u>
Total Net Capital Assets:	<u>\$19,725,088</u>	<u>\$19,965,948</u>

Refer to the Notes to the Financial Statements for more detail.

### **Long Term Debt**

As of year-end, the District had \$2,341,499 in Long Term Liabilities. This debt is paid out in annual payments.

	<u>2018</u>	<u>2017</u>
Revenue Bonds	\$ 392,165	\$ 458,107
Contracts Payable	1,536,825	1,859,942
Compensated Absences	48,411	43,784
Pension Liabilities	<u>364,098</u>	<u>502,733</u>
Total Long Term Debt:	<u>\$2,341,499</u>	<u>\$2,864,566</u>

Lake Chelan Reclamation District  
Management's Discussion and Analysis  
For the Year Ended December 31, 2017

Our discussion and analysis of the Lake Chelan Reclamation District's financial performance provides an overview and analysis of the District's financial activities for the fiscal year ended December 31, 2017. Please read it in conjunction with the District's financial statements.

The statement includes:

- 1) Statement of Net Position – Similar to a balance sheet in that it reports all financial and capital resources. Assets and liabilities are listed in order of liquidity. The component of net position listed as *Net Investment in Capital Assets* consists of all capital assets, reduced by the outstanding balances of any bonds, notes or other related borrowings that are attributable to the acquisition, construction or improvement of those assets. The component *Restricted Position* consists of assets in which creditors, grantors, laws or regulations have placed constraints.
- 2) Statement of Revenues, Expenses, and Changes in Fund Net Position – Similar to an income statement, it includes operating revenues, such as domestic/sewer service and hookup fees, irrigation assessments, and non-operating revenues, such as sewer LID assessments, refundable and reimbursable income. It also includes operating expenses, such as general, administrative, operations and maintenance, and also non-operating expenses, such as interest, refundable and reimbursable expenses. *Change in Net Position* is similar to net income and loss.
- 3) Statement of Cash Flows – This statement shows net cash provided by, or used for, Operating Activities, Non-capital Financing and Capital Financing and investing activities.

Fund Accounting

Lake Chelan Reclamation District operates one enterprise fund only, but captures revenue and expenses for three subgroups; Irrigation, Domestic water and Sewer. Our financial statements reflect the combined totals of revenue and expenses for the subgroups. Please see the Segment Information in the *Notes to Financial Statement* for subgroup activity.

**Financial Highlights/Industry Overview**

The Lake Chelan Reclamation District service area continues to experience primarily residential growth of less than 2%. Domestic water equivalent residential units grew 41.25 units in the Manson area in 2017. Sewer equivalent residential units grew 27 units in the Manson area in 2017.

**Irrigation**

Irrigation assessments increased to \$145 per acre for 2017 assessments. Irrigation parcel fees increased to \$130 for 2017 assessments. The area continues to develop residential properties from previous orchards.

**Domestic**

Domestic hookup fees remained at \$4200 for calendar year 2017, with tap fees and road crossings each an additional \$750. The District continued to implement the Backflow Prevention Program in 2017 by charging \$700 to cover the installation of double check valve assemblies on all new domestic hookups and other identified higher risk customers. The water treatment plant experienced excellent reliability with no permit violations.

## Sewer

Sewer hookup fees remained at \$4100 for calendar year 2017, with tap fees and road crossings each an additional \$750. The district continued a grinder pump replacement program for district owned and maintained grinder systems.

### Statements of Net Position

	<u>2017</u>	<u>2016</u>
<b>Assets</b>		
Current and Other Assets	\$ 5,922,158	\$ 5,369,119
Capital and Other Non-Current Assets	19,965,947	20,572,242
Total Assets:	<u>\$25,888,105</u>	<u>\$25,941,361</u>
<b>Deferred Outflows of Resources</b>		
Deferred Outflows Related to Pensions	<u>\$ 70,926</u>	<u>\$ 110,409</u>
<b>Liabilities</b>		
Current and Other Liabilities	\$ 605,495	\$ 556,258
Non-Current Liabilities	1,929,487	2,389,189
Net Pension Liability	502,733	648,203
Total Liabilities	<u>\$ 3,037,715</u>	<u>\$ 3,593,650</u>
<b>Deferred Inflows of Resources</b>		
Deferred Inflows Related to Pensions	<u>\$ 88,493</u>	<u>\$ 20,223</u>
<b>Net Position</b>		
Net Investment in Capital Assets	\$17,647,898	\$17,766,036
Unrestricted Net Position	5,102,852	4,590,598
Restricted Net Position	82,073	81,263
Total Net Position	<u>\$22,832,823</u>	<u>\$22,437,897</u>

#### **Total Assets**

The District's Total Assets show a decrease of \$53,256 from December 31, 2016 to December 31, 2017, this includes \$495,491 in depreciation.

#### **Total Liabilities**

The District's Total Liabilities show a decrease of \$555,935 from December 31, 2016 to December 31, 2017.

#### **Total Net Position**

The District's financial position inclined as Net Position increased by \$394,926 during 2017.

## Statements of Revenues, Expenses and Changes in Fund Net Position

	<u>2017</u>	<u>2016</u>
<b>Revenue</b>		
Operating Revenue	\$ 3,985,575	\$ 4,008,807
Non-Operating Revenue	166,919	90,536
Total Revenue:	<u>\$ 4,152,494</u>	<u>\$ 4,099,343</u>
<b>Expenses</b>		
Operating Expense	\$ 3,640,426	\$ 3,622,278
Non-Operating Expense	269,763	37,184
Total Expenses:	<u>\$ 3,910,189</u>	<u>\$ 3,659,462</u>
Income before Capital Contributions:	\$ 242,305	\$ 439,881
Capital Contributions:	87,075	56,135
<b>Change in Net Position</b>	<u>\$ 329,380</u>	<u>\$ 496,016</u>
<b>Net Position, January 1st</b>	22,437,897	21,941,881
<b>Change in Accounting Principle – GASB 68</b>	-	-
<b>Prior Year Adjustment</b>	<u>65,546</u>	<u>-</u>
<b>Net Position, December 31st</b>	<u><u>\$22,832,823</u></u>	<u><u>\$22,437,897</u></u>

### Major Factors Affecting the Statement of Revenue, Expenses and Change in Net Position:

- Revenues for 2017 were higher than 2016 revenues due to a slight increase in irrigation assessments, as well as more domestic and sewer hookups being purchased. Expenses for 2017 were higher than 2016 expenses.

### Operating Revenue and Operating Expenses:

- Operating Revenues consist of irrigation assessments, new service hookup fees, and domestic water and sewer services, including tap fees and road crossings.
- Operating Expenses consist of general, administrative, operations and maintenance.

### Non-Operating Revenue and Expenses:

- Non-Operating Revenues consist of sewer LID assessments, refundable and reimbursable income.
- Non-Operating Expenses consist of refundable and reimbursable expenses.
- Sewer LID assessments are collected and used to make the loan payments on the Willow Point Sewer Extension loan.



## **Statement of Cash Flows**

### **Cash Inflows**

The majority of cash inflows resulted from services provided to customers for irrigation, domestic water and sewer, as well as interest income on investments.

### **Cash Outflows**

Cash flow used by operating activities, principal and interest payments on revenue bonds, payroll and the acquisition and construction of capital assets were the significant sources of cash outflows.

### **Capital Assets**

As of year-end, the District has \$19,965,948 invested in a variety of capital assets. This represents a net decrease of \$606,294 over the previous year. Net decrease includes all additions, disposals and depreciation.

	<u>2017</u>	<u>2016</u>
Capital Assets, not being depreciated:	\$45,094	\$45,094
Total Capital Assets, not being depreciated:	<u>\$45,094</u>	<u>\$45,094</u>
Capital Assets, depreciated:	\$34,958,081	\$35,367,821
Accumulated Depreciation:	(15,037,227)	(14,840,673)
Total Capital Assets, depreciated:	<u>\$19,965,948</u>	<u>\$20,527,242</u>
Total Net Capital Assets:	<u>\$19,965,948</u>	<u>\$20,572,242</u>

Refer to the Notes to the Financial Statements for more detail.

### **Long-Term Debt**

As of year-end, the District had \$2,864,566 in Long Term Liabilities. This debt is paid out in annual payments.

	<u>2017</u>	<u>2016</u>
Revenue Bonds	\$ 458,107	\$ 523,551
Contracts Payable	1,859,942	2,282,655
Compensated Absences	43,784	39,309
Pension Liabilities	502,733	648,203
Total Long-Term Debt:	<u>\$2,864,566</u>	<u>\$3,493,718</u>

Due to new development and an influx of latecomer fees, the district was able to pay off the DOE Loan – Willow Point Sewer Extension (LID) in its entirety in May 2017.

LAKE CHELAN RECLAMATION DISTRICT  
Statement of Fund Net Position  
For the Year Ended December 31, 2018

ASSETS	<u>2018</u>
Current Assets:	
Cash and Cash Equivalents	\$ 245,984
Investments	5,554,498
Accounts Receivables (Net)	301,436
Inventories	504,950
Prepayments	<u>70,160</u>
Total Current Assets	6,677,028
Noncurrent Assets:	
Capital Assets not Being Depreciated:	
Land	45,094
Capital Assets Being Depreciated:	
Property, Plant and Equipment	
Buildings	447,449
Utility & Plant	22,127,058
Machinery & Equipment	973,904
Water Meters	64,180
Hydrants	100,901
Sewer Pipelines	3,381,597
Radios	14,531
Office Equipment	757,182
Other Misc Equipment	69,508
Northshore Sewer Line Replacement	7,558,616
Less Accumulated Depreciation	<u>(15,814,931)</u>
Total Capital Assets (Net)	<u>19,679,995</u>
Other Assets:	
Restricted Investments	81,575
TOTAL NONCURRENT ASSETS	
TOTAL ASSETS	19,725,089
TOTAL ASSETS	<u>\$ 26,483,692</u>
DEFERRED OUTFLOWS OF RESOURCES	<u>\$ 65,281</u>
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>\$ 65,281</u>
LIABILITIES	
Current Liabilities:	
Accounts Payable	\$ 68,767
Accrued Tax Liabilities	6,540
Current Portion of Long Term Debt	<u>389,060</u>
TOTAL CURRENT LIABILITIES	464,367
Noncurrent Liabilities:	
Compensated Absences	48,411
Contracts Payable	1,213,707
Bonds, Notes and Loans Payable	326,223
Pension Liability	<u>364,098</u>
TOTAL NONCURRENT LIABILITIES	<u>1,952,439</u>
TOTAL LIABILITIES	<u>\$ 2,416,806</u>
DEFERRED INFLOWS OF RESOURCES	<u>\$ 141,330</u>
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>\$ 141,330</u>
NET POSITION	
Net Investment in Capital Assets	17,796,099
Restricted for Bond	81,575
Unrestricted	<u>6,113,162</u>
TOTAL NET POSITION	<u>\$ 23,990,836</u>

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

LAKE CHELAN RECLAMATION DISTRICT  
Statement of Fund Net Position  
December 31, 2017

<b><u>ASSETS</u></b>	<b><u>2017</u></b>
Current Assets:	
Cash and cash equivalents	\$ 173,394
Investments	4,647,733
Total Cash and Cash Equivalents	4,821,127
Receivables	361,540
Prepays	63,775
Inventories	593,643
 TOTAL CURRENT ASSETS	 5,840,085
Noncurrent Assets:	
Capital Assets not being depreciated:	
Land	45,094
Capital Assets net of accumulated depreciation:	
Property, Plant and Equipment	
Buildings	429,757
Utility & Plant	21,765,854
Machinery & Equipment	869,453
Water Meters	74,028
Hydrants	90,300
Sewer Pipelines	3,270,628
Radios	13,854
Office Equipment	811,837
Other Misc Equipment	73,754
Northshore Sewer Line Replacement	7,558,616
Less Accumulated Depreciation	(15,037,228)
 TOTAL NET CAPITAL ASSETS	 19,965,947
Other assets:	
Restricted Investments	82,073
 <b>TOTAL ASSETS</b>	 <b>\$ 25,888,105</b>
 <b>DEFERRED OUTFLOWS</b>	 <b>\$ 70,926</b>
<b>TOTAL DEFERRED OUTFLOWS</b>	<b>\$ 70,926</b>
 <b><u>LIABILITIES</u></b>	
Current Liabilities:	
Accounts Payable	\$ 167,462
Accrued Tax Liabilities	5,687
Compensated Absences	43,784
Current Portion of Long Term Debt	388,562
 TOTAL CURRENT LIABILITIES	 605,495
Noncurrent Liabilities:	
Contracts Payable	1,536,824
Revenue Bonds	392,663
Pension Liability	502,733
 TOTAL NONCURRENT LIABILITIES	 2,432,220
 <b>TOTAL LIABILITIES</b>	 <b>\$ 3,037,715</b>
 <b>DEFERRED INFLOWS</b>	 <b>\$ 88,493</b>
<b>TOTAL DEFERRED INFLOWS</b>	<b>\$ 88,493</b>
 <b><u>NET POSITION</u></b>	
Net Investment in Capital Assets	17,647,898
Restricted Net Position	82,073
Unrestricted Net Position (Deficit)	5,102,852
 TOTAL NET POSITION	 <b>\$ 22,832,823</b>

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

LAKE CHELAN RECLAMATION DISTRICT  
Statement of Revenues, Expenses and Changes in Fund Net Position  
For the Year Ended December 31, 2018

	<u><b>2018</b></u>
OPERATING REVENUES:	
Utility Sales and Service Fees	\$ 1,520,826
Other Charges for Service	2,833,326
Other Operating Revenue	180,133
	<hr/>
Total Operating Revenue	4,534,285
	<hr/>
OPERATING EXPENSES:	
Salary and Wages	\$ 1,073,571
Office Expenses	70,328
Operations and Maintenance	
Pump & Motors	51,583
Electrical	28,214
Valves	107,210
Pipe / Pipe Parts & Fittings	73,649
Meters / Meter Parts	52,820
Hydrants / Vaults / Manholes / Meter boxes	48,758
Concrete	786
Minor Equipment	9,104
Safety Equipment	23,735
Radio Repair	520
Shop Equipment	1,511
Contractor's Services	4,231
Tools Mechanical / Electrical	15,988
Fabrication	2,842
Maintenance Supplies	2,728
Chemicals / Oxygen & Acetylene	14,612
City of Chelan Interceptor Charges / Swr Services	168,503
WWTP Debt Service	111,314
Agrimet O&M	1,600
Telemetry / Instrumentation	18,923
Water Testing	16,198
Old System	2,416
Small Equipment & Tools	817
Bedding	8,012
Road O & M	16,807
Landscaping / Weed & Pest Control	5,941
Shop & Building O & M	504
Pump/Lift Station O & M	4,602
Water Treatment Plant O & M	8,163
Gasoline / Diesel / Oil	37,366
Other Utilities	3,848
Equipment Rental	51,824
Light Duty Vehicles	22,297
Heavy Duty Vehicles	19,375
Mobile Equipment	3,597
Power	332,087

LAKE CHELAN RECLAMATION DISTRICT  
Statement of Revenues, Expenses and Changes in Fund Net Position  
For the Year Ended December 31, 2018

	<u><b>2018</b></u>
General & Administration	
Professional Services	32,787
Computer Programs	8,635
Engineering Services	38,737
Contract Services	24,819
Employee Services	2,048
Term Insurance	675
Insurance	99,001
Old Age Survival Insurance	25
Travel/Training	7,043
Mileage	1,660
Excise & Sales Tax	101,152
Fire Tax	213
Licenses and Fees	4,452
Miscellaneous	935
Refunds	10,747
Comprehensive Plan	-
Claims	1,500
Fines	-
Loss of Assets	201
Legal Services	26,744
Depreciation	948,528
	<hr/>
Total Operating Expenses	3,726,286
	<hr/>
OPERATING INCOME (LOSS)	807,999
NONOPERATING REVENUES ( EXPENSES):	
Interest and Dividend Income	105,961
Interest Expense and Related Charges	(13,881)
Gains (Losses) on Capital Asset Disposition	(170,304)
Other Nonoperating Revenues	43,883
Other Nonoperating Expenses	(3,735)
	<hr/>
Total Nonoperating Revenues (Expenses)	(38,076)
	<hr/>
Income before Capital Contributions	769,923
Capital Contributions	388,090
	<hr/>
CHANGE IN NET POSITION	1,158,013
	<hr/>
TOTAL NET POSITIONS, January 1	22,832,823
PRIOR PERIOD ADJUSTMENTS	-
TOTAL NET POSITION, DECEMBER 31	<hr/> <u>\$ 23,990,836</u> <hr/>

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

LAKE CHELAN RECLAMATION DISTRICT  
Statement of Revenues, Expenses and Changes in Fund Net Position  
For The Year Ended December 31, 2017

	<b><u>2017</u></b>
<b><u>OPERATING REVENUES:</u></b>	
Utility Sales and Service Fees	\$ 1,344,925
Other Charges for Service	2,503,792
Other Operating Revenue	136,858
	<hr/>
Total Operating Revenue	3,985,575
	<hr/>
<b><u>OPERATING EXPENSES:</u></b>	
Salary and Wages	\$ 1,014,577
Office Expenses	81,132
<b>Operations and Maintenance</b>	
Pump & Motors	19,198
Electrical	51,270
Valves	83,506
Pipe / Pipe Parts & Fittings	70,997
Meters / Meter Parts	9,280
Hydrants / Vaults / Manholes / Meter boxes	52,150
Concrete	867
Minor Equipment	8,720
Safety Equipment	8,440
Radio Repair	107
Shop Equipment	551
Contractor's Services	104
Tools Mechanical / Electrical	12,204
Fabrication	2,218
Maintenance Supplies	2,353
Chemicals / Oxygen & Acetylene	15,669
City of Chelan Interceptor Charges / Swr Services	170,985
WWTP Debt Service	111,891
Agrimet O&M	1,600
Telemetry / Instrumentation	29,982
Water Testing	17,588
Old System	2,416
Small Equipment & Tools	4,855
Bedding	11,202
Road O & M	15,087
Landscaping / Weed & Pest Control	8,612
Shop & Building O & M	2,176
Pump/Lift Station O & M	3,291
Water Treatment Plant O & M	12,408
Gasoline / Diesel / Oil	28,949
Other Utilities	3,848
Equipment Rental	38,663
Light Duty Vehicles	17,943
Heavy Duty Vehicles	9,084
Mobile Equipment	1,746
Power	313,361

LAKE CHELAN RECLAMATION DISTRICT  
Statement of Revenues, Expenses and Changes in Fund Net Position  
For The Year Ended December 31, 2017

	<u>2017</u>
<b>General &amp; Administration</b>	
Professional Services	50,265
Computer Programs	22,980
Engineering Services	48,239
Contract Services	33,069
Employee Services	1,427
Term Insurance	675
Insurance	89,550
Old Age Survival Insurance	25
Travel/Training	7,998
Mileage	1,400
Excise & Sales Tax	97,606
Fire Tax	213
Licenses and Fees	3,939
Refunds	13,054
Comprehensive Plan	50,214
Claims	2,599
Fines	1,610
Loss of Assets	2,046
Legal Services	28,689
Depreciation	945,798
	<hr/>
Total Operating Expenses	3,640,426
	<hr/>
<b>OPERATING INCOME (LOSS)</b>	345,149
<b>NONOPERATING REVENUES ( EXPENSES)</b>	
Interest and Dividend Income	69,560
(Interest Expense and Related Charges)	(16,151)
Gains (Losses) on Capital Asset Disposition	(249,651)
Other Nonoperating Revenues	97,359
(Other Nonoperating Expenses)	(3,961)
	<hr/>
Total Nonoperating Revenues (Expenses)	(102,844)
	<hr/>
Income before Capital Grants, Extraordinary and Special Items	242,305
	<hr/>
Capital Grants, Extraordinary/Special Items	87,075
	<hr/>
<b>CHANGE IN NET POSITION</b>	329,380
	<hr/>
<b>TOTAL NET POSITION, JANUARY 1ST</b>	22,437,897
	<hr/>
Prior Period Adjustments	65,546
	<hr/>
<b>TOTAL NET POSITION, DECEMBER 31ST</b>	\$ 22,832,823
	<hr/> <hr/>

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

LAKE CHELAN RECLAMATION DISTRICT  
Statement of Cash Flows  
For the Year Ended December 31, 2018

**2018****CASH FLOWS from OPERATING ACTIVITIES**

Receipts from customers	\$ 4,594,389
Payments to suppliers	(1,719,721)
Payments to employees	(1,149,096)
Internal activity - payments to other funds	-
Claims paid to outsiders	-
Other receipts (payments)	-

Net Cash provided (used) by operating activities 1,725,572

**CASH FLOWS from NONCAPITAL FINANCING ACTIVITIES**

Nonoperating revenues	43,883
Nonoperating expenses	(3,735)
Operating subsidies and transfers to other funds	-

Net Cash provided (used) by noncapital financing activities 40,148

**CASH FLOWS from CAPITAL and RELATED FINANCING ACTIVITIES**

Proceeds from capital debt	-
Capital contributions	388,090
Purchases of capital assets	(877,973)
Principal paid on capital debt	(389,059)
Interest paid on capital debt	(13,881)
Other receipts (payments)	-

Net Cash provided (used) by capital and related financing activities (892,823)

**CASH FLOWS from INVESTING ACTIVITIES**

Proceeds from sales and maturities of investments	-
Interest and dividends	106,459

Net Cash provided by investing activities 106,459

Net Increase (Decrease) in Cash and Cash Equivalents 979,356

Balances - beginning of the year 4,821,126

Balances - end of the year \$ 5,800,482

The accompanying notes are an integral part of this financial statement.



LAKE CHELAN RECLAMATION DISTRICT

**Reconciliation of Operating Income (Loss) to Net Cash Provided (Used)  
by Operating Activities**

	<b>2018</b>
Operating Income (Loss)	\$ 807,999
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Depreciation expense	948,528
Pension expense	(80,152)
Prior period adjustment	-
Change in assets and liabilities:	
Receivables, net	60,104
Prepays	(441,175)
Inventories	523,483
Accounts and other payables	(98,695)
Accrued tax liabilities	853
Accrued vacation	4,627
Accrued expenses	-
	<hr/>
Net cash provided by operating activities	<u><u>\$ 1,725,572</u></u>

The accompanying notes are an integral part of this financial statement.

LAKE CHELAN RECLAMATION DISTRICT  
Statement of Cash Flows  
For the Year Ended December 31, 2017

**2017****CASH FLOWS from OPERATING ACTIVITIES**

Receipts from customers	\$ 3,963,359
Payments to suppliers	(1,720,853)
Payments to employees	(982,273)
Internal activity - payments to other funds	-
Claims paid to outsiders	-
Other receipts (payments)	-

Net Cash provided (used) by operating activities 1,260,233

**CASH FLOWS from NONCAPITAL FINANCING ACTIVITIES**

Nonoperating revenues	97,359
Nonoperating expenses	(3,961)
Operating subsidies and transfers to other funds	-

Net Cash provided (used) by noncapital financing activities 93,398

**CASH FLOWS from CAPITAL and RELATED FINANCING ACTIVITIES**

Proceeds from capital debt	-
Capital contributions	87,075
Purchases of capital assets	(589,155)
Principal paid on capital debt	(488,157)
Interest paid on capital debt	(16,151)
Other receipts (payments)	-

Net Cash provided (used) by capital and related financing activities (1,006,388)

**CASH FLOWS from INVESTING ACTIVITIES**

Proceeds from sales and maturities of investments	-
Interest and dividends	68,750

Net Cash provided by investing activities 68,750

Net Increase (Decrease) in Cash and Cash Equivalents 415,993

Balances - beginning of the year 4,405,133

Balances - end of the year \$ 4,821,126

The accompanying notes are an integral part of this financial statement.

LAKE CHELAN RECLAMATION DISTRICT

**Reconciliation of Operating Income (Loss) to Net Cash Provided (Used)  
by Operating Activities**

	<b>2017</b>
Operating Income (Loss)	\$ 345,149
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Depreciation expense	945,798
Pension expense	(37,717)
Prior period adjustment	65,546
Change in assets and liabilities:	
Receivables, net	(22,216)
Prepays	(6,112)
Inventories	(107,907)
Accounts and other payables	72,104
Accrued tax liabilities	1,113
Accrued vacation	4,475
Accrued expenses	-
Net cash provided by operating activities	<u>\$ 1,260,233</u>

The accompanying notes are an integral part of this financial statement.

LAKE CHELAN RECLAMATION DISTRICT  
NOTES TO FINANCIAL STATEMENT  
For the Year Ended December 31, 2018

These notes are an integral part of the accompanying financial statements.

Note 1 – Summary of Significant Accounting Policies

The financial statements of Lake Chelan Reclamation District have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The significant accounting policies are described below.

Compensated absences are included in current liabilities as historical experience reflects that the majority of unpaid leave is used in the next year.

A. **Reporting Entity**

The Lake Chelan Reclamation District is a non-profit quasi-municipal corporation organized May 8, 1920 under Title 87 of the Revised Code of Washington and headquartered in Manson, WA.

As required by generally accepted accounting principles, management has considered all potential component units in defining the reporting entity. The Lake Chelan Reclamation District has no component units.

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

The district distinguishes between operating revenues and expenses from non-operating ones. Operating revenues and expenses result from providing services and producing and delivering goods in connection with the district's principal ongoing operations. The principal operating revenues of the district are charges to customers for irrigation, domestic water and sewer services. The district also recognizes as operating revenue the portion of the tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for the district include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Unbilled utility service receivables are recorded at year end. Non-operating income includes gains and losses from the disposal of utility plant.

C. **Cash and Cash Equivalents**

It is the district's policy to invest all temporary cash surpluses.

For purposes of the statement of cash flows, the district considers all highly liquid investments (excluding restricted assets) with a maturity of three months or less when purchased to be cash equivalents.

D. **Utility Plant and Depreciation – Capital Assets**

See Note 4.

E. **Restricted Assets**

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

Debt Service Funds: \$81,575

Assets and liabilities shown as current in the accompanying statement of net position (or balance sheet) exclude current maturities on revenue bonds and accrued interest thereon because debt service funds are provided for their payment.

F. **Receivables**

Receivables are comprised of services from irrigation, domestic water and sewer use. The management of the district believes all receivables are collectible. Therefore, no provisions for uncollectible accounts have been established.

G. **Inventories**

Inventories are valued at cost on a first in, first out basis which approximates the market value.

H. **Investments**

See Note 3.

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, which may be accumulated up to a maximum of 280 hours, is payable upon resignation, retirement or death. During the month of December, employees will be given the opportunity to convert vacation allowances into an employer provided tax-free contribution to a HRA VEBA trust account under IRS Code 501 c (9) at their hourly rate provided, however, that the employee shall maintain a minimum of 160 hours of accrued vacation leave hours.

For regular full-time employees unused paid sick leave may be accumulated from year to year, but may not exceed a total of 1,040 hours, as of December 31 of each year. Sick leave balances will be reduced to 1,040 hours as of December 31 of each year, and at employee's choice 25% of excess hours may be converted to vacation leave or paid at employee's straight time hourly rate into an employer provided tax-free contribution HRA VEBA trust account under IRS code 501c (9) at a rate of 33%. Employees with 20-24 years of service may convert to vacation leave at 40% or contribute to an HRA VEBA account at 50%. Employees with 25-29 years of service may convert to vacation leave at 50% or contribute to an HRA VEBA account at 60%. Employees with 30 or more years of service may convert to vacation leave at 60% or contribute to an HRA VEBA account at 70%. Minimum accrual of paid sick leave shall be maintained at 200 hours after deposits are made, except in the case of retirement. Accrued unused sick leave will not be paid out if employment with the District ends for any reason other than retirement.

For part-time and temporary employees paid sick leave may not exceed a total of 40 hours as of December 31 of each year. Sick leave balances will be reduced to 40 hours as of December 31 of each year and excess will be forfeit, unless RCW 49.46.210, as it exists or is hereinafter amended, provides greater protection of benefits to an employee, in which case state law will control.

Upon retirement, as a longevity and good health incentive, for retirees with 20-24 years of service, 40% of unused sick leave shall be paid at employee's straight time hourly rate through the date of retirement or converted at 50% into an employer provided tax-free contribution HRA VEBA trust account outlined above. For retirees with 25-29 years of service, 50% of unused sick leave shall be paid at employee's straight time hourly rate through the date of retirement or converted at 60% into an employer provided tax-free contribution HRA VEBA trust account outlined above. For retirees with 30 or more years of service, 60% of unused sick leave shall be paid at employee's straight time hourly rate through the date of retirement or converted at 70% into an employer provided tax-free contribution HRA VEBA trust account outlined above. Unused sick leave hours eligible to be paid upon retirement cannot exceed the accumulated maximum of 1,040 hours.

#### **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.

## Note 2 –Stewardship, Compliance and Accountability

The district is not aware of any issues that would materially affect these financial statements, involving non-compliance with Washington laws or with BARS.

## Note 3 – Deposits and Investments

### A. **Deposits**

Cash on hand at December 31, 2018 was \$500. The carrying amount of district's deposits, including certificates of deposit, was \$245,484.

Custodial credit risk for deposits is the risk that, in event of a failure of a depository financial institution, the district would not be able to recover deposits or will not be able to recover collateral securities that are in possession of an outside party. The district's deposits and certificates of deposit 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). The district does not have a deposit policy for custodial credit risk.

### B. **Investments**

Investments are subject to the following risks.

**Interest Rate Risk:** Interest rate risk is the risk the district may face should interest rate variances affect the fair value of investments. The district does not have a formal policy that addresses interest rate risk.

Investment Maturities (in Years)			
	Fair Value	Less than 1	1 to 5
Investment type			
U.S. Agencies	\$2,468,572	\$500,000	\$1,968,572
Total Debt Securities		\$500,000	\$1,968,572

In addition to the interest rate risk disclosed above, the district includes investments with fair value highly sensitive to interest rate changes.

**Credit Risk:** Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The district does not have a formal policy that addresses credit risk.

At December 31, 2018, district's investments had the following credit quality distribution for securities with credit exposure:

	Fair Value	AAA Aaa	AA Aa	A	BBB Baa	BB/Ba & Below	Unrated
U.S. Agencies	\$2,468,572	\$2,468,572					
Totals	\$2,468,572						

**Custodial Credit Risk:** Custodial credit risk is the risk that, in the event of the failure of the counterparty, the district will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The district does not have a formal policy for custodial credit risk.

Investment Type	Held by Counterparty
U.S. Government Agency Securities	\$2,468,572
Total	\$2,468,572

**Concentration of Credit Risk:** Concentration of credit risk is the risk of loss attributable to the magnitude of an investment in a single issuer. The district does not have a formal policy for concentration of credit risk.

### **Investments in Local Government Investment Pool (LGIP)**

The district is a participant in the Local Government Investment Pool that was authorized by Chapter 294, Laws of 1986, and is managed and operated by the Washington State Treasurer. The State Finance Committee is the administrator of the statute that created the pool and adopts rules. The State Treasurer is responsible for establishing the investment policy for the pool and review the policy annually and proposed changes are reviewed by the LGIP advisory Committee.

Investments in the LGIP, a qualified external investment pool, are reported at amortized cost which approximates fair value. The LGIP is an unrated external investment pool. The pool portfolio is invested in a manner that meets the maturity, quality, diversification and liquidity requirements set forth by the GASBS 79 for external investments pools that elect to measure, for financial reporting purposes, investments at amortized cost. The LGIP does not have any legally binding guarantees of share values. The LGIP does not impose liquidity fees or redemption gates on participant withdrawals.

The Office of the State Treasurer prepares a stand-alone LGIP financial report. A copy of the report is available from the Office of the State Treasurer, PO Box 40200, Olympia, Washington 98504-0200, online at <http://www.tre.wa.gov>.

### **Investments Measured at Fair Value**

The district measures and reports investments at fair 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, 2018, the district had the following investments measured at fair value:



	12/31/2018	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments by Fair Value Level				
US Government Agency Securities			\$2,468,572	
Total Investments measured at fair value			\$2,468,572	
Investments measured at amortized cost				
State Local Government Investment Pool LGIP	\$3,166,744			
Total Investments measured at amortized cost	\$3,166,744			
Total Investments in Statement of Net Position	\$5,635,316			

C. **Summary of Deposit and Investment Balances**

Reconciliation of district's deposits and investment balances as of December 31, 2018, is as follows:

Cash on hand	\$ 500
Amount of deposits with private financial institutes	245,484
Deposits in State LGIP	3,166,744
Non-pooled investments	2,469,329
Total deposits and investments	\$5,882,057
Deposits	
Current:	
Cash and cash equivalents	\$ 245,984
Total deposits	245,984
Investments	
Current:	
Short-term investments	5,554,498
Noncurrent:	
Restricted investments	81,575
Total investments	5,636,073
Total deposits and investments	\$5,882,057

**Note 4 – Capital Assets**

Capital assets are defined by the district as assets with initial individual cost of more than \$5,000 and an estimated useful life in excess of five years.

Major expenses for capital assets, including capital leases and major repairs that increase useful lives, are capitalized. Maintenance, repairs, and minor renewals are accounted for as expenses when incurred.

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

Utility plant activities for the year ended December 31, 2018, were as follows:

CAPITAL ASSETS – 2018	Beginning Balance	Increase	Decrease	Ending Balance
Utility plant, not being depreciated:				
Land	\$45,094			\$45,094
<b>Total utility plant, not being depreciated:</b>	<b>\$45,094</b>			<b>\$45,094</b>
Utility plant being depreciated:				
Buildings	\$429,757	\$17,691	-	\$447,448
Utility & Plant	32,595,098	800,680	(328,506)	33,067,272
Machinery & Equipment	869,453	110,498	(6,048)	973,903
Meters & Hydrants	164,328	12,214	(11,461)	165,081
Radios	13,854	677	-	14,531
Office Equipment	811,837	-	(54,655)	757,182
Misc. Equipment	73,754	-	(4,246)	69,508
<b>Total utility plant being depreciated:</b>	<b>\$34,958,081</b>	<b>\$941,760</b>	<b>(\$404,916)</b>	<b>\$35,494,925</b>
Less accumulated depreciation for:				
Buildings	\$270,361	\$10,643	-	\$281,004
Utility & Plant	13,504,028	868,134	(99,660)	14,272,502
Machinery & Equipment	535,828	36,901	(8,264)	564,465
Meters & Hydrants	71,073	5,227	(11,461)	64,839
Radios	9,494	782	-	10,276
Office Equipment	584,281	25,338	(48,060)	561,559
Misc. Equipment	62,162	1,503	(3,379)	60,286
<b>Total accumulated depreciation:</b>	<b>\$15,037,227</b>	<b>\$948,528</b>	<b>(\$170,824)</b>	<b>\$15,814,931</b>
<b>Total Utility Plant, Net:</b>	<b>\$19,965,948</b>	<b>(\$6,768)</b>	<b>(\$234,092)</b>	<b>\$19,725,088</b>

Depreciation is computed on the straight-line method with useful lives of 10 to 50 years for Buildings, 5 to 25 years for Machinery, Equipment and Office Equipment, 5 to 8 years for Radios, 5 to 90 years for Utility, Plant and Pipelines, 20 years for Meters and 40 to 50 years for Hydrants. Initial depreciation is recorded in the year subsequent to purchase.

## Note 5 – Leases

The district is committed under a lease for operating an antenna system and other related equipment for use in its irrigation radio telemetry system. The lease commenced in January of 2009 and renewed in October 2016, for a five-year term ending December 31, 2020. This lease is considered an operating lease for accounting purposes. Monthly lease payments are \$170. Lease expenses for the year ended December 31, 2018, amounted to \$2,040.

The district is committed under a lease for a Ricoh copier. The lease commenced in March of 2014, for a five-year term ending January 2019. Monthly lease payments are \$191.92, plus sales tax, totaling \$207.66. Lease expenses for the year ended December 31, 2018, amounted to \$2,491.92.

The district is committed under a lease for a Pitney Bowes postage machine. The lease renewed in December of 2017, for a five-year term ending December 2022. Quarterly lease payments are \$325.32. Lease expenses for the year ended December 31, 2018, amounted to \$1,301.28.

The district is committed under a 50-year operating lease with United States Bureau of Reclamation for a district-wide irrigation system. The district is obligated to an annual payment of \$53,200 through November 2036.

Year Ending December 31	Amount
2019	\$ 56,749
2020	\$ 56,541
2021	\$ 54,501
2022	\$ 54,501
2023	\$ 53,200
2024-2028	\$266,000
2029-2033	\$266,000
2034-2036	\$159,600

## Note 6 – Long-Term Debt

Schedule 09 which accompanies this report contains a list of the outstanding debt at December 31, 2018. The annual requirements to amortize all debts outstanding as of December 31, 2018, including interest, are as follows:

The Lake Chelan Reclamation District levies tolls and charges for the payment of bond interest and principal on revenue bonds. The revenue bonds are being repaid by proprietary fund revenues.

The revenue bonds currently outstanding are as follows:

### **Revenue Bonds**

<b>Purpose</b>	<b>Maturity Range</b>	<b>Interest Rate</b>	<b>Original Amount</b>	<b>Amount of Installment</b>
1998 Revenue Bond Refinance	10/1/2024	1%	\$1,243,433	\$(65,942)

Revenue bond debt service requirements to maturity are as follows:

Year Ending December 31	Principal	Interest	Total
2019	\$ 65,444	\$ 3,922	\$ 69,366
2020	\$ 65,444	\$ 3,267	\$ 68,711
2021	\$ 65,444	\$ 2,613	\$ 68,057
2022	\$ 65,444	\$ 1,958	\$ 67,402
2023	\$ 65,444	\$ 1,304	\$ 66,748
2024	\$ 64,944	\$ 152	\$ 65,096
Totals	\$392,164	\$13,216	\$405,380

There are a number of other limitations and restrictions contained in the various bond indentures. The district is in compliance with all significant limitations and restrictions.

**Contracts Payable**

Purpose	Maturity Range	Interest Rate	Original Amount	Amount of Installment
PWTF Loan – NS Sewer Replacement**	7/1/2023	0.5%	\$6,114,050	(\$323,117)

The district has the contracts payable listed above bearing 0% to 1% interest.

\*\*A pre-construction loan in the amount of \$738,000 and a construction loan in the amount of \$5,376,050 represents the original balance of \$6,114,050 of contracts payable from the Public Works Board (PWTF) for the NS Sewer Replacement Project.

Year Ending December 31	Principal	Interest	Total
2019	\$ 323,118	\$ 7,684	\$ 330,802
2020	\$ 323,117	\$ 6,069	\$ 329,186
2021	\$ 323,118	\$ 4,453	\$ 327,571
2022	\$ 283,735	\$ 2,837	\$ 286,572
2023	\$ 283,736	\$ 1,419	\$ 285,155
Totals	\$1,536,824	\$22,462	\$1,559,286

Federal arbitrage regulations do not apply to the district

Note 7 – Changes in Long-Term Liabilities

During the year ended December 31, 2018, the following changes occurred in long-term liabilities:

	Beginning Balance 01/01/2018	Additions	Reductions	Ending Balance 12/31/2018	Due Within One Year
<b>Business-Type Activities:</b>					
Bonds Payable:					
General obligation bonds	\$458,107	\$ -	(\$65,942)	\$392,165	\$65,444
Total bonds payable	\$458,107	\$ -	(\$65,942)	\$392,165	\$65,444

PWTF Loan – NS Sewer Replacement**	\$1,859,942	\$ -	(\$323,117)	\$1,536,825	\$323,118
Compensated absences	\$43,784	\$45,902	(\$41,275)	\$48,411	\$37,954
Pension obligations	\$502,733	\$ -	(\$138,635)	\$364,098	
Business-type activity long-term liabilities:	\$2,406,459	\$45,902	(\$503,027)	\$1,949,334	\$361,072

At year end \$48,411 of internal service funds compensated absences are included in the above amounts.

#### Note 8 – Restricted Component of Net Position

There is \$81,575 in restricted assets of the district in 2018. This represents sinking funds and reserve requirements as contained in the various indentures.

USBR Loan \$81,575

#### Note 9 – Pension Plans

The following table represents the aggregate pension amounts for all plans for the year 2018:

<b>Aggregate Pension Amounts – All Plans</b>	
Pension liabilities	\$364,098
Pension assets	\$ -
Deferred outflows of resources	\$ 65,281
Deferred inflows of resources	\$141,330
Pension expense/expenditures	\$ 15,300

#### **State Sponsored Pension Plans**

Substantially all 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](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. The PERS Plan 1 requires contribution rates (expressed as a percentage of covered payroll) for 2018 were as follows:

<b>PERS Plan 1</b>		
<b>Actual Contribution Rates:</b>	<b>Employer</b>	<b>Employee*</b>
January – August 2018:		
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>
September – December 2018:		
PERS Plan 1	7.52%	6.00%
PERS Plan 1 UAAL	5.13%	
Administrative Fee	0.18%	
<b>Total</b>	<b>12.83%</b>	<b>6.00%</b>

\*For employees participating in JBM, the contribution rate was 12.26%

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

years of service for Plan 2 and 1 percent of AFC for Plan 3. The AFC is the average of the member's 60 highest-paid consecutive service months. There is no cap on years of service credit. Members are eligible for retirement with a full benefit at 65 with at least five years of service credit. Retirement before age 65 is considered an early retirement. PERS Plan 2/3 members who have at least 20 years of service credit and are 55 years of age or older, are eligible for early retirement with a benefit that is reduced by a factor that varies according to age for each year before age 65. PERS Plan 2/3 members who have 30 or more years of service credit and are at least 55 years old can retire under one of two provisions:

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

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

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

### Contributions

The **PERS Plan 2/3** employer and employee contribution rates are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. The Plan 2/3 employer rates include a component to address the PERS Plan 1 UAAL and an administrative expense that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 2 employer and employee contribution rates and Plan 3 contribution rates. The PERS Plan 2/3 required contribution rates (expressed as a percentage of covered payroll) for 2018 were as follows:

<b>PERS Plan 2/3</b>		
<b>Actual Contribution Rates:</b>	<b>Employer 2/3</b>	<b>Employee 2*</b>
January – August 2018:		
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>
September – December 2018:		
PERS Plan 2/3	7.52%	7.41%
PERS Plan 1 UAAL	5.13%	
Administrative Fee	0.18%	
Employee PERS Plan 3		Varies
<b>Total</b>	<b>12.83%</b>	<b>7.41%</b>

\*For employees participating in JBM, the contribution rate was 18.45% to 18.53%.

The district's actual PERS plan contributions were \$38,472 to PERS Plan 1 and \$56,980 to PERS Plan 2/3 for the year ended December 31, 2018.

### Actuarial Assumptions

The total pension liability (TPL) for each of the DRS plans was determined using the most recent actuarial valuation completed in 2018 with a valuation date of June 30, 2017. 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 *2017 Economic Experience Study*.

Additional assumptions for subsequent events and law changes are current as of the 2017 actuarial valuation report. The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2018. Plan liabilities were rolled forward from June 30, 2017 to June 30, 2018, reflecting each plan's normal cost (using the entry-age cost method), assumed interest and actual benefit payments.

- **Inflation:** 2.75% total economic inflation; 3.50% salary inflation
- **Salary increases:** In addition to the base 3.50% salary inflation assumption, salaries are also expected to grow by promotions and longevity.
- **Investment rate of return:** 7.4%

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.



- Lowered the valuation rate from 7.70% to 7.50% for all systems except LEOFF 2. For LEOFF 2 that valuation interest rate was lowered from 7.50% to 7.40%.
- Lowered that assumed general salary growth from 3.75% to 3.50% for all systems.
- Lowered assumed inflation from 3.00% to 2.75% for all systems.
- Modified how the valuation software calculates benefits paid to remarried duty-related death survivors of LEOFF 2 members.
- Updated the trend that the valuation software uses to project medical inflation for LEOFF 2 survivors of a duty-related death, and for certain LEOFF 2 medical-related duty disability benefits.

## **Discount Rate**

The discount rate used to measure the total pension liability for all DRS plans was 7.4 percent.

To determine that rate, an asset sufficiency test included an assumed 7.5 percent long-term discount rate to determine funding liabilities for calculating future contribution rate requirements. (All plans use 7.5 percent except LEOFF 2, which has assumed 7.4 percent). Consistent with the long-term expected rate of return, a 7.4 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 7.4 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 7.4 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, 2018, 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.

<b>Asset Class</b>	<b>Target Allocation</b>	<b>% Long-Term Expected Real Rate of Return Arithmetic</b>
Fixed Income	20%	1.70%
Tangible Assets	7%	4.90%
Real Estate	18%	5.80%
Global Equity	32%	6.30%
Private Equity	23%	9.30%
	<b>100%</b>	

### **Sensitivity of the Net Pension Liability/(Asset)**

The table below presents the district's proportionate share\* of the net pension liability calculated using the discount rate of 7.4 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 (6.4 percent) or 1-percentage point higher (8.4 percent) than the current rate.

	<b>1% Decrease (6.40%)</b>	<b>Current Discount Rate (7.40%)</b>	<b>1% Increase (8.40%)</b>
PERS 1	\$299,671	\$243,845	\$195,489
PERS 2/3	\$550,040	\$120,253	(\$232,124)

### **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, 2018, the district reported a total pension liability of \$364,098 for its proportionate share of the net pension liabilities as follows:

	<b>Liability (or Asset)</b>
PERS 1	\$243,845
PERS 2/3	\$120,253

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

	<b>Proportionate Share 6/30/17</b>	<b>Proportionate Share 6/30/18</b>	<b>Change in Proportion</b>
PERS 1	.005456%	.005460%	.000004%
PERS 2/3	.007018%	.007043%	.000025%

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 reports by the DRS in the *Schedules of Employer and Nonemployer Allocations* for all plans except LEOFF 1.

The collective net pension liability (asset) was measured as of June 30, 2018, and the actuarial valuation date on which the total pension liability (asset) is based was as of June 30, 2017, with update procedures used to roll forward the total pension liability to the measurement date.

### **Pension Expense**

For the year ended December 31, 2018, the district recognized pension expense as follows;

	<b>Pension Expense</b>
PERS 1	(\$21,478)
PERS 2/3	(\$6,178)
<b>TOTAL</b>	<b>\$15,300</b>

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

At December 31, 2018, 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	\$ -	(\$9,690)
Changes of assumptions	\$ -	\$ -
Changes in proportion and differences between contributions and proportionate share of contributions	\$ -	\$ -
Contributions subsequent to the measurement date	\$19,506	\$ -
<b>TOTAL</b>	<b>\$19,506</b>	<b>(\$9,690)</b>

<b>PERS 2/3</b>	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$14,740	(\$21,054)

Net difference between projected and actual investment earnings on pension plan investments	\$ -	(\$73,793)
Changes of assumptions	\$ 1,407	(\$34,223)
Changes in proportion and differences between contributions and proportionate share of contributions	\$888	(\$2,570)
Contributions subsequent to the measurement date	\$28,740	\$ -
<b>TOTAL</b>	<b>\$45,775</b>	<b>(\$131,640)</b>

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:

<b>Year ended December 31</b>	<b>PERS 2/3</b>
2019	(13,694)
2020	(24,574)
2021	(44,907)
2022	(16,465)
2023	( 5,930)
Thereafter	( 9,037)

#### Note 10 – Pension Plans – Defined Contribution

On April 10, 1990, the Lake Chelan Reclamation District Board of Directors adopted the Washington State employees deferred compensation plan for Reclamation District employees administered by the Washington State Department of Retirement Systems. The district will match each employee's monthly contribution up to 2.5% of the employee's monthly base rate of pay. The employer portion paid into the Deferred Compensation program was \$42,773 for 2018.

#### Note 11 – Segment Information

The Lake Chelan Reclamation District operates one enterprise fund that provides the following service:

<b><u>2018 Segment Information</u></b>	<b>Irrigation</b>	<b>Domestic</b>	<b>Sewer</b>	<b>Total</b>
Operating Revenues	\$1,622,611	\$1,548,677	\$1,362,997	\$4,534,285
Operating Expenses	(1,148,434)	(1,079,086)	(550,238)	(2,777,758)
Depreciation	(263,490)	(389,186)	(295,852)	(948,528)
Other (net)	-	-	-	-
Operating Income (Loss)	210,687	80,405	516,907	807,999

Non-Operating Revenue

Other (net)	39,116	69,171	41,557	149,844
Non-Operating Expenses				
Other (net)	(86,020)	(91,916)	(9,984)	(187,920)
Operating Transfers In/Out (Intercompany)	(182,983)	182,983	-	-
Cumulative Effect of Accounting Change	-	-	-	-
Income before Contributions	(19,200)	240,643	548,480	769,923
Capital Contributions	74,697	167,174	146,219	388,090
Change in Net Position	55,497	407,817	694,699	1,158,013
Capital Assets				
Additions	572,142	235,577	134,041	941,760
Deletions	(227,373)	(177,543)	-	(404,916)
Current Assets	1,632,894	3,112,711	1,931,423	6,677,028
Current Liabilities	(21,002)	(102,863)	(340,502)	(464,367)
Net Working Capital	1,611,892	3,009,848	1,590,921	6,212,661
Bond and Other Long-Term Liabilities				
Payable from Operating Revenues	(141,671)	(508,243)	(1,302,525)	(1,952,439)
Payable from Other Sources	-	-	-	-
Total Assets	6,269,598	11,386,138	8,827,955	26,483,691
Total Liabilities	(162,673)	(611,106)	(1,643,027)	(2,416,806)
Deferred Outflows	22,679	29,151	13,451	65,281
Deferred Inflows	(51,050)	(65,712)	(24,568)	(141,330)
Fund Equity	\$6,078,554	\$10,738,471	\$7,173,811	\$23,990,836

## Note 12 – Risk Management

Lake Chelan Reclamation District is a member of Enduris. Chapter 48.62 RCW provides the exclusive source of local government entity authority to individually or jointly self-insure risks, jointly purchase insurance or reinsurance, and to contract for risk management, claims, and administrative services. Enduris was formed July 10, 1987 pursuant to the provisions of Chapter 48.62 RCW, Chapter 200-100 WAC, and Chapter 39.34 RCW. Two (2) counties and two (2) cities in the State of Washington joined together by signing an interlocal governmental agreement to fund their self-insured losses and jointly purchase insurance and administrative services. As of August 31, 2018, there are 549 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 self-insured retention on liability loss - the member is responsible for the first \$1,000 of the amount of each claim, while Enduris is responsible for the remaining \$999,000 on a liability loss.
- \$250,000 self-insured retention on property loss - the member is responsible for the first \$5,000 of the amount of each claim, while Enduris is responsible for the remaining \$245,000 on a property loss.

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

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

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

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

A Board of Directors consisting of seven (7) board members governs Enduris. The Pool’s 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.

Enduris did not have any claim settlements that exceeded limits in the last three years.

Lake Chelan Reclamation District  
Notes to Financial Statement  
For the Year Ended December 31, 2017

These notes are an integral part of the accompanying financial statements.

Note 1 – Summary of Significant Accounting Policies

The financial statements of Lake Chelan Reclamation District have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The significant accounting policies are described below.

**A. Reporting Entity**

The Lake Chelan Reclamation District is a non-profit quasi-municipal corporation organized May 8, 1920 under Title 87 of the Revised Code of Washington and headquartered in Manson, WA.

As required by generally accepted accounting principles, management has considered all potential component units in defining the reporting entity. The Lake Chelan Reclamation District has no component units.

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

The district distinguishes between operating revenues and expenses from non-operating ones. Operating revenues and expenses result from providing services and producing and delivering goods in connection with the district's principal ongoing operations. The principal operating revenues of the district are charges to customers for irrigation, domestic water and sewer services. The district also recognizes as operating revenue the portion of the tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for the district include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Unbilled utility service receivables are recorded at year end. Non-operating income includes gains and losses from the disposal of utility plant.

C. **Cash and Cash Equivalents**

It is the district's policy to invest all temporary cash surpluses.

For purposes of the statement of cash flows, the district considers all highly liquid investments (excluding restricted assets) with a maturity of three months or less when purchased to be cash equivalents.

D. **Utility Plant and Depreciation – Capital Assets**

See Note 4.

E. **Restricted Assets**

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

Debt Service Funds: \$82,073

Assets and liabilities shown as current in the accompanying statement of net position (or balance sheet) exclude current maturities on revenue bonds and accrued interest thereon because debt service funds are provided for their payment.

F. **Receivables**

Receivables are comprised of services from irrigation, domestic water and sewer use. The management of the district believes all receivables are collectible. Therefore, no provisions for uncollectible accounts have been established.

G. **Inventories**

Inventories are valued at cost on a first in, first out basis which approximates the market value.

H. **Investments**

See Note 3.

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, which may be accumulated up to a maximum of 280 hours, is payable upon resignation, retirement or death up to a maximum of 240 hours.

Sick leave may accumulate up to a maximum of 1,040 hours. Upon resignation, any outstanding sick leave is lost. Upon retirement, any outstanding sick leave is converted to vacation pay at a rate of four hours sick leave to one-hour vacation leave and is payable to 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.

### **Note 2 –Stewardship, Compliance and Accountability**

The district is not aware of any issues that would materially affect these financial statements, involving non-compliance with Washington laws or with BARS.

### **Note 3 – Deposits and Investments**

## **A. Deposits**

Cash on hand at December 31, 2017 was \$500. The carrying amount of district's deposits, including certificates of deposit, was \$172,894.

Custodial credit risk for deposits is the risk that, in event of a failure of a depository financial institution, the district would not be able to recover deposits or will not be able to recover collateral securities that are in possession of an outside party. The district's deposits and certificates of deposit 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). The district does not have a deposit policy for custodial credit risk.

## **B. Investments**

Investments are subject to the following risks.

**Interest Rate Risk:** Interest rate risk is the risk the district may face should interest rate variances affect the fair value of investments. The district does not have a formal policy that addresses interest rate risk.

Investment Maturities (in Years)			
	Fair Value	Less than 1	1 to 5
Investment type			
U.S. Agencies	\$1,486,777		\$1,486,777
Total Debt Securities			\$1,486,777

In addition to the interest rate risk disclosed above, the district includes investments with fair value highly sensitive to interest rate changes.

Credit Risk: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The district does not have a formal policy that addresses credit risk.

At December 31, 2017, district's investments had the following credit quality distribution for securities with credit exposure:

	Fair Value	AAA Aaa	AA Aa	A	BBB Baa	BB/Ba & Below	Unrated
U.S. Agencies	\$1,486,777	\$1,486,777					
Totals	\$1,486,777						

Custodial Credit Risk: Custodial credit risk is the risk that, in the event of the failure of the counterparty, the district will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The district does not have a formal policy for custodial credit risk.

Investment Type	Held by Counterparty
U.S. Government Agency Securities	\$1,486,777
Total	\$1,486,777

Concentration of Credit Risk: Concentration of credit risk is the risk of loss attributable to the magnitude of an investment in a single issuer. The district does not have a formal policy for concentration of credit risk.

### **Investments in Local Government Investment Pool (LGIP)**

The district is a participant in the Local Government Investment Pool that was authorized by Chapter 294, Laws of 1986, and is managed and operated by the Washington State Treasurer. The State Finance Committee is the administrator of the statute that created the pool and adopts rules. The State Treasurer is responsible for establishing the investment policy for the pool and review the policy annually and proposed changes are reviewed by the LGIP advisory Committee.

Investments in the LGIP, a qualified external investment pool, are reported at amortized cost which approximates fair value. The LGIP is an unrated external investment pool. The pool portfolio is invested in a manner that meets the maturity, quality, diversification and liquidity requirements set forth by the GASBS 79 for external investments pools that elect to measure, for financial reporting purposes, investments at amortized cost. The LGIP does not have any legally binding guarantees

of share values. The LGIP does not impose liquidity fees or redemption gates on participant withdrawals.

The Office of the State Treasurer prepares a stand-alone LGIP financial report. A copy of the report is available from the Office of the State Treasurer, PO Box 40200, Olympia, Washington 98504-0200, online at <http://www.tre.wa.gov>.

### **Investments Measured at Fair Value**

The district measures and reports investments at fair 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:

	12/31/2017	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments by Fair Value Level				
US Government Agency Securities			\$1,486,777	
Total Investments measured at fair value			\$1,486,777	
Investments measured at amortized cost				
State Local Government Investment Pool LGIP	\$3,243,029			
Total Investments measured at amortized cost	\$3,243,029			
Total Investments in Statement of Net Position	\$4,729,806			

### **C. Summary of Deposit and Investment Balances**

Reconciliation of district's deposits and investment balances as of December 31, 2017, is as follows:

Cash on Hand	\$ 500
Amount of Deposits with Private Financial Institutes	172,894
Deposits in State LGIP	3,243,029
Non-Pooled Investments	1,486,777

Total Deposits and Investments	\$4,903,200
Deposits	
Current:	
Cash and Cash Equivalents	\$ 173,394
Total Deposits	173,394
Investments	
Current:	
Short-Term Investments	4,647,733
Noncurrent:	
Restricted Investments	82,073
Total Investments	4,729,806
Total Deposits and Investments	\$4,903,200

#### Note 4 – Capital Assets

Capital assets are defined by the district as assets with initial individual cost of more than \$5,000 and an estimated useful life in excess of five years.

Major expenses for capital assets, including capital leases and major repairs that increase useful lives, are capitalized. Maintenance, repairs, and minor renewals are accounted for as expenses when incurred.

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

Utility plant activities for the year ended December 31, 2017, were as follows:

<b>CAPITAL ASSETS – 2017</b>	<b>Beginning Balance</b>	<b>Increase</b>	<b>Decrease</b>	<b>Ending Balance</b>
Utility plant, not being depreciated:				
Land	\$45,094			\$45,094
<b>Total utility plant, not being depreciated:</b>	<b>\$45,094</b>			<b>\$45,094</b>
Utility plant being depreciated:				
Buildings	\$407,12	\$12,115	(\$14,064)	\$429,757
Utility & Plant	32,865,444	456,033	(726,379)	32,595,098
Machinery & Equipment	769,443	110,837	(10,827)	869,453

Meters & Hydrants	322,116	9,789	(167,577)	164,328
Radios	14,404	1,662	(2,212)	13,854
Office Equipment	866,433	10,033	(64,629)	811,837
Misc. Equipment	98,275	-	(24,521)	73,754
<b>Total utility plant being depreciated:</b>	<b>\$35,367,821</b>	<b>\$600,469</b>	<b>(\$1,010,209)</b>	<b>\$34,958,081</b>
Less accumulated depreciation for:				
Buildings	\$264,322	\$10,405	(\$4,366)	\$270,361
Utility & Plant	13,135,789	868,218	(499,979)	13,504,028
Machinery & Equipment	513,725	31,847	(9,744)	535,828
Meters & Hydrants	217,314	6,709	(152,950)	71,073
Radios	10,374	1,110	(1,990)	9,494
Office Equipment	616,684	25,763	(58,166)	548,281
Misc. Equipment	82,464	1,746	(22,048)	62,162
<b>Total accumulated depreciation:</b>	<b>\$14,840,672</b>	<b>\$945,798</b>	<b>(\$749,243)</b>	<b>\$15,037,227</b>
<b>Total Utility Plant, Net:</b>	<b>\$20,572,242</b>	<b>(\$346,146)</b>	<b>(\$260,148)</b>	<b>\$19,965,948</b>

Depreciation is computed on the straight-line method with useful lives of 10 to 50 years for Buildings, 5 to 25 years for Machinery, Equipment and Office Equipment, 5 to 8 years for Radios, 5 to 90 years for Utility, Plant and Pipelines, 20 years for Meters and 40 to 50 years for Hydrants. Initial depreciation is recorded in the year subsequent to purchase.

#### Note 5 – Leases

The district is committed under a lease for operating an antenna system and other related equipment for use in its irrigation radio telemetry system. The lease commenced in January of 2009 and renewed in October 2016, for a five-year term ending December 31, 2020. This lease is considered an operating lease for accounting purposes. Monthly lease payments are \$165. Lease expenses for the year ended December 31, 2017, amounted to \$2,320.

The district is committed under a lease for a Ricoh copier. The lease commenced in March of 2014, for a five-year term ending January 2019. Monthly lease payments are \$191.92, plus sales tax, totaling \$207.66. Lease expenses for the year ended December 31, 2017, amounted to \$2,491.92.

The district is committed under a lease for a Pitney Bowes postage machine. The lease renewed in December of 2012, for a five-year term ending December 2017. Quarterly lease payments are \$311.97. Lease expenses for the year ended December 31, 2017, amounted to \$1,247.88.

The district is committed under a 50-year operating lease with United States Bureau of Reclamation for a district-wide irrigation system. The district is obligated to an annual payment of \$53,200 through November 2036.

The future minimum lease payments for these leases are as follows:

Year Ending December 31	Amount
2018	\$ 57,732
2019	\$ 55,300
2020	\$ 55,360
2021	\$ 53,200
2022	\$ 53,200
2023-2027	\$266,000
2028-2032	\$266,000
2033-2036	\$212,800

#### Note 6 – Long-Term Debt

Schedule 09 which accompanies this report contains a list of the outstanding debt at December 31, 2017. The annual requirements to amortize all debts outstanding as of December 31, 2017, including interest, are as follows:

The Lake Chelan Reclamation District levies tolls and charges for the payment of bond interest and principal on revenue bonds. The revenue bonds are being repaid by proprietary fund revenues.

The revenue bonds currently outstanding are as follows:

#### **Revenue Bonds**

Purpose	Maturity Range	Interest Rate	Original Amount	Amount of Installment
1998 Revenue Bond Refinance	10/1/2024	1%	\$1,243,433	\$(65,444)

Revenue bond debt service requirements to maturity are as follows:

Year Ending December 31	Principal	Interest	Total
2018	\$ 65,444	\$ 4,581	\$ 70,025
2019	\$ 65,444	\$ 3,927	\$ 69,371
2020	\$ 65,444	\$ 3,272	\$ 68,716
2021	\$ 65,444	\$ 2,618	\$ 68,062
2022	\$ 65,444	\$ 1,963	\$ 67,407
2023-2024	\$130,888	\$ 1,963	\$132,851
Totals	\$458,108	\$18,324	\$476,432

There are a number of other limitations and restrictions contained in the various bond indentures. The district is in compliance with all significant limitations and restrictions.

### Contracts Payable

Purpose	Maturity Range	Interest Rate	Original Amount	Amount of Installment
PWTF Loan – NS Sewer Replacement**	7/1/2023	0.5%	\$3,152,412	(\$323,118)

The district has the contracts payable listed above bearing 0% to 1% interest.

\*\*A pre-construction loan in the amount of \$738,000 and a construction loan in the amount of \$5,376,050 represents the original balance of \$6,114,050 of contracts payable from the Public Works Board (PWTF) for the NS Sewer Replacement Project.

Year Ending December 31	Principal	Interest	Total
2018	\$ 323,118	\$ 9,300	\$ 332,418
2019	\$ 323,118	\$ 7,684	\$ 330,802
2020	\$ 323,118	\$ 6,069	\$ 329,187
2021	\$ 323,118	\$ 4,453	\$ 327,571
2022	\$ 283,736	\$ 2,837	\$ 286,573
2023	\$ 283,736	\$ 1,419	\$ 285,155
Totals	\$1,859,944	\$31,762	\$1,891,706

Federal arbitrage regulations do not apply to the district

### Note 7 – Changes in Long-Term Liabilities

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

	Beginning Balance 01/01/2017	Additions	Reductions	Ending Balance 12/31/2017	Due Within One Year
<b>Business-Type Activities:</b>					
Bonds Payable:					
General obligation bonds	\$523,551	\$ -	(\$65,444)	\$458,107	\$65,444
Total bonds payable	\$523,551	\$ -	(\$65,443)	\$458,107	\$65,444
DOE Loan – Willow Point Sewer Extension	\$99,595	\$ -	(\$99,595)	\$ -	\$ -
PWTF Loan – NS Sewer Replacement**	\$2,183,060	\$ -	(\$323,118)	\$1,859,942	\$323,118
Compensated absences	\$39,309	\$51,508	(\$47,033)	\$43,784	\$43,784
Pension obligations	\$648,203	\$ -	(\$145,470)	\$502,733	
Business-type activity long-term liabilities:	\$2,970,167	\$51,508	(\$615,216)	\$2,406,459	\$354,316

At year end \$43,784 of internal service funds compensated absences are included in the above amounts.

#### Note 8 – Restricted Component of Net Position

There is \$82,073 in restricted assets of the district in 2017. This represents sinking funds and reserve requirements as contained in the various indentures.

USBR Loan    \$82,073

#### Note 9 – Pension Plans

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

<b>Aggregate Pension Amounts – All Plans</b>	
Pension liabilities	\$502,733
Pension assets	\$ -
Deferred outflows of resources	\$ 70,927
Deferred inflows of resources	\$ 88,495
Pension expense/expenditures	\$ 44,414

#### **State Sponsored Pension Plans**

Substantially all 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](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. The PERS Plan 1 requires 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>

\*For employees participating in JBM, the contribution rate was 12.26%

**PERS Plan 2/3** provides retirement, disability and death benefits. Retirement benefits are determined as two percent of the member's average final compensation (AFC) times the member's years of service for Plan 2 and 1 percent of AFC for Plan 3. The AFC is the average of the

member's 60 highest-paid consecutive service months. There is no cap on years of service credit. Members are eligible for retirement with a full benefit at 65 with at least five years of service credit. Retirement before age 65 is considered an early retirement. PERS Plan 2/3 members who have at least 20 years of service credit and are 55 years of age or older, are eligible for early retirement with a benefit that is reduced by a factor that varies according to age for each year before age 65. PERS Plan 2/3 members who have 30 or more years of service credit and are at least 55 years old can retire under one of two provisions:

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

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

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

### Contributions

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

\*For employees participating in JBM, the contribution rate was 15.30% for January – June 2017 and 18.45% for July – December 2017.

The district's actual PERS plan contributions were \$34,224 to PERS Plan 1 and \$47,907 to PERS Plan 2/3 for the year ended December 31, 2017.

### Actuarial Assumptions

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

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

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

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.

- 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.

## 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, 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 the Net Pension Liability/(Asset)

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.

	<b>1% Decrease (6.5%)</b>	<b>Current Discount Rate (7.5%)</b>	<b>1% Increase (8.5%)</b>
PERS 1	\$315,379	\$258,891	\$209,961
PERS 2/3	\$656,936	\$243,842	(\$94,627)

### 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 \$502,733 for its proportionate share of the net pension liabilities as follows:

	<b>Liability (or Asset)</b>
PERS 1	\$258,891
PERS 2/3	\$243,842

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	.005479%	.005456%	(.000023%)
PERS 2/3	.007030%	.007018%	(.000012%)

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 reports by the DRS in the *Schedules of Employer and Nonemployer 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;

	<b>Pension Expense</b>
PERS 1	\$14,531
PERS 2/3	\$29,883
<b>TOTAL</b>	<b>\$44,414</b>

### **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	\$ -	(\$9,661)
Changes of assumptions	\$ -	\$ -
Changes in proportion and differences between contributions and proportionate share of contributions	\$ -	\$ -
Contributions subsequent to the measurement date	\$17,529	\$ -
<b>TOTAL</b>	<b>\$17,529</b>	<b>(\$9,661)</b>

<b>PERS 2/3</b>	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$24,707	(\$8,020)
Net difference between projected and actual investment earnings on pension plan investments	\$ -	(\$65,002)
Changes of assumptions	\$ 2,590	\$ -
Changes in proportion and differences between contributions and proportionate share of contributions	\$ -	(\$ 5,812)

Contributions subsequent to the measurement date	\$26,101	\$ -
<b>TOTAL</b>	<b>\$53,398</b>	<b>(\$78,834)</b>

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:

<b>Year ended December 31</b>	<b>PERS 2/3</b>
2018	(29,140)
2019	4,881
2020	( 5,954)
2021	(26,214)
2022	2,127
Thereafter	2,763
<b>TOTAL</b>	<b>(51,537)</b>

#### Note 10 – Pension Plans – Defined Contribution

On April 10, 1990, the Lake Chelan Reclamation District Board of Directors adopted the Washington State employees deferred compensation plan for Reclamation District employees administered by the Washington State Department of Retirement Systems. The district will match each employee's monthly contribution up to 2.5% of the employee's monthly base rate of pay. The employer portion paid into the Deferred Compensation program was \$15,427 for 2017.

#### Note 11 – Segment Information

The Lake Chelan Reclamation District operates one enterprise fund that provides the following service:

<b><u>2017 Segment Information</u></b>	<b>Irrigation</b>	<b>Domestic</b>	<b>Sewer</b>	<b>Total</b>
Operating Revenues	\$1,417,913	\$1,401,515	\$1,166,147	\$3,985,575
Operating Expenses	(1,111,238)	(957,715)	(625,675)	(2,694,628)
Depreciation	(247,640)	(393,295)	(304,863)	(945,798)
Other (net)	-	-	-	-
Operating Income (Loss)	59,035	50,505	235,609	345,149
Non-Operating Revenue				
Other (net)	44,374	38,718	83,827	166,919
Non-Operating Expenses				
Other (net)	(102,916)	(53,406)	(113,441)	(269,763)
Operating Transfers In/Out (Intercompany)	(182,983)	182,983	-	-
Cumulative Effect of Accounting Change	-	-	-	-

Income before Contributions	(182,490)	218,800	205,995	242,305
Capital Contributions	-	87,075	-	87,075
Change in Net Position	(182,490)	305,875	205,995	329,380
Capital Assets				
Additions	261,312	84,586	254,571	600,469
Deletions	(462,717)	(300,730)	(246,762)	(1,010,209)
Current Assets	1,634,150	2,708,730	1,497,205	5,840,085
Current Liabilities	(116,311)	(133,132)	(356,052)	(605,495)
Net Working Capital	1,517,839	2,575,598	1,141,153	5,234,590
Bond and other Long-Term Liabilities				
Payable from Operating Revenues	(175,957)	(618,892)	(1,637,371)	(2,432,220)
Payable from Other Sources	-	-	-	-
Total Assets	6,134,696	11,197,862	8,555,547	25,888,105
Total Liabilities	(292,268)	(752,024)	(1,993,423)	(3,037,715)
Deferred Outflows	24,824	31,917	14,185	70,926
Deferred Inflows	(30,973)	(39,822)	(17,698)	(88,493)
Fund Equity	\$5,836,279	\$10,437,933	\$6,558,611	\$22,832,823

#### Note 12 – Risk Management

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

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

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



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

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

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

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

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

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

#### Note 13 – Prior Period Adjustment

The district’s financial statements at December 31, 2016 understated inventory by \$65,546. Unrestricted net position as of January 1, 2017 has been increased by \$65,546 to reflect this correction.

Lake Chelan Reclamation District  
Schedules of Proportionate Share of the Net Pension Liability  
As of June 30, 2018  
Last 10 Fiscal Years\*

PERS Plan 1	2018	2017	2016	2015
Employer's proportion of the net pension liability (asset)	0.005460%	0.005456%	0.005479%	0.005535%
Employer's proportionate share of the net pension liability	\$ 243,845	\$ 258,891	\$ 294,248	\$ 289,532
TOTAL	<u>\$ 243,845</u>	<u>\$ 258,891</u>	<u>\$ 294,248</u>	<u>\$ 289,532</u>
Employer's covered employee payroll	<u>\$ 725,521</u>	<u>\$ 688,023</u>	<u>\$ 651,420</u>	<u>\$ 634,321</u>
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	33.61%	37.63%	45.17%	45.64%
Plan fiduciary net position as a percentage of the total pension liability	63.22%	61.24%	57.03%	59.10%
PERS Plans 2/3				
Employer's proportion of the net pension liability (asset)	0.007043%	0.007018%	0.007030%	0.007148%
Employer's proportionate share of the net pension liability	\$ 120,253	\$ 243,842	\$ 353,955	\$ 255,402
TOTAL	<u>\$ 120,253</u>	<u>\$ 243,842</u>	<u>\$ 353,955</u>	<u>\$ 255,402</u>
Employer's covered employee payroll	<u>\$ 725,521</u>	<u>\$ 688,023</u>	<u>\$ 651,420</u>	<u>\$ 634,321</u>
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	16.57%	35.44%	54.34%	40.26%
Plan fiduciary net position as a percentage of the total pension liability	95.77%	90.97%	85.82%	89.20%

**Notes to Schedule:**

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

Lake Chelan Reclamation District  
Schedules of Proportionate Share of the Net Pension Liability  
As of June 30, 2017

PERS Plan 1	2017	2016	2015
Employer's proportion of the net pension liability (asset)	0.005456%	0.005479%	0.005535%
Employer's proportionate share of the net pension liability	\$ 258,891	\$ 294,248	\$ 289,532
TOTAL	<u>\$ 258,891</u>	<u>\$ 294,248</u>	<u>\$ 289,532</u>
Employer's covered employee payroll	<u>\$ 688,023</u>	<u>\$ 651,420</u>	<u>\$ 634,321</u>
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	37.63%	45.17%	45.64%
Plan fiduciary net position as a percentage of the total pension liability	61.24%	57.03%	59.10%
PERS Plans 2/3	2017	2016	2015
Employer's proportion of the net pension liability (asset)	0.007018%	0.007030%	0.007148%
Employer's proportionate share of the net pension liability	\$ 243,842	\$ 353,955	\$ 255,402
TOTAL	<u>\$ 243,842</u>	<u>\$ 353,955</u>	<u>\$ 255,402</u>
Employer's covered employee payroll	<u>\$ 688,023</u>	<u>\$ 651,420</u>	<u>\$ 634,321</u>
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	35.44%	54.34%	40.26%
Plan fiduciary net position as a percentage of the total pension liability	90.97%	85.82%	89.20%

Lake Chelan Reclamation District  
Schedule of Employer Contributions  
For the year ended December 31, 2018  
Last 10 Fiscal Years\*

PERS Plan 1	2018	2017	2016	2015
Statutorily or contractually required contributions	\$ 38,472	\$ 34,224	\$ 31,804	\$ 27,607
Contributions in relation to the statutorily or contractually required contributions	<u>(38,472)</u>	<u>(34,224)</u>	<u>(31,804)</u>	<u>(27,607)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered employer payroll	<u>\$ 759,722</u>	<u>\$ 698,500</u>	<u>\$ 666,755</u>	<u>\$ 628,062</u>
Contributions as a percentage of covered employee payroll	5.06%	4.90%	4.77%	4.40%
PERS Plans 2/3	2018	2017	2016	2015
Statutorily or contractually required contributions	\$ 56,980	\$ 47,907	\$ 41,539	\$ 35,464
Contributions in relation to the statutorily or contractually required contributions	<u>(56,980)</u>	<u>(47,907)</u>	<u>(41,539)</u>	<u>(35,464)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered employer payroll	<u>\$ 759,722</u>	<u>\$ 698,500</u>	<u>\$ 666,755</u>	<u>\$ 628,062</u>
Contributions as a percentage of covered employee payroll	7.50%	6.86%	6.23%	5.65%

**Notes to Schedule:**

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

Lake Chelan Reclamation District  
Schedule of Employer Contributions  
As of December 31, 2017

PERS Plan 1	2017	2016	2015
Statutorily or contractually required contributions	\$ 34,224	\$ 31,804	\$ 27,607
Contributions in relation to the statutorily or contractually required contributions	<u>(34,224)</u>	<u>(31,804)</u>	<u>(27,607)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered employer payroll	<u>\$ 698,500</u>	<u>\$ 666,755</u>	<u>\$ 628,062</u>
Contributions as a percentage of covered employee payroll	4.90%	4.77%	4.40%
PERS Plans 2/3	2017	2016	2015
Statutorily or contractually required contributions	\$ 47,907	\$ 41,539	\$ 35,464
Contributions in relation to the statutorily or contractually required contributions	<u>(47,907)</u>	<u>(41,539)</u>	<u>(35,464)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered employer payroll	<u>\$ 698,500</u>	<u>\$ 666,755</u>	<u>\$ 628,062</u>
Contributions as a percentage of covered employee payroll	6.86%	6.23%	5.65%

## 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	
Public Records requests	<a href="mailto:PublicRecords@sao.wa.gov">PublicRecords@sao.wa.gov</a>
Main telephone	(360) 902-0370
Toll-free Citizen Hotline	(866) 902-3900
Website	<a href="http://www.sao.wa.gov">www.sao.wa.gov</a>