Office of the Washington State Auditor
Pat McCarthy

Financial Statements Audit Report

Olympic View Water and Sewer District

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

Published December 23, 2019

Report No. 1025445

Office of the Washington State Auditor
Pat McCarthy

December 23, 2019

Board of Commissioners
Olympic View Water and Sewer District
Edmonds, Washington

Report on Financial Statements

Please find attached our report on the Olympic View Water and Sewer District's financial statements.

We are issuing this report in order to provide information on the District's financial condition.

Sincerely,

Pat McCarthy

State Auditor

Olympia, WA

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Olympic View Water and Sewer District
January 1, 2017 through December 31, 2018

Board of Commissioners
Olympic View Water and Sewer District
Edmonds, 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 Olympic View Water and Sewer 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 December 16, 2019. As discussed in Note 1 to the financial statements, during the year ended December 31, 2018, the District implemented Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*.

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.

In addition, we noted certain matters that we have reported to the management of the District in a separate letter dated December 16, 2019.

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

December 16, 2019

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Olympic View Water and Sewer District
January 1, 2017 through December 31, 2018

Board of Commissioners
Olympic View Water and Sewer District
Edmonds, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the Olympic View Water and Sewer 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 10.

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 Olympic View Water and Sewer 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.

Matters of Emphasis

As discussed in Note 1 to the financial statements, in 2018, the District adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Our opinion is not modified with respect to this matter.

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 10 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 December 16, 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.

Pat McCarthy

State Auditor

Olympia, WA

December 16, 2019

FINANCIAL SECTION

Olympic View Water and Sewer District
January 1, 2017 through December 31, 2018

REQUIRED SUPPLEMENTARY INFORMATION

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REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Proportionate Share of Net Pension Liability – PERS 1, PERS 2/3 – 2018 and 2017
Schedule of Employer Contributions – PERS 1, PERS 2/3 – 2018 and 2017
Schedule of Changes in Total OPEB Liability and Related Ratios – 2018

INTRODUCTION

Olympic View Water and Sewer was originally formed in 1937 to provide water to Unincorporated Snohomish County. The District added sewer to its services in 1966. In 1986, the District purchased the Deer Park Water System located in the Town of Woodway. Over the years, the City of Edmonds and the Town of Woodway have expanded throughout the District. There is still a small portion of unincorporated Snohomish County being served by the District. As of December 31, 2018, the District serves approximately 4,874 water customers and 4,607 sewer customers.

Our mission is to provide safe and reliable water and sewer service at a reasonable cost while being responsive to the needs of the customer.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Management's Discussion and Analysis presents our review of the District's financial position as of December 31, 2018 and 2017 and our financial performance for the years then ended. Please read these comments in conjunction with the District's financial statements, which follow this section.

OVERVIEW OF THE FINANCIAL STATEMENTS

The financial statements include a statement of net position, statement of revenues, expenses, and changes in fund net position, statement of cash flows, and notes to the financial statements.

The statement of net position presents total assets and deferred outflows of resources and total liabilities and deferred inflows of resources with the difference between the two totals reported as net position. It provides information about the nature and amounts of investments in resources (assets), consumption of resources that are applicable to future periods (deferred outflows), obligations to District creditors (liabilities) and the acquisition of resources that are applicable to a future reporting period (deferred inflows). It provides a basis for evaluating the capital structure of the District and assessing its liquidity and financial flexibility. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial condition of the District is improving or deteriorating.

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

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

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

OLYMPIC VIEW WATER AND SEWER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2018 AND 2017

CONDENSED STATEMENTS OF NET POSITION AT DECEMBER 31

	2018	2017	2016
Capital Assets	$ 29,018,307	$ 27,959,017	$ 26,366,081
Other Assets	9,613,827	9,350,883	10,640,773
Total Assets	38,632,134	37,309,900	37,006,854
Deferred Outflows of Resources	1,161,036	1,188,209	1,305,918
Long-Term Liabilities	16,094,501	16,565,056	17,311,648
Other Liabilities	1,285,537	1,241,070	834,649
Total Liabilities	17,380,038	17,806,126	18,146,297
Deferred Inflows of Resources	200,081	122,330	24,864
Net Investment in Capital Assets	13,569,615	14,147,318	15,571,098
Restricted Amounts	1,019,971	1,000,091	875,115
Unrestricted Amounts	7,623,466	5,422,244	3,695,398
Total Net Position	22,213,052	20,569,653	20,141,611

CONDENSED STATEMENTS OF NET POSITION	*AT DECEMBER 31*		
	2018	2017	2016
Water Service Revenue	3,031,775	2,838,356	2,688,238
Sewer Service Revenue	2,896,212	2,354,778	2,027,212
Other Operating Revenues	10,731	40,489	182,363
Total Operating Revenues	5,938,718	5,233,623	4,897,813
Water and Sewer Operating Expenses	2,210,605	2,398,567	2,000,990
Administration and Taxes	1,837,688	1,747,937	1,593,519
Depreciation	1,035,329	759,628	797,735
Total Operating Expenses	5,083,623	4,906,132	4,392,244
Operating Income	855,096	327,491	505,569
Nonoperating Revenue (Expense): Interest	135,230	78,829	18,413
Rental Income	130,110	126,984	121,984
Interest and Amortization	(476,137)	(495,177)	(370,247)
Gain (Loss) on Disposal of Assets	(2,070)	(1,475)	21,713
Bond Issue Costs	-	-	(103,073)
Income Before Capital Contributions	642,229	36,027	194,359
Capital Contributions	1,001,170	392,015	500,007
Increase in Net Position	1,643,399	428,042	694,366
Net Position, January 1, as Previously Reported	20,569,653	20,141,611	19,447,245
Net Position, December 31	22,213,052	20,569,653	20,141,611

Note: Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions - an Amendment of GASB Statement No. 27* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an Amendment of GASB Statement No. 68*, were implemented effective January 1, 2015. The 2014 condensed financial statements have not been restated.

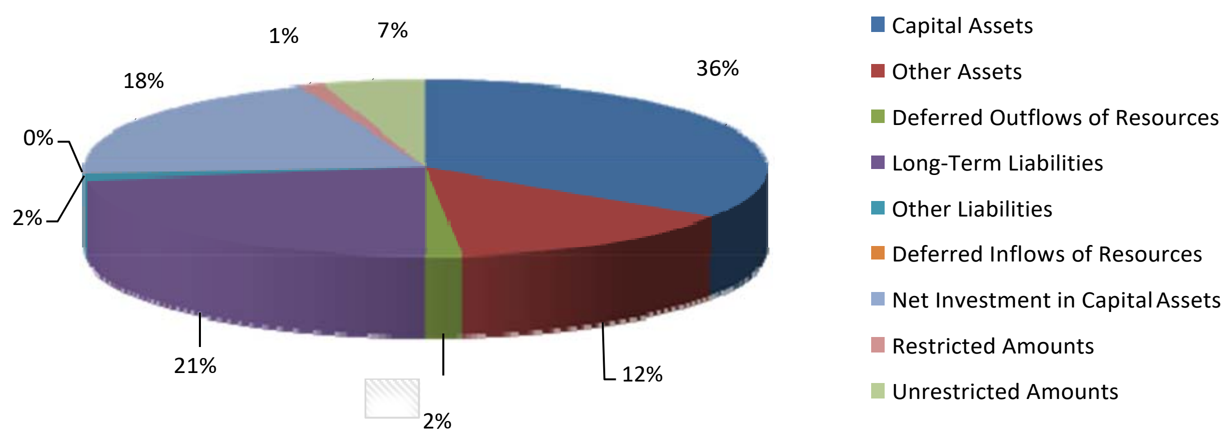
FINANCIAL POSITION

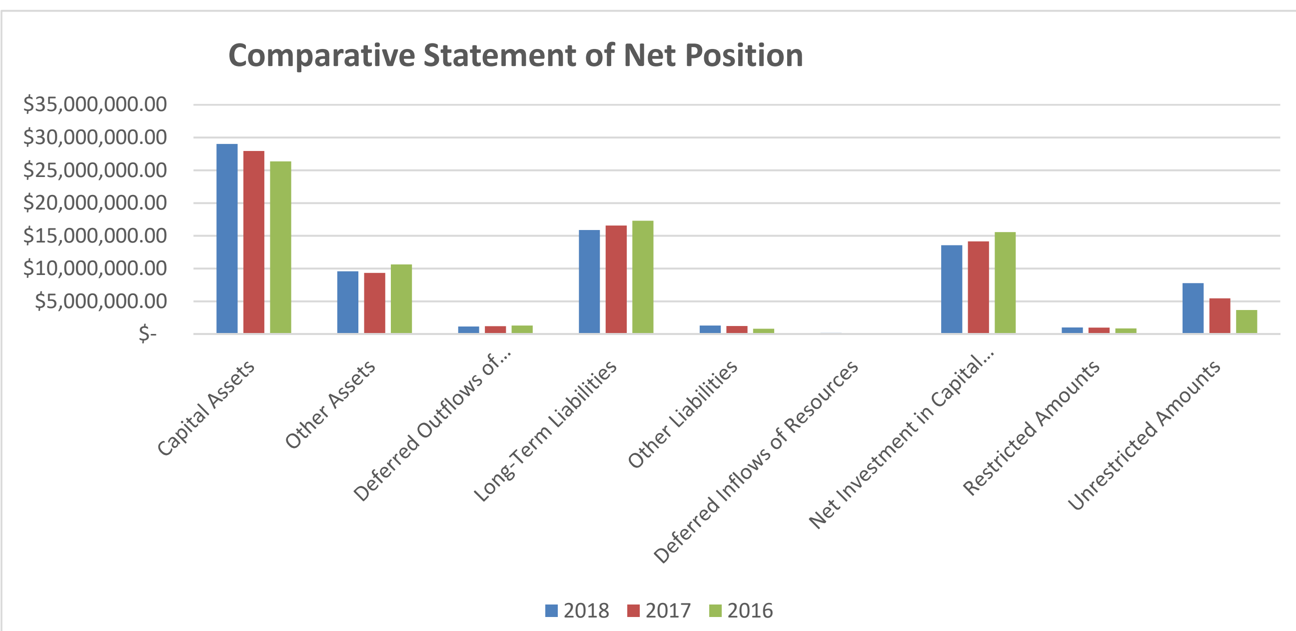
The District's overall financial position continues to be strong with sufficient liquidity and debt capacity to finance future capital improvements if necessary.

The District is financed primarily by equity and sufficient liquid assets are available to fund liabilities and construction. Capital assets increased in 2018 as new connections were added to the water and sewer system and investments continue to be made to upgrade and replace necessary capital infrastructure and facilities. Capital assets increased in 2017 due to new connections added to the water and sewer system and investments are used to upgrade and replace necessary capital infrastructure and facilities.

The following charts indicate the components of financial position:

2018 Statement of Net Position

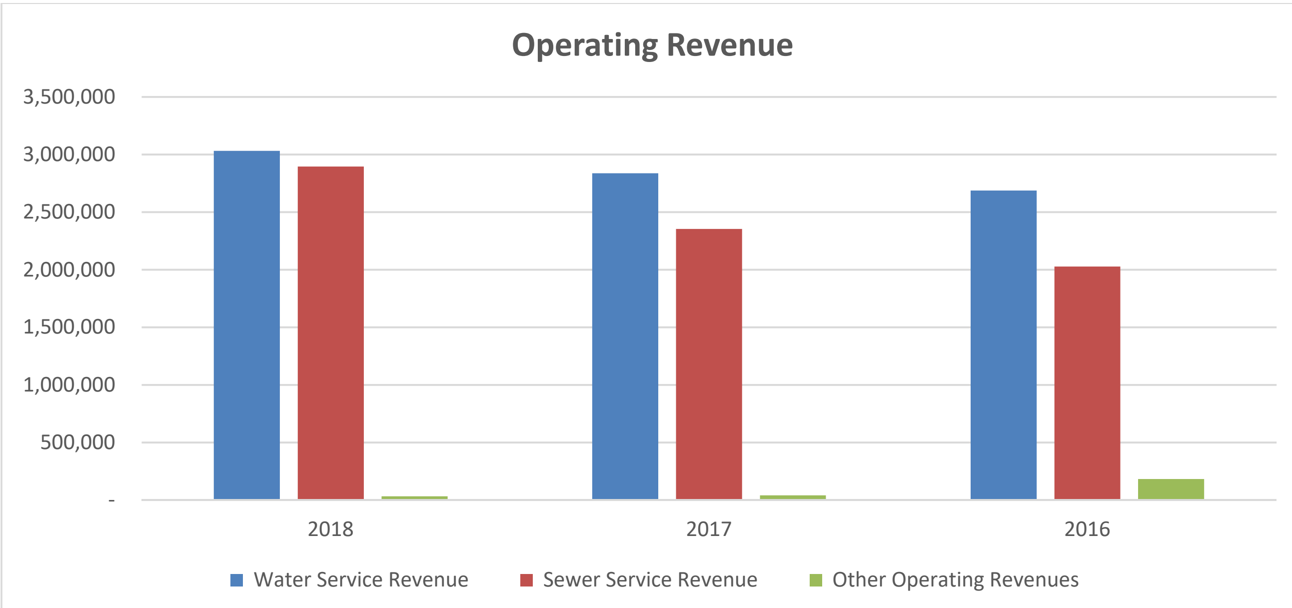




RESULTS OF OPERATIONS

Operating revenues are received from three sources: water service, sewer service, and other.

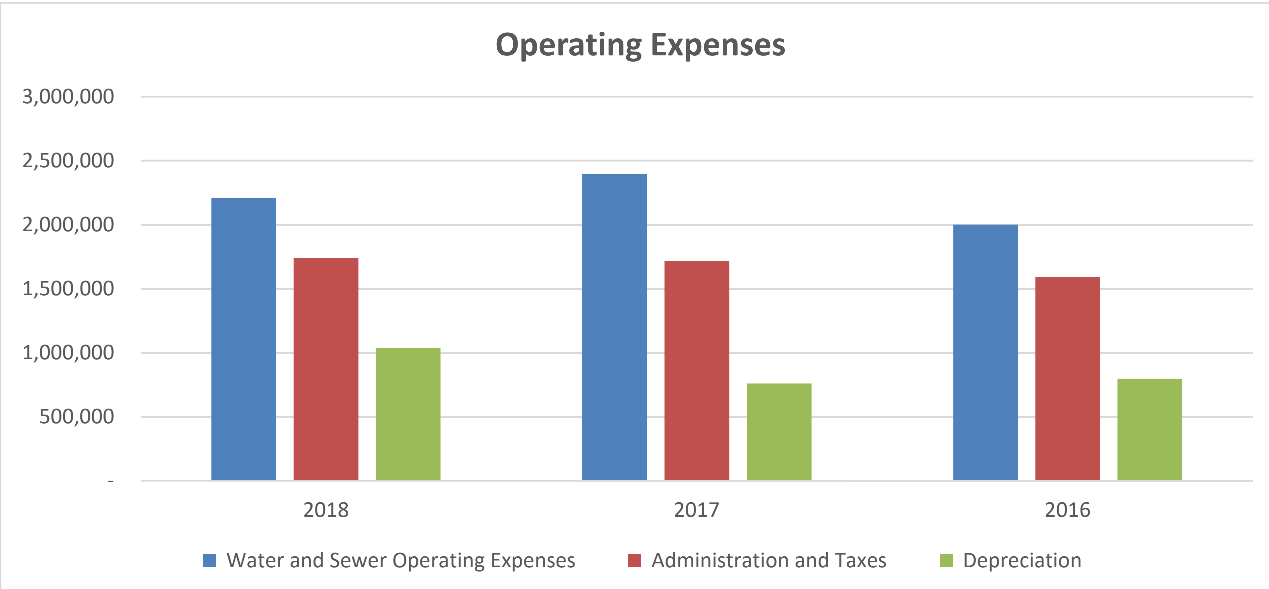
The following chart indicates operating revenue over the last three years:



Increases in District operating revenues in 2018 and 2017 were attributable to annual rate increases, modest growth in the number of customers and higher than usual annual water use volumes, largely due to summer weather conditions and related outdoor water use. Specifically, weather conditions during the summer of 2018 included an extended period of warmer than average temperatures and little measurable rainfall during the peak summer outdoor watering months resulting in a substantial increase in the volume of water sold in that year. The 2017 summer was also hotter and dryer than normal. On average, water rates increased approximately 6.00% effective February 1, 2018 and 2017. On average, sewer rates increased 24.70% and 11.0% effective February 1, 2018 and 2017, respectively. The rate increases were needed to pay for higher wholesale water rates and wholesale sewage treatment rates; to cover inflationary increases in other operating expenses; and to provide increased funding for capital improvement purposes.

RESULTS OF OPERATIONS (CONTINUED)

The following chart indicates operating expenses over the last three years:



Water and sewer operating costs decreased in 2018 after an increase in 2017. This is principally attributed to transitions in staff being hired in 2017 and 2018 to bring staffing levels to full capacity. In 2018 and 2017 there was a decrease in treatment costs for the City of Edmonds Wastewater Treatment Plant. Treatment plant costs are allocated on a method based on total annual sewer flows, the number of equivalent residential units (ERU's) and the actual allowable expenses incurred by the plant.

Administration and tax expenses increased in 2018 and in 2017. As rate revenue increases, taxes increase proportionally. The District continues to be involved in a over the provision of sewer service to the Southwest Subregional Area of Snohomish County. A Boundary Review Board Hearing Decision in 2016 has been challenged by the City of Shoreline and Ronald Wastewater District. The challenge is currently in the Washington State Court of Appeals. Legal fees have decreased as all other cases are on hold until the opinion of the Appellate Court has been issued. In addition, an increase in the employer's portion of the state retirement program (PERS) is reflected in the administration and tax expenses. These increases are projected to continue for the next several years.

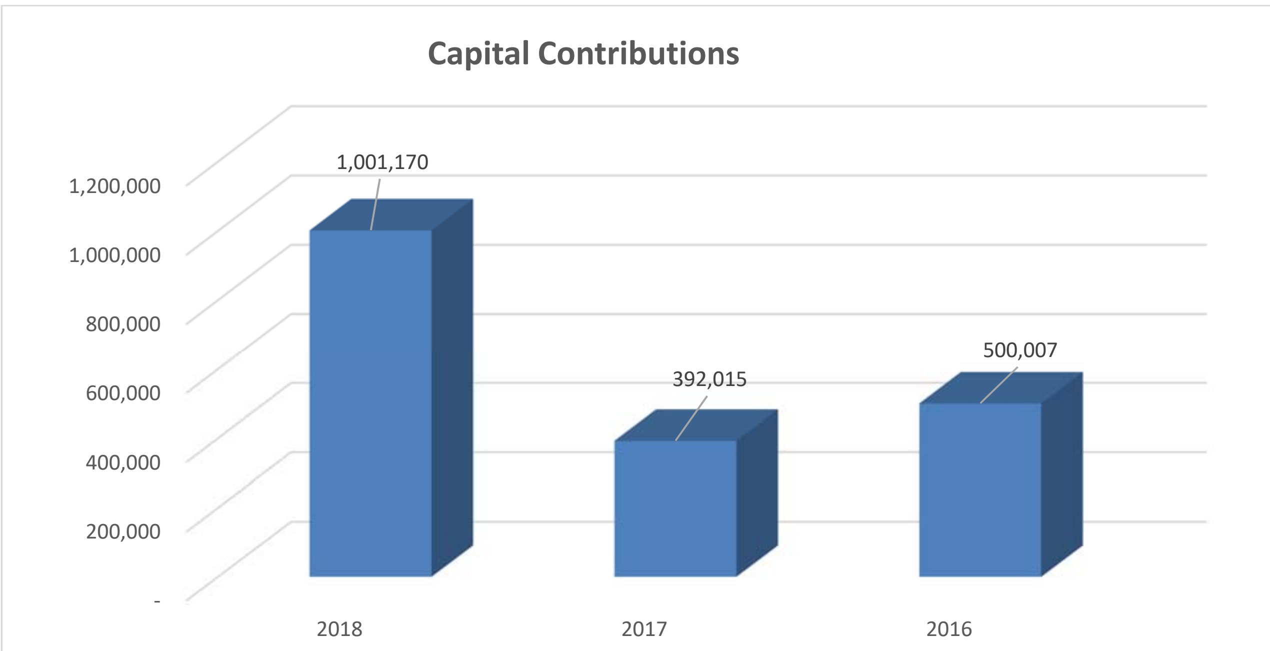
Revenues exceeded expense (resulting in an increase in net position) in both 2018 and 2017. Both years were warmer and drier than average resulting in higher than budgeted water sales. When annual water sales decline, most remaining operating expenses continue at a similar level causing an additional shortfall between the amount of those expenses and revenue generated to cover them. The District maintains reserve funds to address this issue and help cover operating shortfalls in low water sales years. In addition, the District has adopted a rate structure that recognizes that fixed costs do not change in lower demand years. This rate structure addresses the District's need to recover fixed costs through a higher fixed charge on each customer account. The District is continuing to evaluate and increase water rates on an annual basis, as needed, though at a slower rate than recent years, to continue to achieve full funding of annual

RESULTS OF OPERATIONS (CONTINUED)

depreciation expense and strengthen the District's future financial position. Funds provided through these increases will also help finance annual upgrades and replacement of District infrastructure.

The District collects capital contributions from new customers. Capital contributions consisted of System Development Charges (connection charges) paid by new properties connecting to the water or sewer system and the value of new utility infrastructure constructed and donated to the District under approved Developer Extension Agreements.

The following chart indicates capital contributions over the last three years:



These contributions are a result of continuing growth in the number of District customers. They include donated systems totaling $642,243, $104,549 and $288,272 for the years ended December 31, 2018, 2017, and 2016, respectively. Facility fees collected were $358,927 in 2018, $287,466 in 2017 and $211,735 in 2016. A change in zoning along the Edmonds Way corridor and Highway 99 are resulting in higher density developments. The District continues to see in-fill growth in the Esperance area, Highway 99 and the Edmonds Way corridor.

CAPITAL ASSETS AND LONG-TERM LIABILITIES

Capital assets continue to increase in 2018 as new connections were added to the water and sewer system and investments continue to be made to upgrade and replace necessary capital infrastructure and facilities. Capital assets increased in 2017 due to continuation of several major capital infrastructure projects and the completion of 2016 projects.

Significant capital asset additions during the years included the following:

2018		2017	
2.5 Hypo Pump Upgrade	$ 3,636	Phase II Sewer Repair Project	$ 927,646
Watershed Management Plan	147,627	Donated System	106,349
Billing System	40,303	228th Street Wells Project	653,307
Well	768,796	Water Comprehensive Plan	166,602
1.5 Tank Recoating 2018	245,320	SCADA Upgrade	120,413
8605 228th St House	6,793	Deer Creek Pump Evaluation	653,607
SCADA Upgrade	86,967	Rate Study	38,955
Deer Creek - Pump Evaluation	936,551	Server Upgrade	76,797
8th Ave Control Station Upgrade	25,323	Water Map Update	8,750
SCADA Security Upgrade	5,683		

Long Term Liabilities are decreasing as debt payments related to the 2015 and 2016 refunding are paid.

ADDITIONAL COMMENTS

The District purchases approximately 60% of its water to supply our customer needs from the City of Seattle on a wholesale basis.

The District is dependent on the City of Edmonds and King County Wastewater Treatment Division (KCWTD/METRO) for the treatment of sewage collected by the District. The cost for this service by KCWTD charged to the District continues to increase. City of Edmonds treatment costs are recalculated annually in accordance with the current contract. This can cause yearly fluctuations, both up and down, based on sewer plant flows.

The District's practice is to adjust treatment rates to compensate for increases in its direct costs.

The District is also committed to pay a specific portion of certain City of Edmonds capital projects related to the City of Edmonds Treatment Plant. The District owns 16.551% of the capacity of the City of Edmonds Treatment Plant. See Note 14 in the financial statements for additional details.

Olympic View Water & Sewer District
Statement of Net Position
December 31, 2018 and 2017

		2018		2017
ASSETS				
CURRENT ASSETS				
Current Assets:				
Unrestricted				
Cash and Cash Equivalents	$	2,239,303	$	1,333,612
Investments	$	4,621,343		2,779,740
Accounts Receivable	$	723,563		641,450
Accounts Receivable - Other	$	1,557		752
Interest Receivable	$	10,152		8,196
Inventory	$	52,648		52,438
Prepayments	$	-		51,315
Total Unrestricted Assets	$	7,648,566	$	4,867,503
Restricted Assets:				
Cash and Cash Equivalents	$	49,381		50,742
Investments	$	1,898,941		4,416,015
Interest Receivable	$	16,940		16,623
Total Restricted Assets	$	1,965,262		4,483,380
Total Current Assets	$	9,613,827	$	9,350,883
NONCURRENT ASSETS				
Capital Assets Not Being Depreciated:				
Land, Land Rights, and Other	$	559,619		559,619
Construction in Progress	$	1,989,564		885,853
Capital Assets Being Depreciated:				
Plant in Service	$	45,003,629		44,059,858
Less: Accumulated Depreciation	$	(18,534,505)		(17,546,313)
Net Capital Assets	$	29,018,307		27,959,017
Total Noncurrent Assets	$	29,018,307		27,959,017
Total Assets	$	38,632,134		37,309,900
DEFERRED OUTFLOWS OF RESOURCES				
Deferred Loss on Refunding of Debt	$	1,041,950		1,094,005
Deferred Outflows Related to Pensions	$	119,085		94,204
Total Deferred Outflows of Resources	$	1,161,035		1,188,209
Total Assets and Deferred Outflows of Resources	$	39,793,171	$	38,498,109

See accompanying Notes to Financial Statements.

Olympic View Water & Sewer District
Statement of Net Position
December 31, 2018 and 2017

		2018	2017
LIABILITIES			
CURRENT LIABILITIES			
Payable from Unrestricted Assets:			
Accounts Payable	$	563,806	$574,871
Compensated Absences	$	89,388	85,861
Accounts Payable – OPEB	$		20,090
Developer Advances	$	53,848	37,346
Accrued Interest	$	1,364	3,325
Long-Term Debt – Current Maturities	$	69,795	69,795
Total Payable from Unrestricted Assets	$	778,200	791,288
Payable from Restricted Assets:			
Accrued Interest	$	127,336	129,782
Long-Term Debt – Current Maturities	$	380,000	320,000
Total Payable from Restricted Assets	$	507,336	449,782
Total Current Liabilities	$	1,285,537	1,241,070
NONCURRENT LIABILITIES			
Long-Term Debt Payable from Unrestricted Assets, Net of Current Maturities	$	197,328	267,122
Long-Term Debt Payable from Restricted Assets, Net of Current Maturities	$	15,217,654	15,649,709
Long-Term Payable OPEB	$	192,960	
Net Pension Liability	$	486,560	648,225
Total Noncurrent Liabilities	$	15,901,541	16,565,056
Total Liabilities	$	17,380,038	17,806,126
DEFERRED INFLOWS OF RESOURCES			
Deferred Inflows Related to Pensions	$	200,081	122,330
Total Liabilities and Deferred Inflows of Resources	$	17,580,119	17,928,456
NET POSITION			
Net Investment in Capital Assets	$	13,569,615	14,147,318
Restricted for Debt Service	$	1,019,971	1,000,091
Unrestricted	$	7,623,466	5,422,244
Total Net Position	$	22,213,052	20,569,653
Total Liabilities and Deferred Inflows of Resources and Net Position	$	39,793,171	38,498,110

See accompanying Notes to Financial Statements.

Olympic View Water & Sewer District
Statement of Revenues, Expenses, and Changes in Fund Net Position
December 31, 2018 and 2017

	2018	2017
OPERATING REVENUES		
Water Sales	3,031,775	2,838,356
Sewer Services	2,896,212	2,354,778
Other Revenue	10,731	40,489
Total Operating Revenues	5,938,718	5,233,623
OPERATING EXPENSES		
Water Purchased	931,831	788,086
Water Production and Distribution	297,437	294,185
Wastewater Treatment	585,760	948,797
Wastewater Collection	37,504	32,161
Customer Service	358,074	335,338
Administration	1,610,221	1,545,736
Taxes	227,467	202,201
Depreciation	1,035,329	759,628
Total Operating Expenses	5,083,623	4,906,132
OPERATING INCOME	855,096	327,491
NONOPERATING REVENUE (EXPENSE)		
Investment Income, Net of Service Fees and Amount Capitalized	135,230	78,829
Rental Income	130,110	126,359
Interest and Amortization on Long-Term Debt – Net of Amount Capitalized	(476,137)	(495,177)
Gain (Loss) on Disposal of Assets	(2,070)	(1,475)
Bond Issue Costs	-	-
Total Nonoperating Revenue (Expense)	(212,867)	(291,464)
INCOME BEFORE CAPITAL CONTRIBUTIONS	642,229	36,027
Capital Contributions	1,001,170	392,015
CHANGE IN NET POSITION	1,643,399	425,042
Net Position – Beginning of Year	20,569,653	20,141,611
NET POSITION – END OF YEAR	22,213,052	20,569,653

See accompanying Notes to Financial Statements.

Olympic View Water & Sewer District
Statement of Cash Flows
December 31, 2018 and 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from customers	$ 6,940,630	$ 5,511,442
Cash paid to vendors	(2,948,269)	(2,591,636)
Cash Paid to and for Employees and Commissioners	(1,842,133)	(1,483,786)
Cash Paid to Developers	(32,869)	(21,397)
Net Cash Provided by Operating Activities	$ 2,117,358	$ 1,414,623
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES:		
Capital Contributions	$ 358,927	$ 194,173
Expenditures for Plant in Service and Construction	(1,292,048)	(1,798,362)
Proceeds from Disposal of Assets	2,192	-
Principal Paid on Long-Term Debt	(389,795)	(219,795)
Interest paid on Long-Term Debt	(517,880)	(534,158)
Net Cash Provided (Used) for Capital Financing Activities	$ (1,838,604)	$(2,358,142)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from Sale of Investments	$ 490,345	$ 716,240
Interest Received on Investments	135,230	78,997
Net Cash Provided (Used) by Investing Activities	$ 625,575	$ 795,237
NET INCREASE (DECREASE) IN CASH	$ 904,329	$ (148,282)
Cash and Cash Equivalents - Beginning of Year	$ 1,384,354	$ 1,532,636
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 2,288,683	$ 1,384,354
RECONCILIATION OF TOTAL CASH AND CASH EQUIVALENTS:		
Cash and Cash Equivalents	$ 2,239,303	$ 1,333,612
Restricted Funds	$ 49,381	$ 50,742
Total Cash and Cash Equivalents	$ 2,288,683	$ 1,384,354

See accompanying Notes to Financial Statements.

Olympic View Water & Sewer District
Statement of Cash Flows
December 31, 2018 and 2017

	2018	2017
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Net Operating Income	$ 855,096	$ 327,491
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	1,035,329	759,628
Rental Income	130,110	126,359
(Increase)Decrease in Assets and Deferred Outflow of Resources		
Accounts Receivable	(84,874)	(41,334)
Inventory	(210)	7,133
Prepayments	51,315	(671)
Due from Developers		-
Deferred Outflows related to Pensions	(24,882)	53,560
Increase (Decrease) in Liabilities and Deferred Inflows of Resources		
Accounts Payable		381,147
Developer Advances	219,359	(21,397)
Compensated Absences	3,527	16,388
Net Pension Liability	(161,665)	(293,398)
Deferred Inflows Related to Pensions	77,751	99,717
NET CASH PROVIDED BY OPERATING ACTIVITIES	$2,288,683	$ 1,414,623

SUPPLEMENTAL DISCLOSURE OF SIGNIFICANT NONCASH FINANCING AND INVESTING ACTIVITIES

	2018	2017
Utility Plant Donations Received	$ 642,243	$ 63,161

See accompanying Notes to Financial Statements.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Olympic View Water and Sewer District (the District), a municipal corporation organized under the laws of the state of Washington, was created for the purpose of constructing, maintaining and operating water and sewer systems within its boundaries, which include a portion of southwest Snohomish County, portions of the City of Edmonds and the Town of Woodway. The District is governed by an elected three-member board and has no component units.

Basis of Presentation and Accounting

These financial statements are prepared utilizing the economic measurement focus and full accrual basis of accounting. All activities of the District are accounted for within a single proprietary (enterprise) fund.

Change in Accounting Principles

The District implemented GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions and Statement and GASB No.74 Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans.

Cash and Cash Equivalents

For purposes of the statements of cash flows, the District considers cash on hand, cash in banks and money market accounts to be cash and cash equivalents.

Investments

The District has investments in the state of Washington Treasurer's Local Government Investment Pool (LGIP) and the Snohomish County Investment Pool (SCIP).

Investments in the state of Washington Treasurer's Local Government Investment Pool (LGIP) are stated at share price that is equal to amortized cost.

Investments in the Snohomish County Investment Pool (SCIP) are stated at fair value. The fair value of the District's investment is determined by calculating the ratio of total investment by pool participants divided into the total fair value of all SCIP underlying assets. The District determines their fair value by taking their investment in the SCIP times this ratio.

Accounts Receivable

The District utilizes the allowance method of accounting for doubtful accounts. All accounts receivables are considered fully collectible since nonpayment of an account can result in a lien assessment filed against the property. Therefore, no allowance for doubtful accounts has been provided in the financial statements. In cases of bankruptcy, the account balance is written off for all amounts outstanding up to the date of filing. The occurrences of bankruptcies with outstanding balances are infrequent and therefore are not considered when establishing an allowance for doubtful accounts.

Inventory

Inventory consists of materials and supplies available for future use and is valued at the lower of cost (average) or market.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital Assets

Capital assets are stated at cost and include the capitalized portion of District employees' wages and related overhead costs. For water and sewer systems installed by developers or customers and conveyed to the District by bill of sale, the District records the cost of the system at the contributing party's estimated cost. Expenditures for capital assets exceeding $2,500, including capital leases and major repairs that increase useful lives, are capitalized. Maintenance, repairs, and minor renewals are accounted for as expenses when incurred. When capital assets are retired or otherwise disposed of, the cost and accumulated depreciation are removed from the accounts and any resulting gain or loss is recognized in income for the period. Depreciation on capital assets is computed using the straight-line method over the following estimated useful lives:

Plant	27.5 - 40 Years
Distribution and Collection	50 - 75 Years
Machinery and Equipment	7 - 10 Years
Other Miscellaneous Assets	3 - 7 Years

Interest Capitalization

Interest costs incurred for the construction of capital assets are subject to capitalization. Total interest and amortization cost incurred for the years ended December 31, 2018 and 2017 was $513,601 and $520,953, respectively. Interest capitalized in 2018 and 2017 was $37,203 and $32,502, respectively, net of interest income of $13,554 and $16,206, respectively.

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of all state sponsored pension plans and additions to/deductions from those plans' fiduciary net position have been determined on the same basis as they are reported by the Washington State Department of Retirement Systems. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Deferred Outflows/Inflows of Resources

Deferred outflows of resources represent a consumption of net position that applies to future periods and will not be recognized as an outflow of resources (expense) until that time. Deferred outflows of resources consist of losses on refunding of debt, contributions to pension plans subsequent to the June 30 measurement date and the District's proportionate share of deferred outflows related to those plans. The deferred loss on refunding of debt results from a difference in the carrying value of refunded debt and its reacquisition price. Losses on refunding of debt are amortized by the interest method over the life of the refunded or refunding debt, whichever is shorter. Pension plan contributions subsequent to the measurement date are recognized as a reduction of the net pension liability in the following year. Deferred outflows of resources for the net difference between projected and actual earnings on plan investments are amortized over a closed five-year period. The remaining deferred outflows of resources related to pensions are amortized over the average expected service lives of all employees provided with pensions through each plan.

Deferred inflows of resources represent an acquisition of net position that applies to future periods and will not be recognized as an inflow of resources (revenue) until that time. Deferred inflows of resources consist of the District's proportionate share of deferred inflows related to pension plans. Deferred inflows of resources for the net difference between projected and

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

actual earnings on plan investments are amortized over a closed five-year period. The remaining deferred inflows of resources related to pensions are amortized over the average expected service lives of all employees provided with pensions through each plan.

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 along with associated taxes when incurred.

Vacation pay may be accumulated up to an amount equal to two years leave, in accordance with the collective bargaining agreement. Vacation leave is payable upon request, resignation, retirement or death. Employees may sell unexpended vacation time in excess of 64 hours at their current pay rate.

Sick leave accumulates at the rate of eight hours for each month of continuous full-time service up to a maximum of 960 hours. Accrued but unused sick leave is converted to the employee's regular rate of pay on the following basis and at the following rate:

Voluntary Resignation	20%
Layoff	50%
Retirement under PERS	50%

Any sick leave accrued in excess of 64 hours may, upon the request of the employee, be converted to vacation time on a three hour for four hour basis, be cashed out on a three hour for four hour basis, or remain in the employee's bank of accrued sick leave up to the maximum. Sick leave is carried on the balance sheet at an amount equal to 75% of actual value for hours in excess of 64 and at 50% of actual value for 64 hours or less at year-end.

Long-Term Debt

Long-term debt is reported net of premiums and discounts. Premiums and discounts on long-term debt are amortized by the interest method over the period the related debt is outstanding.

Net Position

Net position is classified in the following three components:

Net Investment in Capital Assets – This component of net position consists of capital assets, net of accumulated depreciation, and capital-related deferred outflows of resources reduced by the outstanding balances of any capital-related borrowings and deferred inflows of resources. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of net investment in capital assets. Rather, that portion of the debt is included in the same net position component as the unspent proceeds.

Restricted Net Position – This component of net position consists of assets restricted by external creditors (such as through debt covenants), grantors, contributors or others reduced by related liabilities and deferred inflows of resources.

Unrestricted Net Position – This component of net position consists of all net position that does not meet the definition of "restricted" or "net investment in capital assets."

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The District applies unrestricted and restricted resources to purposes for which both unrestricted and restricted net resources are available based on management's discretion.

Revenues and Expenses

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

Capital Contributions

Grants, ULID assessments, and contributions in aid of construction from property owners are recorded as capital contribution revenue.

Use of Estimates in Financial Statement Preparation

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

NOTE 2 DEPOSITS AND INVESTMENTS

Deposits

The District's deposits 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).

Investments

In accordance with state law, all investments of the District's funds are obligations of the U.S. Government, U.S. Government Agency issues, certificates of deposit with Washington State Banks, the Washington State Local Investment Pool (LGIP), or the Snohomish County Investment Pool (SCIP).

The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value arising from increasing interest rates.

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

	2018	2017
Local Government Investment Pool	$ 3,270,377	$ 2,475,389
Snohomish County Investment Pool	3,249,907	4,749,839
Total Investments	$ 6,520,284	$ 7,225,228

NOTE 2 DEPOSITS AND INVESTMENTS (continued)

Investments Measured at Amortized Cost

	2018	2017
Local Government Investment Pool	$ 3,270,377	$ 2,475,389

The Local Government Investment Pool (LGIP) is managed and operated by the Office of the State Treasurer. The State Finance Committee is the administrator of the statute that created the pool and adopts appropriate rules. The State Treasurer is responsible for establishing the investment policy for the pool and reviews it annually. Any proposed changes are reviewed by the LGIP Advisory Committee. The terms of the policy are to ensure the safety and liquidity of the funds deposited in the LGIP. The LGIP is invested in a manner that meets the maturity, quality, diversification, and liquidity requirements set forth by the Governmental Accounting Standards Board for external investment pools that elect to measure, for financial reporting purposes, investments at amortized cost. The LGIP has no limitations or restrictions on withdrawals.

Interest Rate Risk

The LGIP is a 2a-7-like pool. Consequently, the District's investments in the LGIP are not subject to interest rate risk as the weighted average maturity of the LGIP's portfolio will not exceed 60 days.

Credit Risk

As of December 31, 2018 and 2017, the District's investment in the LGIP was not rated by a nationally recognized statistical rating organization (NRSRO).

Investments Measured at Fair Value

	2018	2017
Snohomish County Investment Pool	$ 3,249,910	$ 4,749,839
Total Investments Measured at Fair Value	$ 3,249,910	$ 4,749,839

Snohomish County Investment Pool

The Snohomish County Investment Pool (SCIP) is not registered with the Securities Exchange Commission. Investments are reported at fair value to participants. It includes participating funds from the County's primary government funds from the Districts where the County Treasurer serves as ex-officio treasurer and cities where the County Treasurer is the property tax collector. There are no involuntary participants in the SCIP. All participants have notified the Treasurer of their desire to participate in the SCIP. The portion of the Pool belonging to outside districts is reported in an Investment Trust Fund. SCIP investments are those allowed by County Investment Policy and include savings accounts, certificates of deposit, and securities. Pool participants' shares are based on the dollars that they have invested in the

NOTE 2 DEPOSITS AND INVESTMENTS (CONTINUED)

SCIP. The income is distributed based on interest rates on investments, amortization of premiums and discounts, and realized gains and losses for the month. Pool oversight comes from the Snohomish County Finance Committee (SCFC). The SCFC consists of the County Treasurer, County Executive, and Chairman of the County Council. SCFC approves investment policies for SCIP.

Fair value of securities in the SCIP is based on the market value reports provided by the county's custodial agent. The fair value of the District's investment is determined by calculating the ratio of total investment by pool participants divided into the total fair value of all SCIP underlying assets. The District determines their fair value by taking their investment in the SCIP times this ratio.

Interest Rate Risk

The Snohomish County Investment Pool's effective duration was 1.98 and 1.16 years as of December 31, 2018 and 2017, respectively.

Credit Risk

As of December 31, 2018 and 2017, the District's investment in the Pool was not rated by a nationally recognized statistical rating organization (NRSRO).

Fair Value Measurements

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

Level 1: Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.

Level 2: Quoted prices for similar assets or liabilities, or inputs that are observable, either directly or indirectly, for substantially the full term through corroboration with observable market data. Level 2 includes assets and liabilities valued at quoted prices adjusted for legal or contractual restrictions specific to the assets or liabilities.

Fair Value Measurements (Continued)

Level 3: Pricing inputs are unobservable for the asset or liability, that is, inputs that reflect the District's own assumptions about the assumptions market participants would use in pricing the asset or liability.

NOTE 3 RESTRICTED ASSETS

In accordance with the bond resolutions and other agreements, separate restricted accounts are required to be established. The assets held in these accounts are restricted for specific uses, including construction, debt service, and other requirements. Restricted assets are as follows at December 31:

	2018			
	Revenue Bond Debt Service	Revenue Bond Reserve Account	Construction Account	Total
Current Restricted Assets:				
Cash and Cash Equivalents	$ 3,881	$ -	45,500	$ 49,381
Investments	5,458	263,801	1,627,849	1,897,108
Interest Receivable	-	5,591	11,349	16,940
Total	$ 9,339	$ 269,392	$ 1,684,698	$ 1,963,429

	2017			
	Revenue Bond Debt Service	Revenue Bond Reserve Account	Construction Account	Total
Current Restricted Assets:				
Cash and Cash Equivalents	$ 8,530	$ -	42,212	$ 50,742
Investments	5,458	990,020	3,420,538	4,416,016
Interest Receivable	-	4,613	12,010	16,623
Total	$ 13,988	$ 994,633	$ 3,474,760	$ 4,483,381

NOTE 4 CAPITAL ASSETS

Major classes of capital assets and capital asset activity were as follows for 2018 and 2017:

	Balance - Beginning of Year	Increases	Decreases	Balance - End of Year
2018:				
Capital Assets Not Being Depreciated:				
Land and Land Rights	$ 559,619	$ -	$ -	$ 559,619
Construction in Progress	855,853	1,411,147	(277,436)	1,989,564
Total	1,415,472	1,411,147	(277,436)	2,549,183
Capital Assets Being Depreciated:				
Plant	19,124,325	34,478		19,158,804
Distribution and Collection	23,462,235	907,343	(27,478)	23,342,099
Machinery and Equipment	1,347,615	46,556	(24,411)	1,369,761
Other Miscellaneous Assets	126,174	6,793	-	132,967
Total	44,060,349	995,169	(51,889)	45,003,630
Accumulated Depreciation:				
Plant	(5,486,056)	(463,852)	-	(5,949,908)
Distribution and Collection	(11,111,752)	(494,287)	27,478	(11,578,561)
Machinery and Equipment	(931,472)	(72,537)	20,149	(983,860)
Other Miscellaneous Assets	(17,588)	(4,588)	-	(22,176)
Total	(17,546,867)	(1,035,264)	47,627	(18,534,505)
Net Capital Assets	$ 27,928,954	$ 1,361,195	$(271,841)	$ 29,018,308

Olympic View Water and Sewer District
Notes to Financial Statements
December 31, 2018 and 2017

NOTE 4 CAPITAL ASSETS (CONTINUED)

	Balance - Beginning of Year	Increases	Decreases	Balance - End of Year
2017:				
Capital Assets Not Being Depreciated:				
Land and Land Rights	$ 559,619	$ -	$ -	$ 559,619
Construction in Progress	811.838	1.413.178	(1.339.163)	855.853
Total	1,371.457	1.413.178	(1.339.163)	1.415.472
Capital Assets Being Depreciated:				
Plant	18,449,887	688,785	(14,346)	19,124,325
Distribution and Collection	22,530,127	1,377,605	(445,497)	23,462,235
Machinery and Equipment	1,166,750	233,182	(52,317)	1,347,615
Other Miscellaneous Assets	126,174	-	-	126,174
Total	42,272,938	2,299,572	(512,160)	44,060,349
Accumulated Depreciation:				
Plant	(5,144,395)	(356,007)	14,346	(5,486,056)
Distribution and Collection	(11,405,676)	(146,856)	440,780	(11,111,752)
Machinery and Equipment	(888,878)	(78,541)	37,391	(930,028)
Other Miscellaneous Assets	(9,176)	(8,412)	-	(17,588)
Total	(17,448,125)	(589,816)	492,517	(17,545,424)
Net Capital Assets	$ 26,196,268	$ 3,122,934	$(1,359,106)	$ 27,960,397

NOTE 5 LONG-TERM DEBT PAYABLE FROM UNRESTRICTED ASSETS

Long-term debt outstanding at December 31, payable from unrestricted assets, secured by the revenue of the system, consisted of the following Public Works Trust Fund loans issued for utility construction:

Description	2018	2017
Trust Fund Loans:		
$364,500 loan, payable $19,184 annually through the year 2020, plus interest at 3.0 annual percentage rate	38,368	57,553
$169,935 loan, payable $8,655 annually through the year 2020, plus interest at 3.0 annual percentage rate	17,309	25,964
$153,170 loan, payable $8,062 annually through the year 2021, plus interest at 0.5 annual percentage rate	24,185	32,246
$153,000 loan, payable $8,053 annually through the year 2022, plus interest at 0.5 annual percentage rate	32,211	40,263
$475,000 loan, payable $25,842 annually through the year 2024, plus interest at 0.5 annual percentage rate	155,049	180,891
Subtotal	267,122	336,917
Less: Current Maturities	69,795	69,796
Total	$ 197,327	$ 267,122

Long-term debt service requirements to maturity, payable by the District from unrestricted assets, are as follows:

Year Ending December 31	Principal	Interest	Total
2019	69,795	2,598	72,393
2020	69,795	1,553	71,348
2021	41,956	508	42,464
2022	33,895	298	34,193
2023-2024	51,683	129.	51,812
Total	$ 267,124	$ 5,086	$ 272,210

Olympic View Water and Sewer District
Notes to Financial Statements
December 31, 2018 and 2017

NOTE 6 LONG-TERM DEBT PAYABLE FROM RESTRICTED ASSETS

Long-term debt outstanding at December 31, payable from restricted assets, consisted of the following revenue bonds:

Description	2018	2017
Revenue Bonds:		
$5,375,000 dated April 2, 2009 for utility construction, due serially through the year 2019, with interest payable semi-annually at 3.40 to 3.9 annual percentage rates	$ 125,000	$ 245,000
$4,985,000 dated December 1, 2009 for utility construction, due serially through the year 2019, with interest payable semi-annually at 3.40 to 3.80 annual percentage rates	90,000	175,000
$4,895,000 dated May 22, 2015 for refunding, due serially through the year 2039, with interest payable semi-annually at 2.00 to 4.00 annual percentage rates	4,790,000	4,825,000
$9,660,000 dated May 24, 2016 for refunding and utility construction, due serially through the year 2041, with interest payable semi-annually at 2.00 to 4.00 annual percentage rates	9,505,000	9,585,000
Subtotal	14,510,000	14,830,000
Less: Current Maturities	(380,000)	(260,000)
Unamortized Bond Premiums and Discounts	1,087,654	1,139,709
Total	$ 15,217,654	$ 15,649,709

Long-term debt service requirements to maturity, payable by the District from restricted assets, are as follows:

Year Ending December 31,	Principal	Interest	Total
2019	380,000	503,548	883,548
2020	415,000	493,600	908,600
2021	465,000	483,925	948,925
2022	485,000	472,675	957,675
2023	490,000	459,600	949,600
2024-2028	2,900,000	2,026,600	4,926,600
2029-2033	3,545,000	1,393,250	4,938,250
2034-2038	4,295,000	637,325	4,932,325
2039-2041	1,535,000	52,950	1,587,950
Total	$ 14,510,000	$ 6,523,473	$ 21,033,473

Olympic View Water and Sewer District
Notes to Financial Statements
December 31, 2018 and 2017

NOTE 7 CHANGES IN LONG-TERM LIABILITIES

Changes in long-term liabilities were as follows:

	Balance - Beginning of Year	Additions	Reductions	Balance - End of Year	Amounts Due Within One Year
2018:					
Long-Term Debt Payable from Unrestricted Assets:					
Public Works Trust Fund Loan	57,553	-	(19,184)	38,368	19,184
Public Works Trust Fund Loan	25,964	-	(8,655)	17,309	8,655
Public Works Trust Fund Loan	32,246	-	(8,062)	24,185	8,061
Public Works Trust Fund Loan	40,263	-	(8,053)	32,211	8,053
Public Works Trust Fund Loan	180,891	-	(25,841)	155,049	25,841
Total	$ 336,917	$ -	$ (69,795)	$ 267,122	$ 69,795
Long-Term Debt Payable from Restricted Assets:					
2009 Revenue Bonds	$ 245,000	$ -	$ (120,000)	$ 125,000	$ 125,000
2009 Revenue Bonds	175,000	-	(85,000)	90,000	90,000
2015 Revenue Refunding Bonds	4,825,000	-	(35,000)	4,790,000	35,000
2016 Revenue Refunding Bonds	9585000	-	(80,000)	9,505,000	130,000
Total	$ 14,830,000	$	(320,000)	$ 14,,510,000	$ 380,000
	$ 85,861	$ 101,443	$ (97,6916)	$ 89,388	$ 89,388
Net Pension Liability	$ 648,225	$ 31,062	$ (192,729)	$ 486,560	

	Balance - Beginning of Year	Additions	Reductions	Balance - End of Year	Amounts Due Within One Year
2017:					
Long-Term Debt Payable from Unrestricted Assets:					
Public Works Trust Fund Loan	$ 48,656	$ -	$ (48,655)	$ -	$ -
Public Works Trust Fund Loan	76,737	-	(19,184)	57,553	19,184
Public Works Trust Fund Loan	34,619	-	(8,655)	25,964	8,655
Public Works Trust Fund Loan	40,307	-	(8,062)	32,246	8,061
Public Works Trust Fund Loan	48,315	-	(8,053)	40,263	8,053
Public Works Trust Fund Loan	206,733	-	(25,841)	180,891	25,841
Total	$ 455,367	$ -	$ (118,450)	$ 336,917	$ 69,795
Long-Term Debt Payable from Restricted Assets:					
2009 Revenue Bonds	$ 365,000	$ -	$ (120,000)	$ 245,000	$ 120,000
2009 Revenue Bonds	205,000	-	(30,000)	175,000	85,000
2015 Revenue Refunding Bonds	4,860,000	-	(35,000)	4,825,000	35,000
2016 Revenue Refunding Bonds	9,660,000	-	(75,000)	9,55,000	80,000
Total	$ 15,090,000	$ -	$ (260,000)	$ 14,830,000	$ 320,000
Compensated Absences	$ 69,473	$ 85,879	$ (69,491)	$ 85,861	$ 85,861
Net Pension Liability	$ 941,623	$ -	$ (293,398)	$ 648,225	

NOTE 8 REFUNDED BONDS

2016 Refunding

On May 24, 2016, the District issued $9,660,000 of Water and Sewer Revenue Improvement and Refunding Bonds. Of the $9,660,000 issued, $4,800,000 of the bonds with interest rates of 2.00% to 4.00% to advance refund $4,715,000 of outstanding 2009B bonds with interest rates of 4.15% to 4.75%. Proceeds of refunding bonds totaling $5,248,098, including $31,207 representing accrued interest to the refunding date, were used to purchase U.S. Government securities to provide the beginning escrow balance. The securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the refunded bonds. As a result, the refunded bonds were considered to be extinguished and the liability for those bonds is not included in the accompanying financial statements. The principal amount of refunded bonds outstanding in this fund at December 31, 2016 is $4,715,000.

Although the advance refunding resulted in an accounting loss of $573,345 (which will be amortized over the shorter of the life of the refunded or refunding bonds), the District in effect reduced its aggregate debt service payments by $791,262 through December 31, 2039 and obtained an economic gain (difference between the present values of the old and new debt service payments) of $612,168.

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* as of and for the years ended December 31, 2018 and 2017:

	2018	2017
Pension Liabilities	$ 486,560	$ 648,225
Pension Assets	$ -	$ -
Deferred Outflows of Resources	$ 119,086	$ 94,204
Deferred Inflows of Resources	$ (200,080)	$ 122,230
Pension Expense	$ 19,622	$ 31,962

State Sponsored Pension Plans

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

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

Department of Retirement Systems
Communications Unit
PO Box 48380
Olympia, WA 98540-8380

NOTE 9 PENSION PLANS (CONTINUED)

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

Public Employees Retirement System (PERS)

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

PERS Plan 1

PERS Plan 1 provides retirement, disability, and death benefits. Retirement benefits are determined as 2% 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%. 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%. Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates. The District's actual contributions to the plan were $51,763 and $45,951 for PERS 1 for the years ended December 31, 2018 and 2017, respectively.

NOTE 9 PENSION PLANS (CONTINUED)

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

PERS Plan 1 Actual Contribution Rates	Employer	Employee
2018		
January through August		
PERS Plan 1	7.49%	6.00%
PERS Plan 1 UAAL	5.03%	
Administrative Fee	0.18%	
Total	12.70%	6.00%
September through December		
PERS Plan 1	7.52%	6.00%
PERS Plan 1 UAAL	5.13%	
Administrative Fee	0.18%	
Total	12.83%	6.00%
2017		
January through June		
PERS Plan 1	6.23%	6.00%
PERS Plan 1 UAAL	4.77%	
Administrative Fee	0.18%	
Total	11.18%	6.00%
July through December		
PERS Plan 1	7.49%	6.00%
PERS Plan 1 UAAL	5.03%	
Administrative Fee	0.18%	
Total	12.70%	6.00%

PERS Plan 2/3

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

NOTE 9 PENSION PLANS (CONTINUED)

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 3% 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 5% 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 3% 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

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% and escalate to 15% 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 unfunded actuarially accrued liability (UAAL) and an administrative expense that is currently set at 0.18%. 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) were as follows:

NOTE 9 PENSION PLANS (CONTINUED)

PERS Plan 2/3 Actual Contribution Rates	Employer 2/3	Employee 2	Employee 3
2018			
January through August			
PERS Plan 2/3	7.49%	7.38%	Varies
PERS Plan 1 UAAL	5.03%		
Administrative Fee	0.18%		
Total	12.70%	7.38%	Varies
September through December			
PERS Plan 2/3	7.52%	7.41%	Varies
PERS Plan 1 UAAL	5.13%		
Administrative Fee	0.18%		
Total	12.83%	7.41%	Varies
2017			
January through June			
PERS Plan 2/3	6.23%	6.12%	Varies
PERS Plan 1 UAAL	4.77%		
Administrative Fee	0.18%		
Total	11.18%	6.12%	Varies
July through December			
PERS Plan 2/3	7.49%	7.38%	Varies
PERS Plan 1 UAAL	5.03%		
Administrative Fee	0.18%		
Total	12.70%	7.38%	Varies

Contributions for PERS 2/3 were $76,671 and $64,426, for years ended December 31.2018 and 2017, respectively.

Actuarial Assumptions

The 2018 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 2017 TPL for each of the DRS plans was determined using the 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*.

Additional 2018 assumptions for subsequent events and law changes are current as of the 2018 actuarial valuation report. Additional 2017 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 and 2017. 2018 Plan liabilities were rolled forward from June 30, 2017, to June 30, 2018, and 2017 Plan

NOTE 9 PENSION PLANS (CONTINUED)

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:** 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% 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 assumption in 2018 since the 2017 valuation.

- Updated valuation interest rate, general salary growth, and inflation assumptions to be consistent with the assumptions adopted by the Pension Funding Council and LEOFF 2 Board.
  - Lowered the valuation interest rate from 7.70% to 7.50% for all systems except LEOFF 2. For LEOFF 2 the valuation interest rate was lowered from 7.50% to 7.40 %.
  - Lowered 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.

Discount Rate

The discount rate used to measure the total pension liability for all DRS plans was 7.4% for all plans included in 2018. To determine that rate, an asset sufficiency test was completed to test whether each pension plan's fiduciary net position was sufficient to make all projected future benefit payments for current plan members.

Consistent with current law, the asset sufficiency test included an assumed 7.50% long-term discount rate to determine funding liabilities for calculating future contribution rates requirements.

Consistent with the long-term expected rate of return, a 7.4% future investment rate of return on invested assets was assumed for the test. Contributions from plan members and employers are assumed to continue being made at contractually required rates (including PERS 2/3 employers, whose rates include a component for the PERS 1 Plan liabilities).

Based on these assumptions, the pension plans' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return of 7.4% was used to determine the total liability.

NOTE 9 PENSION PLANS (CONTINUED)

<u>Long-Term Expected Rate of Return</u>

OSA selected a 7.40% long-term expected rate of return on pension plan investments using a building block method. In selecting this assumption, OSA reviewed the historical experience data, considered the historical conditions that produced past annual investment returns, and considered Capital Market Assumptions (CMAs) and simulated expected investment returns

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.

Asset Class	Target Allocation	% Long-Term Expected Real Rate of Return Arithmetic
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%
	100%	

NOTE 9 PENSION PLANS (CONTINUED)

Sensitivity of NPL

The table below presents the District's proportionate share of the net pension liability calculated using the discount rate of 7.4%, 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%) or 1-percentage point higher (8.4%) than the current rate.

	1% Decrease 6.4%	Current Discount Rate 7.4%	1% Increase 8.4%
2018:			
PERS 1	$401,691	$326,860	$262,042
PERS 2/3	$730,523	$159,711	($308,291)
	1% Decrease 6.5%	Current Discount Rate 7.5%	1% Increase 8.5%
2017			
PERS1	$431,623	$354,315	$287,349
PERS 2/3	$791,917	$293,948	($114,070)

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 December 31, 2018 and 2017, the District reported a total pension liability (asset) for its proportionate share of the net pension liabilities as follows (measured as of June 30, 2018 and 2017):

	Liability (Asset) 2018	Liability (Asset) 2017
PERS 1	$326,869	$354,315
PERS 2/3	$159,711	$293,945
Total	$486,580	$648,260

NOTE 9 PENSION PLANS (CONTINUED)

The District's proportionate share of the collective net pension liabilities was as follows:

	Proportionate Share 6/30/17	Proportionate Share 6/30/18	Change in Proportion
PERS 1	0.007467%	0.007319%	-0.001480%
PERS 2/3	0.008460%	0.009354%	0.000894%

	Proportionate Share 6/30/16	Proportionate Share 6/30/17	Change in Proportion
PERS 1	0.009243%	0.007467%	-0.001776%
PERS 2/3	0.008843%	0.008460%	-0.000383%

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

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

Pension Expense

For the year ended December 31, 2018 and 2017, the District recognized pension expense as follows:

	2018	2017
PERS 1	$ 21,546	$ (70,552)
PERS 2/3	(1,924)	38,561
Expenses and Other	-	3,612
Total	$ 19,622	$(31,962)

NOTE 9 PENSION PLANS (CONTINUED)

Deferred Outflows of Resources and Deferred Inflows of Resources

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

2018	Deferred Outflows of Resources	Deferred Inflows of Resources
PERS 1		
Differences Between Expected and Actual Experience	$ -	$ -
Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments	$ -	$ 12,990.00
Changes of Assumptions	$ -	$ -
Changes in Proportion and Differences Between Contributions and Proportionate Share of Contributions	$ -	$ -
Contributions Subsequent to the Measurement Date	$ 26,252.00	$ -
Total PERS 1	$ 26,252.00	$ 12,990.00
PERS 2/3		
Differences Between Expected and Actual Experience	$ 19,576.00	$ 27,963.00
Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments	$ -	$ 98,006.00
Changes of Assumptions	$ 1,868.00	$ 45,453.00
Changes in Proportion and Differences Between Contributions and Proportionate Share of Contributions	$ 32,604.00	$ 15,669.00
Contributions Subsequent to the Measurement Date	$ 38,785.00	$ -
Total PERS 2/3	$ 92,833.00	$ 187,091.00
Total All Plans	$ 119,085.00	$ 200,081.00

NOTE 9 PENSION PLANS (CONTINUED)

Deferred Outflows of Resources and Deferred Inflows of Resources (Continued)

2017	Deferred Outflows of Resources	Deferred Inflows of Resources
PERS 1		
Differences Between Expected and Actual Experience	$ -	$ -
Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments	$ -	$ 13,222.00
Changes of Assumptions	$ -	$ -
Changes in Proportion and Differences Between Contributions and Proportionate Share of Contributions	$ -	$ -
Contributions Subsequent to the Measurement Date	$ 23,714.00	$ -
Total PERS 1	$ 23,714.00	$ 13,222.00
PERS 2/3		
Differences Between Expected and Actual Experience	$ 29,784.00	$ 9,667.00
Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments	$ -	$ 78,359.00
Changes of Assumptions	$ 3,122.00	$ -
Changes in Proportion and Differences Between Contributions and Proportionate Share of Contributions	$ 2,941.00	$ 21,082.00
Contributions Subsequent to the Measurement Date	$ 34,643.00	$ -
Total PERS 2/3	$ 70,490.00	$ 109,108.00
Total All Plans	$ 94,204.00	$ 122,330.00

NOTE 9 PENSION PLANS (CONTINUED)

Deferred Outflows of Resources and Deferred Inflows of Resources (Continued)

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

Year Ending December 31	PERS 1	PERS 2/3
2019	568	(15,122)
2020	(2,840)	(30,174)
2021	(8,521)	(56,854)
2022	(2,197)	(19,079)
2023		(5,087)
Thereafter		(6,726)
Total	$ (12,990)	$ (133,042)

NOTE 10 DEFERRED COMPENSATION PLAN

The District offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan assets are invested with the Washington State Deferred Compensation Program. The plan, available to all employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. The District made no contributions to the plan in 2018 or 2017.

NOTE 11 OTHER POST EMPLOYMENT BENEFITS

Plan Description:

In addition to the pension benefits described, the District administers a Post Retirement Health Care Program under a single-employer defined benefit Other Post Employment Benefit (OPEB) plan. This OPEB plan does not issue a stand-alone financial report nor is it included in the report of another entity.

We used the alternative measurement method permitted under GASB Statement No. 45. A single retirement age of 62.4 was assumed for all active members to determine the AAL and normal cost. Retirement, disablement, termination and mortality rates were assumed to follow the PERS 2 rates used in June 2015, actuarial valuation report issued by the Office of the State Actuary (OSA). Healthcare costs and trends were determined by Milliman and used by OSA in the statewide PEBB study performed in 2015. The results were based on grouped data with four active groupings and four inactive groupings. The actuarial cost method used to determine the AAL was the Projected Unit Credit. The AAL and NOO are amortized on an open basis as a level dollar over 30 years. These assumptions are individually and collectively reasonable for the purpose of this valuation.

NOTE 11 OTHER POSTEMPLOYMENT BENEFIT (OPEB) PLAN

The following table represents the aggregate OPEB amounts for all plans subject to the requirements of the GASB Statement 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* for the year ended December 31, 2018:

OPEB Liabilities	$ 192,960
Deferred Outflows of Resources	$ 111
OPEB Expense	$ 6,349

The District provides its retirees employer subsidies for postemployment medical insurance benefits (OPEB) through the Public Employees Benefits Board (PEBB). The actual medical costs are paid through annual fees and premiums to the PEBB.

General Information about the OPEB Plan

Plan Description - The PEBB was created within the Washington State Health Care Authority to administer medical, dental and life insurance plans for public employees and retirees and their dependents. District employees who end public employment are eligible to continue PEBB insurance coverage as a retiree if they retire under the public employees' retirement system and are vested in that system.

Benefits Provided - The Washington State Health Care Authority (HCA) administers PEBB plan benefits. For medical insurance coverage, the HCA has two claims pools: one covering employees and non-Medicare eligible retirees, and the other covering retirees enrolled in Medicare Parts A and B. Each participating employer pays a portion of the premiums for active employees. For retirees, participating employers provide two different subsidies: an explicit subsidy and an implicit subsidy.

The explicit subsidies are monthly amounts paid per post-65 retiree and spouse. As of the valuation date, the explicit subsidy for post-65 retirees and spouses is the lesser of $150 or 50% of the monthly premiums. As of January 1, 2019, the subsidy will be increased to $168 per month. The retirees and spouses currently pay the premium minus $150 when the premium is over $300 per month and pay half the premium when the premium is lower than $300.

The implicit medical subsidy is the difference between the total cost of medical benefits and the premiums. For pre-65 retirees and spouses, the retiree pays the full premium amount, but that amount is based on a pool that includes active employees. Active employees will tend to be younger and healthier than retirees on average, and therefore can be expected to have lower average health costs. For post-65 retirees and spouses, the retiree does not pay the full premium due to the subsidy discussed above.

NOTE 11 OTHER POSTEMPLOYMENT BENEFIT (OPEB) PLAN (Continued)

Employees Covered by Benefit Terms

At December 31, the following employees were covered by the benefit terms:

	2018
Inactive Employees or Beneficiaries Currently Receiving Benefit Payments	0
Inactive Employees or Entitled to But Not Yet Receiving Benefit Payments	0
Active Employees	5

Funding Policy

The plan is funded on a pay-as-you-go basis and there are no assets accumulating in a qualifying trust.

Contributions

The OPEB relationship between PEBB employers and their employees and retirees is not formalized in a contract or plan document. Rather, the benefits are provided in accordance with a substantive plan. A substantive plan is one in which the plan terms are understood by the employers and plan members. This understanding is based on communications between the employers and plan members and the historical pattern of practice with regard to the sharing of benefit costs.

Total OPEB Liability

The District's total OPEB liability was measured as of June 30, 2018 and was determined using the alternative measurement method as of that date. All significant assumptions utilized in the alternative measurement were provided by the Washington State Actuary.

Total OPEB Liability (Continued)

The alternative measurement was based on the following methods and assumptions:

Methodology:	
Actuarial Valuation Date	06/30/2018
Actuarial Measurement Date	06/30/2018
Actuarial Cost Method	Entry Age
Amortization Method	Recognized Immediately
Assumptions:	
Discount Rate – Based on Bond Buyer General Obligation 20-Bond Municipal Index	
Beginning of Measurement Year	3.58%
End of Measurement Year	3.87%

NOTE 11 OTHER POSTEMPLOYMENT BENEFIT (OPEB) PLAN (Continued)

Projected Salary Changes	3.75% + Service Based Increases
Healthcare Trends	Initial rate is approximately 7% trends down to about 5% in 2080

Trend assumptions vary slightly by medical plan. For additional detain on the health-Care trend rates, see Office of the State Actuary's 2017 PEBB OPEB Actuarial Valuation Report

Mortality Rates:	
Base Mortality Table	Healthy RP-2000
Age Setback	1 year
Mortality Improvements	100% Scale BB
Projection Period	Generational
Inflation Rate	3.00%
Post Retirement Participation Percentage	65.00%
Percentage with Spouse Coverage	45.00%

Changes in the Total OPEB Liability

	2018
Balance – January 1	$ 186,611
Service Cost	11,760
Interest Cost	7,102
Changes in Experience and Data Assumptions	(12,513)
Changes in Benefit Terms	
Benefit Payments	
Other	
Total	$ 192,960

Sensitivity of the Total OPEB Liability to Changes in the Healthcare Cost Trend Rate and Discount Rate

The following presents the total OPEB liability of the District calculated using a discount rate and healthcare cost trend rates that are 1-percentage point lower or 1-percentage-point higher than the current discount rate and health care cost trend rates:

2018	1% Decrease	Current Rate	1% Increase
Discount Rate	$238,669	$192,960	$157,333
Healthcare Trend	$152,687	$192,960	$246,235

NOTE 11 OTHER POSTEMPLOYMENT BENEFIT (OPEB) PLAN (Continued)

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

The District recognized OPEB expense for the years ended December 31 as follows:

Service Cost	$ 11,760
Interest Cost	$ 7,102
Changes in Experience and Data Assumptions	$(12,513)
Total	$ 6,349

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
2018		
Contributions Subsequent to the Measurement Date	$ 111	

Deferred outflows and deferred inflows of resources related to OPEB resulting from the District's contributions subsequent to the measurement date will be recognized as a reduction of the total OPEB liability in the following year.

NOTE 12 RISK MANAGEMENT

In 2017 and 2018 The District was a member of the Water and Sewer Risk Management Pool (Pool). Chapter 48.62 RCW authorizes the governing body of any one or more governmental entities to form together into or join a pool or organization for the joint purchasing of insurance, and/or joint self-insuring, and/or joint hiring or contracting for risk management services to the same extent that they may individually purchase insurance, self-insurance, or hire or contract for risk management services. An agreement to form a pooling arrangement was made pursuant to the provisions of Chapter 39.34 RCW, the Interlocal Cooperation Act. The Pool was formed in November 1987 when water and sewer districts in the State of Washington joined together by signing an Interlocal Governmental Agreement to pool their self-insured losses and jointly purchase insurance and administrative services. The Pool currently has 62 members. The Pool's fiscal year is November 1st through October 31st.

The Pool allows members to jointly purchase insurance coverage, establish a plan of self-insurance coverage, and provide related services, such as risk management and loss prevention. The Pool provides the following forms of group purchased insurance coverage for its members: Property (including Building, Electronic Data Processing, Boiler and Machinery, and Mobile Equipment); General Liability; Automotive Liability; Excess Liability, Crime; Public Officials Liability; Identity Fraud Reimbursement Program; and bonds of various types. All coverages are on an "occurrence" basis.

NOTE 12 RISK MANAGEMENT (continued)

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

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

Pool members are responsible for a deductible on each coverage and the Pool is responsible for the remainder of the self-insured retention listed in the table above except where noted as follows. The insurance carriers then cover the loss to the maximum limit of the policy. Each member is responsible for the full deductible applicable to the perils of earthquake and flood (the Pool is not responsible for any deductible or self-insured retention for earthquake and flood claims). Each member is also responsible for the full deductible applicable to the Cyber Liability, and that part of a Boiler & Machinery deductible, which exceeds $25,000.

Upon joining, the members contract to remain in the Pool for one full policy period. Following completion of one full policy period, members must give six months notice before terminating participation (e.g. to withdraw from the Pool on November 1, 2018, written notice must be in

NOTE 12 RISK MANAGEMENT (continued)

possession of the Pool by April 30, 2018). The Interlocal Governmental Agreement is renewed automatically each year. Even after termination of relationship with the Pool, a member is still responsible for contributions to the Pool for any unresolved, unreported, and in process claims, for the period that the District was a signatory to the Interlocal Governmental Agreement.

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

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

Effective November 1, 2018 Olympic View Water and Sewer District became a member of the Washington Cities Insurance Authority (WCIA). Utilizing Chapter 48.62 RCW (self-insurance regulation) and Chapter 39.34 RCW (Interlocal Cooperation Act), nine cities originally formed WCIA on January 1, 1981. WCIA was created for the purpose of providing a pooling mechanism for jointly purchasing insurance, jointly self-insuring, and / or jointly contracting for risk management services. WCIA has a total of 160 members.

New members initially contract for a three-year term, and thereafter automatically renew on an annual basis. A one-year withdrawal notice is required before membership can be terminated. Termination does not relieve a former member from its unresolved loss history incurred during membership.

Liability coverage is written on an occurrence basis, without deductibles. Coverage includes general, automobile, police, errors or omissions, stop gap, employment practices and employee benefits liability. Limits are $4 million per occurrence in the self-insured layer, and $16 million in limits above the self-insured layer is provided by reinsurance. Total limits are $20 million per occurrence subject to aggregates and sublimits. The Board of Directors determines the limits and terms of coverage annually.

Insurance for property, automobile physical damage, fidelity, inland marine, and boiler and machinery coverage are purchased on a group basis. Various deductibles apply by type of coverage. Property coverage is self-funded from the members' deductible to $750,000, for all perils other than flood and earthquake, and insured above that to $300 million per occurrence subject to aggregates and sublimits. Automobile physical damage coverage is self-funded from the members' deductible to $250,000 and insured above that to $100 million per occurrence subject to aggregates and sublimits.

In-house services include risk management consultation, loss control field services, and claims and litigation administration. WCIA contracts for certain claims investigations, consultants for personnel and land use issues, insurance brokerage, actuarial, and lobbyist services.

WCIA is fully funded by its members, who make annual assessments on a prospectively rated basis, as determined by an outside, independent actuary. The assessment covers loss, loss adjustment, reinsurance and other administrative expenses. As outlined in the interlocal, WCIA retains the right to additionally assess the membership for any funding shortfall.

NOTE 12 RISK MANAGEMENT (continued)

An investment committee, using investment brokers, produces additional revenue by investment of WCIA's assets in financial instruments which comply with all State guidelines.

A Board of Directors governs WCIA, which is comprised of one designated representative

from each member. The Board elects an Executive Committee and appoints a Treasurer to provide general policy direction for the organization. The WCIA Executive Director reports to the Executive Committee and is responsible for conducting the day to day operations of WCIA.

NOTE 13 MAJOR SUPPLIERS

Sewage collected by the District is treated by other entities. The City of Edmonds and King County Wastewater Treatment Division (KCWTD/METRO) provide approximately 95% and 5%, respectively, of the District's sewage treatment.

The District purchases approximately 60% of its water from the City of Seattle.

NOTE 14 LEASES

The Olympic View Water and Sewer District leases space for cellular phone, satellite radio, and wireless internet antenna on or around the 2.5MG Water Storage Tank.

The lease terms are variable with five-year terms and up to three automatic extensions at the end of five years. All leases may be terminated during any of the renewal periods, by either party, with sixty (60) days written notice. Future annual rental income due to the District is as follows:

Year Ending December 31,	Amount
2019	131,468
2020	135,384
2021	139,457
Total	$ 406,309

NOTE 15 JOINT VENTURES

The District owns 16.551% of the capacity of the City of Edmonds Treatment Plant based on a contract with the City of Edmonds, the City of Mountlake Terrace, and Ronald Wastewater District.

The contract requires that each party contribute to the construction of, maintenance and operation of and replacement of the treatment plant based on the percentage of capacity owned and used by each party. On an annual basis the City of Edmonds establishes a budget for operations, maintenance and capital requirements. Parties contribute in accordance with the contract.

NOTE 15 JOINT VENTURES (continued)

At the end of each year, the City of Edmonds reconciles budgeted expenses to actual expenses. An annual charge or credit is applied to the District's account based on the difference between budgeted and actual expenses.

Maintenance and Operations*:*

	2018	2017
M&O Expense	$ 475,997	$ 839,428

Capital Contributions*:*

	2017	2016
Beginning Balance	$ 5,612,623	$ 4,950,684
Capital Contribution	21,611	661,939
Ending Balance	$ 5,634,234	$ 5,612,623

The District is also obligated to pay estimated future capital contributions for the District's portion of certain City projects related to the Edmonds Treatment Plant as follows:

Year Ending December 31,	Amount
2019	441,095
2020	1,281,266
2021	1,264,803
2022	92,321
2023	148,959
Total	$ 3,228,444

The District is also a member of the oversight committee for the plant. The physical asset is owned and operated by the City of Edmonds.

The capacity owned by the District exceeds current demand. Excess capacity was purchased to meet growth demands of the District.

Additional information can be found in the financial statements of the City of Edmonds, City of Mountlake Terrace, and Ronald Wastewater District.

NOTE 16 COMMITMENTS AND CONTINGENCY

As of December 31, 2018, the District is obligated under construction contracts totaling $706,966.

OLYMPIC VIEW WATER AND SEWER DISTRICT
SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
PERS 1
AS OF JUNE 30, 2018
LAST TEN FISCAL YEARS

	2018	2017	2016	2015
Employer's Proportion of the Net Pension Liability (Asset)	0.007319%	0.007467%	0.009243%	0.009094%
Employer's Proportionate Share of the Net Pension Liability	$326,869	$354,315	$496,397	$475,675
Covered Payroll	976,537	$878,037	$951,082	$935,661
Employer's Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll	33.47%	40.35%	52.2%	50.8%
Plan fiduciary net position as a percentage of the total pension liability	63.22%	61.24%	57.03%	59.10%

Note to Schedule:

PERS 1 contributions are from the component of PERS 2 contributions required to address the PERS 1 unfunded actuarially accrued liability (UAAL).

* Information is presented only for those years for which information is available.

OLYMPIC VIEW WATER AND SEWER DISTRICT
SCHEDULES OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
PERS 2/3
AS OF JUNE 30, 2018
LAST TEN FISCAL YEARS*

	2018	2017	2016	2015
Employer's Proportion of the Net Pension liability (Asset)	0.009354	0.008460%	0.008843%	0.009165%
Employer's Proportionate Share of the Net Pension Liability	159,711	293,945	445,226	327,470
Covered Payroll	976,537	878,037	951,082	935,661
Employer's Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll	33.47%	40.35%	53.81%	40.12%
Plan fiduciary net position as a percentage of the total pension liability	96.0%	91.0%	85.85%	89.20%

* Information is presented only for those years for which information is available.

OLYMPIC VIEW WATER AND SEWER DISTRICT
SCHEDULES OF EMPLOYER CONTRIBUTIONS
PERS 1
AS OF DECEMBER 31, 2018
LAST TEN FISCAL YEARS*

Statutorily or Contractually Required Contributions	$51,763	$45,951	$47,512	$49,522
Contributions in Relation to the Statutorily or Contractually Required Contributions	(51,763)	(45,951)	(47,512)	(49,522)
Contribution Deficiency (Excess)	-	-	-	-
Covered Payroll	$1,022,269	$937,212	$827,446	$816,273
Contributions as a Percentage of Covered Payroll	5.06%	4.90%	6.41%	6.07%

Note to Schedule:

PERS 1 contributions are from the component of PERS 2 contributions required to address the PERS 1 unfunded actuarially accrued liability (UAAL).

* Information is presented only for those years for which information is available

OLYMPIC VIEW WATER AND SEWER DISTRICT
SCHEDULES OF EMPLOYER CONTRIBUTIONS
PERS 2/3
AS OF DECEMBER 31, 2018
LAST TEN FISCAL YEARS*

	2018	2017	2016	2015
Statutorily or Contractually Required Contributions	$76,671	$64,426	$50,398	$48,690
Contributions in Relation to the Statutorily or Contractually Required Contributions	$(76,671)	$(64,426)	$(50,398)	$(48,690)
Contribution Deficiency (Excess)	-	-	-	-
Covered Payroll	$1,022,269	$937,212	$786,239	$836,904
Contributions as a Percentage of Covered Payroll	7.50%	6.87%	6.41%	5.82%

* Information is presented only for those years for which information is available.

OLYMPIC VIEW WATER AND SEWER DISTRICT
SCHEDULE OF CHANGES IN TOTAL OPEB LIABILITY AND RELATED RATIOS
PUBLIC EMPLOYEES BENEFIT BOARD FOR THE YEAR ENDED DECEMBER 31, 2018

		2018
Total OPEB liability - beginning	$	-
Service cost		11,760
Interest		7,102
Changes in Experience Data and Assumptions		(12,513)
Changes in Benefit Terms		0
Transactions Subsequent to Measurement Date		111
Other Changes in Fiduciary Net Position		
Total OPEB liability - ending		6,460
Covered-employee payroll		420,667
Total OPEB liability as a % of covered payroll		1.54%

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	PublicRecords@sao.wa.gov
Main telephone	(360) 902-0370
Toll-free Citizen Hotline	(866) 902-3900
Website	www.sao.wa.gov