



Office of the Washington State Auditor
Pat McCarthy

Financial Statements Audit Report

Ronald Wastewater District

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

Published December 26, 2019

Report No. 1025450





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

December 26, 2019

Board of Commissioners
Ronald Wastewater District
Shoreline, Washington

Report on Financial Statements

Please find attached our report on the Ronald Wastewater District's financial statements.

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

Sincerely,

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

Pat McCarthy
State Auditor
Olympia, WA

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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**

**Ronald Wastewater District
January 1, 2017 through December 31, 2018**

Board of Commissioners
Ronald Wastewater District
Shoreline, 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 Ronald Wastewater 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 18, 2019.

As discussed in Note 11 of the notes to the financial statements, in 2017, the District entered into an agreement with the City of Shoreline to assume day-to-day operations of the District. Through this arrangement, the District employees became the City employees and the District transferred its personal assets to the City. Our opinion is not modified with respect to this matter.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audits of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of the District's compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

PURPOSE OF THIS REPORT

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. However,

this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

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

Pat McCarthy

State Auditor

Olympia, WA

December 18, 2019

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Ronald Wastewater District January 1, 2017 through December 31, 2018

Board of Commissioners
Ronald Wastewater District
Shoreline, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the Ronald Wastewater 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 Ronald Wastewater 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 11 of the notes to the financial statements, in 2017, the District entered into an agreement with the City of Shoreline to assume day-to-day operations of the District. Through this arrangement, the District employees became the City employees and the District transferred its personal assets to the City. 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 18, 2019 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

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

Pat McCarthy

State Auditor

Olympia, WA

December 18, 2019

FINANCIAL SECTION

Ronald Wastewater District January 1, 2017 through December 31, 2018

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2018 and 2017

BASIC FINANCIAL STATEMENTS

Statements of Net Position – 2018 and 2017

Statements of Revenues, Expenses and Changes in Fund Net Position – 2018 and 2017

Statements of Cash Flows – 2018 and 2017

Notes to Financial Statements – 2018 and 2017

REQUIRED SUPPLEMENTARY INFORMATION

Schedules of Proportionate Share of the Net Pension Liability – PERS 1, PERS 2/3 –
2018 and 2017

Schedules of Employer Contributions – PERS 1, PERS 2/3 – 2018 and 2017

**RONALD WASTEWATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2018 AND 2017**

INTRODUCTION

Ronald Wastewater District was incorporated in 1951 to provide sewer services to customers residing within the District's boundaries. Our mission is to provide safe, efficient, and reliable wastewater collection services.

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of 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 credit worthiness.

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

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

**RONALD WASTEWATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2018 AND 2017**

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

CONDENSED STATEMENTS OF NET POSITION AT DECEMBER 31

	2018	2017	2016
Capital Assets	\$ 22,525,982	\$ 23,236,997	\$ 22,474,101
Other Assets	8,724,609	5,971,339	7,089,307
Total Assets	<u>31,250,591</u>	<u>29,208,336</u>	<u>29,563,408</u>
Deferred Outflows of Resources	<u>-</u>	<u>-</u>	<u>156,988</u>
Long-Term Liabilities	-	-	953,767
Other Liabilities	795,611	1,005,442	875,191
Total Liabilities	<u>795,611</u>	<u>1,005,442</u>	<u>1,828,958</u>
Deferred Inflows of Resources	<u>-</u>	<u>-</u>	<u>79,491</u>
Net Investment in Capital Assets	22,464,203	23,102,006	22,474,101
Restricted for Impaired Investments	11,055	14,831	16,107
Unrestricted Amounts	7,979,722	5,086,057	5,321,739
Total Net Position	<u><u>\$ 30,454,980</u></u>	<u><u>\$ 28,202,894</u></u>	<u><u>\$ 27,811,947</u></u>

**RONALD WASTEWATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2018 AND 2017**

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

**CONDENSED STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN FUND
NET POSITION FOR THE YEAR ENDED DECEMBER 31**

	2018	2017	2016
Sewer Service Charges	\$ 15,972,528	\$ 15,329,738	\$ 14,630,486
Other Operating Revenue	307,493	286,946	269,012
Total Operating Revenues	<u>16,280,021</u>	<u>15,616,684</u>	<u>14,899,498</u>
Maintenance and Operating Costs	12,738,413	11,897,213	11,011,301
General and Administrative Expenses	2,252,866	3,149,708	2,542,690
Depreciation	1,097,468	1,097,386	1,078,528
Total Operating Expenses	<u>16,088,747</u>	<u>16,144,307</u>	<u>14,632,519</u>
Operating Income (Loss)	191,274	(527,623)	266,979
Nonoperating Revenue (Expense):			
Interest	95,626	66,285	47,381
Miscellaneous	13,394	20,059	10,447
Gain on Transfer of Employees	-	935,079	-
Net Gain (Loss) on Disposal of Assets	-	(206,954)	(2,609)
Private Property Improvements	-	(81,840)	-
Income Before Capital Contributions	<u>300,294</u>	<u>205,006</u>	<u>322,198</u>
Capital Contributions	<u>1,951,792</u>	<u>185,941</u>	<u>1,088,395</u>
Increase (Decrease) in Net Position	2,252,086	390,947	1,410,593
Net Position - January 1	<u>28,202,894</u>	<u>27,811,947</u>	<u>26,401,354</u>
Net Position - December 31	<u><u>\$ 30,454,980</u></u>	<u><u>\$ 28,202,894</u></u>	<u><u>\$ 27,811,947</u></u>

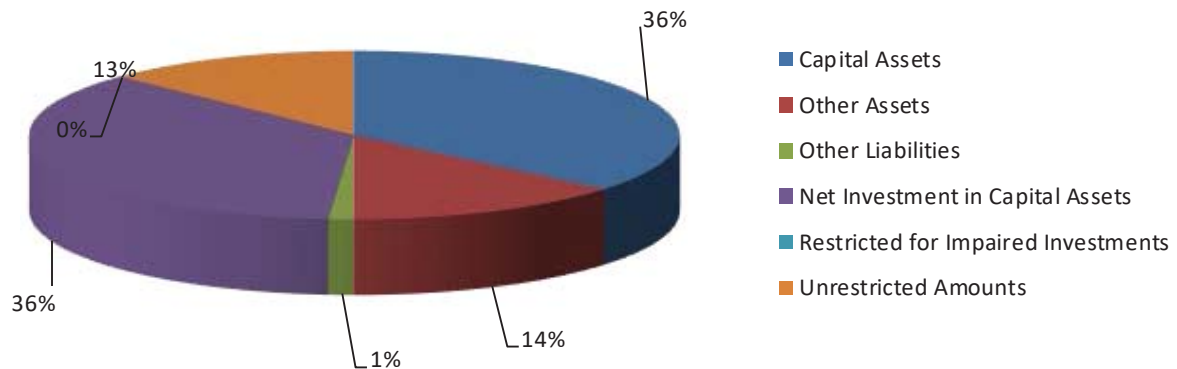
RONALD WASTEWATER DISTRICT MANAGEMENT'S DISCUSSION AND ANALYSIS DECEMBER 31, 2018 AND 2017

FINANCIAL POSITION

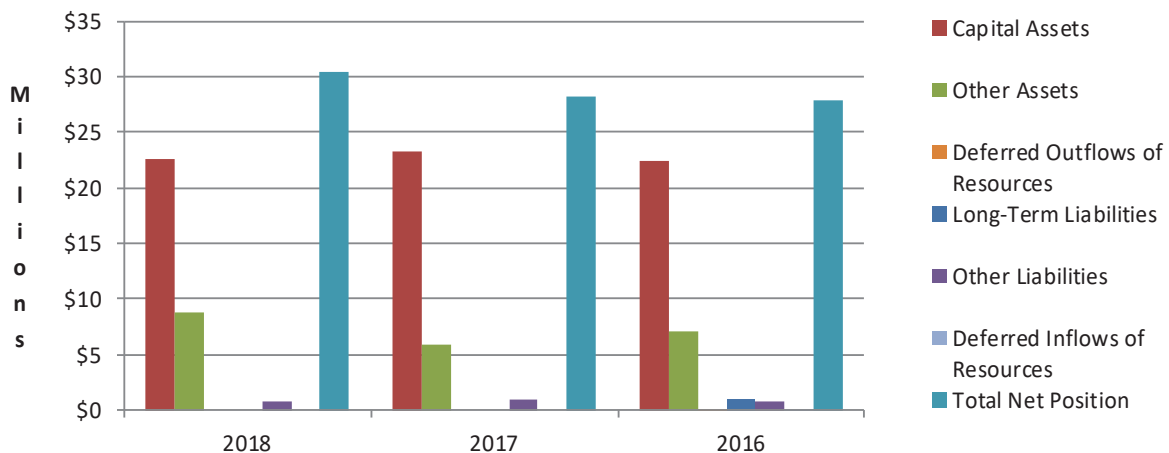
The District's overall financial position at December 31, 2018 and 2017 is strong. The District is financed primarily by equity. Substantial liquid assets are currently available to fund liabilities and construction. Capital assets decreased in 2018 due to depreciation in excess of construction activity, donated systems and asset purchases. Capital assets increased in 2017 due to growth in the customer base and construction activity to upgrade the system.

The following charts indicate the components of financial position.

2018 STATEMENT OF NET POSITION



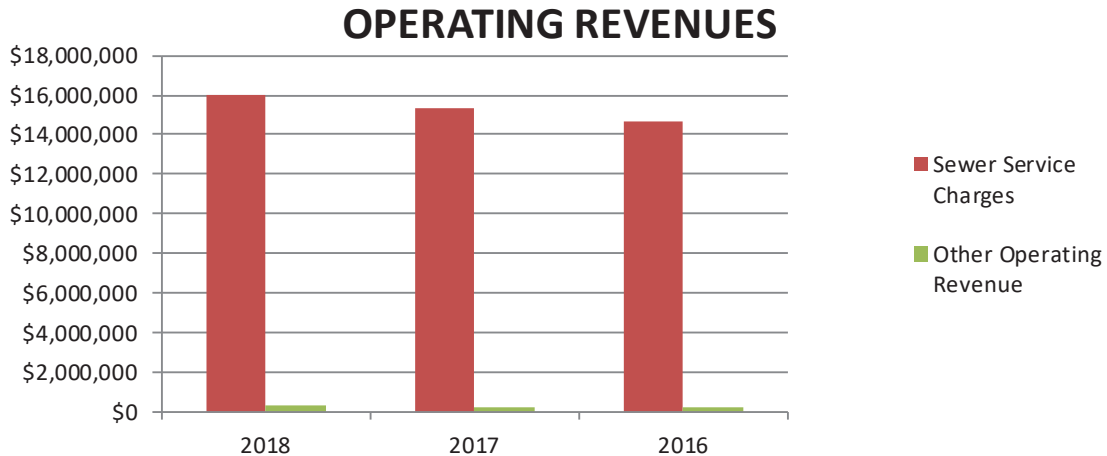
COMPARATIVE STATEMENT OF NET POSITION



**RONALD WASTEWATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2018 AND 2017**

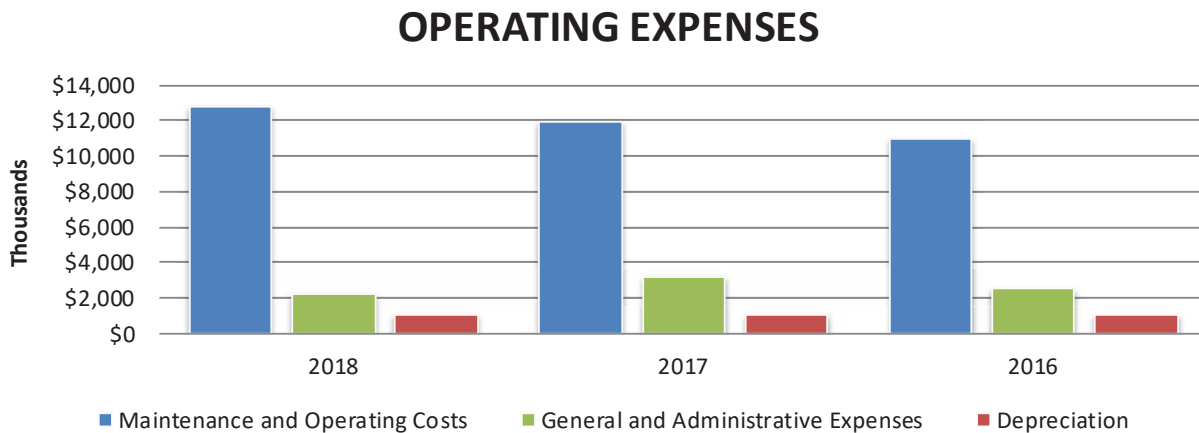
RESULTS OF OPERATIONS

Operating revenues are received primarily from sewer service charges. The following chart indicates operating revenue over the last three years.



The increase in operating revenue in 2018 and 2017 was primarily due to rate increases.

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



Maintenance and operating expenses increased in 2018 and 2017 primarily due to a rate increase for sewage treatment and costs associated with an operating services agreement with the City of Shoreline. General and administrative expenses in 2018 were comparable to 2016. General and administrative expenses were higher in 2017 primarily as a result of increased legal expenses related to the proposed assumption of the District by the City of Shoreline and costs associated with operating services agreement with the City of Shoreline. See Note 11 for further discussion regarding agreements with the City of Shoreline.

**RONALD WASTEWATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2018 AND 2017**

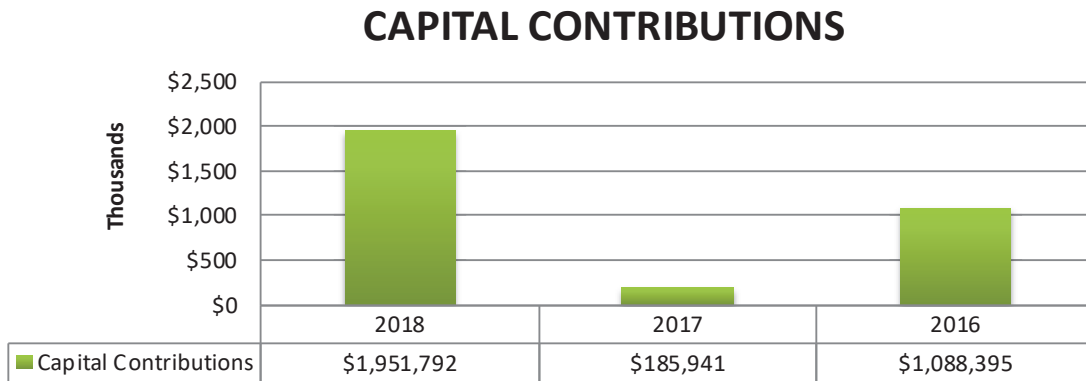
RESULTS OF OPERATIONS (CONTINUED)

The District operated at a loss in 2017 and at a profit in 2018 and 2016. The District's general philosophy is to provide for all depreciation through rates based on the principle that current users should pay all costs associated with the sewer system as it is being used. The operating loss in 2017 was mainly due to the increased legal expenses related to the assumption by the City of Shoreline and costs associated with an operating services agreement with the City of Shoreline.

Operating income is augmented by earnings on investments and other nonoperating revenues, net of other nonoperating expenses and capital contributions.

The District collects capital contributions from new customers and other grantors. These contributions consist of connection charges and donated systems.

The following chart indicates capital contributions over the past three years.



The contributions are indicative of the growth of the District and include donated systems totaling \$11,175, \$26,863, and \$-0- for the years ended December 31, 2018, 2017, and 2016, respectively.

**RONALD WASTEWATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2018 AND 2017**

CAPITAL ASSETS AND LONG-TERM LIABILITIES

Capital assets decreased in 2018 due to depreciation in excess of construction activity, donated systems and asset purchases. Capital assets increased in 2017 due to growth in the customer base and construction activity to upgrade the system.

Significant capital asset additions during the years included the following.

2018		2017	
Edmonds Treatment Plant		Edmonds Treatment Plant	
Projects	\$ 66,762	Projects	\$ 290,955
Hydraulic Capital Improvement		Hydraulic Capital Improvement	
Project 1	54,511	Project 1	57,469
Richmond Beach 1	144,712	Richmond Beach 1	679,206
Richmond Beach 2	169,594	Richmond Beach 2	857,364
Light Rail	62,511	Light Rail	63,414
LS 15 Gravity Line	48,424	LS 15 Gravity Line	71,495
Donated Systems	11,175	Donated Systems	26,863

Long-term liabilities were eliminated in 2017 due to the removal of the net pension liability, see further discussion under additional comments.

See Notes 4 and 5 in the financial statements for detail activity in capital assets and long-term liabilities.

ADDITIONAL COMMENTS

The District is dependent on King County Wastewater Treatment Division (KCWTD/METRO) and the City of Edmonds for the treatment of sewage collected by the District. The cost for these services charged to the District continues to increase. The District's practice is to adjust treatment rates to compensate for increases in its direct treatment cost.

The District has entered into an interlocal agreement with the City of Shoreline which allows the City to assume the District at the end of the agreement. In 2017, this agreement was extended for two additional years. As part of the amendment, the District transferred certain vehicles, equipment, and personal property to the City, all District employees transferred to the City and the District entered into an operating services agreement with the City. The transfer of employees resulted in a gain to the District due to the elimination of their pension related liabilities and vacation and sick leave benefits accrued assumed by the City. The transfer of assets to the City resulted in a loss. See Note 11 for additional information.

**RONALD WASTEWATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2018 AND 2017**

ADDITIONAL COMMENTS (CONTINUED)

The District is committed under various agreements to pay certain costs to third parties including its portion of City of Edmonds projects related to the City of Edmonds Treatment Plant. The District owns 9.488% of the capacity of the City of Edmonds Treatment Plant. During 2012, the District was notified of potential cost contributions to the City of Seattle in an amount currently estimated at approximately \$14,964,000. This contribution, along with all of the other required commitments of the District, are substantially in excess of liquid assets on hand and will require the District to seek additional funds likely through additional debt. See Note 9 in the financial statements for additional details regarding the District's commitments and contingencies.

The City of Shoreline has been approved, by the King County Review Board, to assume the portion of the District within King County. For the portion of the District residing in unincorporated Snohomish County, the Snohomish County Boundary Review Board had previously determined that it cannot be assumed by the City of Shoreline upon the City's assumption of the District. Due to litigation issues, the assumption of all areas has been deferred.

**RONALD WASTEWATER DISTRICT
STATEMENTS OF NET POSITION
DECEMBER 31, 2018 AND 2017**

	<u>2018</u>	<u>2017</u>
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		
CURRENT ASSETS		
Unrestricted:		
Cash and Cash Equivalents	\$ 6,780,565	\$ 3,889,238
Accounts Receivable - Users	1,434,680	1,386,392
Accounts Receivable - Other	239,757	390,670
Interest Receivable	12,269	4,753
Prepaid Expenses	29,681	28,146
Notes Receivable - Current Portion	41,246	40,903
	<u>8,538,198</u>	<u>5,740,102</u>
Restricted:		
Cash and Cash Equivalents	11,055	14,831
	<u>11,055</u>	<u>14,831</u>
Total Current Assets	8,549,253	5,754,933
NONCURRENT ASSETS		
Unrestricted:		
Notes Receivable, Less Current Portion	175,356	216,406
Capital Assets Not Being Depreciated:		
Land, Land Rights, and Other	564,588	564,588
Construction in Progress	353,508	1,820,295
Capital Assets Being Depreciated:		
Plant in Service	44,038,761	42,334,169
Less: Accumulated Depreciation	22,430,875	21,482,055
Net Capital Assets	<u>22,525,982</u>	<u>23,236,997</u>
Total Noncurrent Assets	<u>22,701,338</u>	<u>23,453,403</u>
Total Assets	31,250,591	29,208,336
DEFERRED OUTFLOWS OF RESOURCES	<u>-</u>	<u>-</u>
Total Assets and Deferred Outflows of Resources	<u>\$ 31,250,591</u>	<u>\$ 29,208,336</u>

See accompanying Notes to Financial Statements.

**RONALD WASTEWATER DISTRICT
STATEMENTS OF NET POSITION (CONTINUED)
DECEMBER 31, 2018 AND 2017**

	<u>2018</u>	<u>2017</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION		
CURRENT LIABILITIES		
Payable from Unrestricted Assets:		
Accounts Payable	\$ 163,345	\$ 402,364
Accrued Commissioners Fees and Other	935	3,616
Utility Service Revenue Billed in Advance	425,209	413,872
Retainage Payable	-	64,193
Developer Advances and Deposits	<u>206,122</u>	<u>121,397</u>
Total Current Liabilities	795,611	1,005,442
 DEFERRED INFLOWS OF RESOURCES	 <u>-</u>	 <u>-</u>
Total Liabilities and Deferred Inflows of Resources	795,611	1,005,442
 NET POSITION		
Net Investment in Capital Assets	22,464,203	23,102,006
Restricted for Impaired Investments	11,055	14,831
Unrestricted	<u>7,979,722</u>	<u>5,086,057</u>
Total Net Position	<u>30,454,980</u>	<u>28,202,894</u>
 Total Liabilities, Deferred Inflows of Resources, and Net Position	 <u>\$ 31,250,591</u>	 <u>\$ 29,208,336</u>

See accompanying Notes to Financial Statements.

RONALD WASTEWATER DISTRICT
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018	2017
OPERATING REVENUES		
Service Charges:		
Residential	\$ 2,729,994	\$ 2,406,077
Commercial, Condominiums, and Apartments	1,647,312	1,461,903
Other Municipalities	38,767	34,630
Metro - Treatment	10,717,934	10,582,985
Edmonds - Treatment	838,521	844,143
Total Service Charges	15,972,528	15,329,738
Permit Fees	45,725	31,975
Penalties and Lien Fees	261,768	254,971
Total Operating Revenues	16,280,021	15,616,684
OPERATING EXPENSES		
Maintenance and Operation	12,738,413	11,897,213
General and Administrative	2,252,866	3,149,708
Depreciation	1,097,468	1,097,386
Total Operating Expenses	16,088,747	16,144,307
OPERATING INCOME (LOSS)	191,274	(527,623)
NONOPERATING REVENUES (EXPENSES)		
Investment Income, Net of Service Fees	88,144	54,572
Interest on Notes Receivable	7,482	11,713
Gain on Transfer of Employees	-	935,079
Miscellaneous Income	13,394	20,059
Net Loss on Disposal of Assets	-	(206,954)
Private Property Improvements	-	(81,840)
Total Nonoperating Revenues (Expenses)	109,020	732,629
INCOME BEFORE CAPITAL CONTRIBUTIONS	300,294	205,006
Capital Contributions	1,951,792	185,941
CHANGE IN NET POSITION	2,252,086	390,947
Net Position - January 1	28,202,894	27,811,947
NET POSITION - DECEMBER 31	<u>\$ 30,454,980</u>	<u>\$ 28,202,894</u>

See accompanying Notes to Financial Statements.

**RONALD WASTEWATER DISTRICT
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2018 AND 2017**

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received from Customers	\$ 16,407,377	\$ 15,336,261
Cash Paid to Suppliers	(15,111,704)	(13,360,577)
Cash Paid to and for Employees and Commissioners	(29,066)	(1,610,090)
Cash Paid for Private Property Improvements	-	(81,840)
Collections on Notes Receivable for Private Property Improvements	4,544	5,852
Interest Received	905	1,412
Net Cash Provided by Operating Activities	<u>1,272,056</u>	<u>291,018</u>
CASH FLOWS FROM CAPITAL FINANCING AND RELATED ACTIVITIES		
Capital Contributions	1,940,617	159,078
Collections on Notes Issued for Capital Contributions	28,889	52,769
Interest Received on Notes Issued for Capital Contributions	6,243	9,745
Proceeds from Sale of Assets	-	1,450
Acquisition and Construction of Capital Assets	<u>(448,490)</u>	<u>(2,040,421)</u>
Net Cash Provided (Used) by Capital Financing and Related Activities	1,527,259	(1,817,379)
CASH FLOWS FROM INVESTING ACTIVITIES		
Collections on Lake Forest Park Note	7,274	7,273
Interest Received on Investments and Lake Forest Park Note	<u>80,962</u>	<u>55,069</u>
Net Cash Provided by Investing Activities	<u>88,236</u>	<u>62,342</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	2,887,551	(1,464,019)
Cash and Cash Equivalents - Beginning of Year	<u>3,904,069</u>	<u>5,368,088</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u><u>\$ 6,791,620</u></u>	<u><u>\$ 3,904,069</u></u>
Cash and Cash Equivalents Balance is Comprised of the Following at December 31:		
Cash and Cash Equivalents - Unrestricted	\$ 6,780,565	\$ 3,889,238
Cash and Cash Equivalents - Restricted	11,055	14,831
	<u><u>\$ 6,791,620</u></u>	<u><u>\$ 3,904,069</u></u>

See accompanying Notes to Financial Statements.

**RONALD WASTEWATER DISTRICT
STATEMENTS OF CASH FLOWS (CONTINUED)
YEARS ENDED DECEMBER 31, 2018 AND 2017**

	<u>2018</u>	<u>2017</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Operating Income (Loss)	\$ 191,274	\$ (527,623)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities:		
Depreciation	1,097,468	1,097,386
Gain on Transfer of Employees	-	935,079
(Increase) Decrease in Assets and Deferred Outflows of Resources:		
Accounts Receivable	102,625	(312,158)
Prepaid Expenses	(1,535)	(99,728)
Collection on Notes Issued for Private Property Improvements	4,544	5,852
Deferred Outflows Related to Pensions	-	156,988
Increase (Decrease) in Liabilities and Deferred Inflows of Resources:		
Accounts Payable and Accrued Expenses	(232,681)	42,653
Utility Service Revenue Billed in Advance	11,337	11,676
Developer Advances	84,725	15,624
Net Pension Liability	-	(894,871)
Deferred Inflows Related to Pensions	-	(79,491)
Private Property Improvements	-	(81,840)
Miscellaneous Income	13,394	20,059
Other Interest Income	905	1,412
Net Cash Provided by Operating Activities	<u>\$ 1,272,056</u>	<u>\$ 291,018</u>
SUPPLEMENTAL SCHEDULE OF SIGNIFICANT NONCASH FINANCING AND INVESTING ACTIVITIES		
Utility Plant Donations Received	<u>\$ 11,175</u>	<u>\$ 26,863</u>

See accompanying Notes to Financial Statements.

**RONALD WASTEWATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017**

NOTE 1 DESCRIPTION OF BUSINESS, NATURE OF OPERATIONS, AND SIGNIFICANT ACCOUNTING POLICIES

Description of Business, Nature of Operations, and Reporting Entity

Ronald Wastewater 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 a sanitary sewer system within its boundaries which encompass an area located almost entirely within the City of Shoreline. The District is governed by an elected five-member board and has no component units.

Basis of Presentation and Accounting

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

Cash and Cash Equivalents

The District considers investments in the King County Investment Pool to be cash equivalents. These investments are stated at the fair value of the Pool's underlying assets.

Accounts Receivable

The District utilizes the allowance method of accounting for doubtful accounts. However, all accounts receivable 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.

Capital Assets

Capital assets are stated at cost and include the capitalized portion of District employees' wages and related overhead costs. For 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 acquisition value, which is determined by the contributing party's cost as certified by the contributor. Major expenses for capital assets, including capital leases and major repairs that increase useful lives, are capitalized. Maintenance, repairs, and minor renewals are accounted for as expenses when incurred. When capital assets are retired or otherwise disposed of, the cost and accumulated depreciation is 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:

Sewer Systems and Pumping Stations	8 to 51 Years
Office Building	8 to 50 Years
Equipment	5 to 20 Years
Other Miscellaneous Assets	10 to 50 Years

**RONALD WASTEWATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017**

NOTE 1 DESCRIPTION OF BUSINESS, NATURE OF OPERATIONS, AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Effective October 23, 2017, all District employees transferred to the City of Shoreline and the District entered into an operating services agreement with the City. As of that date, the City assumed responsibility for the future contributions to the pension plans and, therefore, also responsibility for the net pension liability, deferred outflows and inflows related to pension for the employees. Accordingly, pension contributions after the measurement date to October 23, 2017 have been included in pension expense and all remaining deferred outflows and inflows have been removed from the financial statements. See Note 11 for additional information.

Compensated Absences

The District accrued accumulated unpaid vacation and sick leave benefit amounts as earned. District employees accumulated vacation hours for subsequent use or for payment upon termination, retirement, or death. The amount of sick leave employees may accumulate was not limited; however, at death or retirement as defined by PERS, the payout amount for sick leave was limited to 960 hours.

Effective October 23, 2017, all District employees transferred to the City of Shoreline and the District entered into an operating services agreement with the City. The City allowed each employee to carry 80 hours of sick leave and two years of vacation accruals to the City. The remaining balance of \$108,657 was paid in full. See Note 11 for additional information.

**RONALD WASTEWATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017**

NOTE 1 DESCRIPTION OF BUSINESS, NATURE OF OPERATIONS, AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 – 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.”

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 services in connection with the District’s sewer system. Operating expenses include the costs associated with providing the District’s 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.

**RONALD WASTEWATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017**

NOTE 2 DEPOSITS AND INVESTMENTS

Deposits

The District's bank balances as of December 31, 2018 and 2017 were \$14,011 and \$15,191, respectively.

Custodial credit risk for deposits is the risk that, in event of a failure of a depository financial institution, the District would not be able to recover deposits or will not be able to recover collateral securities that are in possession of an outside party. The District deposits and certificates of deposit are 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, the District's governing body has entered into a formal interlocal agreement with the District's *ex officio* treasurer, King County, to have all its funds not required for immediate expenditure to be invested in the King County Investment Pool (Pool). Investments in the Pool are stated at the fair value of the Pool's underlying assets. The stated value per share is \$1. The King County Executive Finance Committee provides oversight of the Pool.

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

<u>Investment Type</u>	<u>Fair Value</u>	<u>Average Effective Duration</u>
<u>2018</u>		
King County Investment Pool:		
Main Pool	\$ 6,766,554	0.94 Years
Impaired Pool	11,055	
<u>2017</u>		
King County Investment Pool:		
Main Pool	\$ 3,874,047	1.02 Years
Impaired Pool	14,831	

Impaired Investments

As of December 31, 2018 and 2017, all impaired commercial paper investments had completed enforcement events. The King County Impaired Investment Pool (Impaired Pool) held one commercial paper asset where the Impaired Pool accepted an exchange offer and is receiving the cash flows from the investment's underlying securities. The Impaired Pool also held the residual investments in two commercial paper assets that were part of completed enforcement events, where the Impaired Pool accepted the cash-out option. The District's share of the impaired investment pool principal was \$15,602 and \$22,004 at December 31, 2018 and 2017, respectively. The District's unrealized loss for these investments is \$4,547 and \$7,173 at December 31, 2018 and 2017, respectively.

**RONALD WASTEWATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017**

NOTE 2 DEPOSITS AND INVESTMENTS (CONTINUED)

Interest Rate Risk

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

Credit Risk

As of December 31, 2018 and 2017, the District's investment in the Pool was not rated by a nationally recognized statistical rating organization (NRSRO). In compliance with state statutes, Pool policies authorize investments in U.S. treasury securities, U.S. agency securities and mortgage-backed securities, corporate notes (rated at least "A" by one NRSRO), municipal securities (rated at least "A" by two NRSROs), commercial paper (rated at least the equivalent of "A-1" by one NRSRO), certificates of deposits issued by qualified public depositories, repurchase agreements, and the Local Government Investment Pool managed by the Washington State Treasurer's office.

NOTE 3 RESTRICTED ASSETS

In accordance with certain agreements, separate restricted accounts are required to be established. The assets held in these accounts are restricted for specific uses. Restricted assets are as follows:

	Impaired Investment Pool
<u>December 31, 2018</u>	
Current Restricted Assets:	
Cash and Cash Equivalents	\$ 11,055
<u>December 31, 2017</u>	
Current Restricted Assets:	
Cash and Cash Equivalents	\$ 14,831

**RONALD WASTEWATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017**

NOTE 4 CAPITAL ASSETS

Major classes of capital assets and capital asset activity were as follows at December 31:

	2018			
	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Capital Assets Not Being Depreciated:				
Land and Land Rights	\$ 564,588	\$ -	\$ -	\$ 564,588
Construction in Progress	1,820,295	568,826	(2,035,613)	353,508
	<u>2,384,883</u>	<u>568,826</u>	<u>(2,035,613)</u>	<u>918,096</u>
Capital Assets Being Depreciated:				
Sewer Systems and Pumping Stations	38,387,636	1,853,240	-	40,240,876
Office Building	2,282,926	-	-	2,282,926
Equipment	557,188	-	-	557,188
Other Miscellaneous Assets	1,106,419	-	(148,648)	957,771
	<u>42,334,169</u>	<u>1,853,240</u>	<u>(148,648)</u>	<u>44,038,761</u>
Accumulated Depreciation:				
Sewer Systems and Pumping Stations	(19,235,191)	(1,042,938)	-	(20,278,129)
Office Building	(637,689)	(46,009)	-	(683,698)
Equipment	(557,186)	-	-	(557,186)
Other Miscellaneous Assets	(1,051,989)	(8,521)	148,648	(911,862)
	<u>(21,482,055)</u>	<u>(1,097,468)</u>	<u>148,648</u>	<u>(22,430,875)</u>
Net Capital Assets	<u>\$ 23,236,997</u>	<u>\$ 1,324,598</u>	<u>\$ (2,035,613)</u>	<u>\$ 22,525,982</u>

**RONALD WASTEWATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017**

NOTE 4 CAPITAL ASSETS (CONTINUED)

	2017			
	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Capital Assets Not Being Depreciated:				
Land and Land Rights	\$ 564,588	\$ -	\$ -	\$ 564,588
Construction in Progress	173,187	2,019,903	(372,795)	1,820,295
	<u>737,775</u>	<u>2,019,903</u>	<u>(372,795)</u>	<u>2,384,883</u>
Capital Assets Being Depreciated:				
Sewer Systems and Pumping Stations	38,063,101	357,008	(32,473)	38,387,636
Office Building	2,282,926	-	-	2,282,926
Equipment	1,900,734	64,569	(1,408,115)	557,188
Other Miscellaneous Assets	1,106,419	-	-	1,106,419
	<u>43,353,180</u>	<u>421,577</u>	<u>(1,440,588)</u>	<u>42,334,169</u>
Accumulated Depreciation:				
Sewer Systems and Pumping Stations	(18,262,130)	(1,005,534)	32,473	(19,235,191)
Office Building	(591,680)	(46,009)	-	(637,689)
Equipment	(1,720,961)	(35,937)	1,199,712	(557,186)
Other Miscellaneous Assets	(1,042,083)	(9,906)	-	(1,051,989)
	<u>(21,616,854)</u>	<u>(1,097,386)</u>	<u>1,232,185</u>	<u>(21,482,055)</u>
Net Capital Assets	<u>\$ 22,474,101</u>	<u>\$ 1,344,094</u>	<u>\$ (581,198)</u>	<u>\$ 23,236,997</u>

NOTE 5 CHANGES IN LONG-TERM LIABILITIES

Changes in long-term liabilities were as follows:

	2017			
	Balance Beginning of Year	Additions	Reductions	Balance End of Year
Compensated Absences	\$ 139,796	\$ 75,629	\$ 215,425	\$ -
Net Pension Liability	\$ 894,871	\$ -	\$ 894,871	\$ -

**RONALD WASTEWATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017**

NOTE 6 PENSION PLAN

Effective October 23, 2017, all District employees transferred to the City of Shoreline and the District entered into an operating services agreement with the City. As of that date, the City assumed responsibility for the future contributions to the pension plans and, therefore, also responsibility for the net pension liability, deferred outflows and inflows related to pension for the employees and the District ceased participation in all pension plans. Accordingly, pension contributions after the measurement date to October 23, 2017 have been included in pension expense and all remaining deferred outflows and inflows have been removed from the financial statements. See Note 11 for additional information.

The following table represents the aggregate pension amounts for all plans as of and for the year ended December 31, 2017:

Aggregate Pension Amounts – All Plans	
Pension Liabilities	\$ -
Deferred Outflows of Resources	\$ -
Deferred Inflows of Resources	\$ -
Pension Expense	\$ 102,752

State Sponsored Pension Plans

Substantially all full-time and qualifying part-time employees participated 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, Washington 98540-8380

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

**RONALD WASTEWATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017**

NOTE 6 PENSION PLAN (CONTINUED)

Public Employees Retirement System (PERS)

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

PERS Plan 1

Provides retirement, disability, and death benefits. Retirement benefits are determined as 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 nonduty 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 (DOL). 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 PERS Plan 1 required contribution rates (expressed as a percentage of covered payroll) were as follows:

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

The District's actual contributions to the plan were \$41,442 for the year ended December 31, 2017.

**RONALD WASTEWATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017**

NOTE 6 PENSION PLAN (CONTINUED)

Public Employees Retirement System (PERS) (Continued)

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 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% 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 nonduty 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 DOL. 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 10 years of service; or after five years of service if 12 months of that service are earned after age 44.

PERS Plan 3

Defined contribution benefits are totally dependent on employee contributions and investment earnings on those contributions. PERS Plan 3 members choose their contribution rate upon joining membership and have a chance to change rates upon changing employers. As established by statute, Plan 3 required defined contribution rates are set at a minimum of 5% 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.

**RONALD WASTEWATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017**

NOTE 6 PENSION PLAN (CONTINUED)

Public Employees Retirement System (PERS) (Continued)

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:

<u>PERS Plan 2/3 Actual Contribution Rates</u>	<u>Employer 2/3</u>	<u>Employee 2</u>	<u>Employee 3</u>
<u>2017</u>			
January through June			
PERS Plan 2/3	6.23 %	6.12 %	Varies
PERS Plan 1 UAAL	4.77		
Administrative Fee	0.18		
Total	<u>11.18 %</u>	<u>6.12 %</u>	<u>Varies</u>
July through December			
PERS Plan 2/3	7.49 %	6.12 %	Varies
PERS Plan 1 UAAL	5.03		
Administrative Fee	0.18		
Total	<u>12.70 %</u>	<u>6.12 %</u>	<u>Varies</u>

The District's actual contributions to the plan were \$58,540 for the year ended December 31, 2017.

Actuarial Assumptions

The 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* and the *2015 Economic experience Study*.

**RONALD WASTEWATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017**

NOTE 6 PENSION PLAN (CONTINUED)

Actuarial Assumptions (Continued)

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

- **Inflation:** 3% total economic inflation; 3.75% salary inflation.
- **Salary increases:** In addition to the base 3.75% salary inflation assumption, salaries are also expected to grow by promotions and longevity.
- **Investment rate of return:** 7.5%.

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

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

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

Discount Rate

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

To determine that rate, an asset sufficiency test included an assumed 7.7% long-term discount rate to determine funding liabilities for calculating future contribution rate requirements. Consistent with the long-term expected rate of return, a 7.5% 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, whose rates include a component for the PERS 1). Based on these assumptions, the pension plans' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return of 7.5% was used to determine the total liability.

**RONALD WASTEWATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017**

NOTE 6 PENSION PLAN (CONTINUED)

Long-Term Expected Rate of Return

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

Estimated Rates of Return by Asset Class

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

As of June 30, 2017:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Percent Long-Term Expected Real Rate of Return Arithmetic</u>
<u>2017</u>		
Fixed Income	20 %	1.70 %
Tangible Assets	5	4.90
Real Estate	15	5.80
Global Equity	37	6.30
Private Equity	23	9.30
Total	<u>100 %</u>	

Sensitivity of NPL

The table below presents the District's proportionate share of the net pension liability calculated using the applicable discount rate, 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 or 1-percentage point higher than applicable discount rate.

	<u>1% Decrease (6.5%)</u>	<u>Current Discount Rate (7.5%)</u>	<u>1% Increase (8.5%)</u>
<u>2017</u>			
PERS 1	\$ -	\$ -	\$ -
PERS 2/3	-	-	-

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.

**RONALD WASTEWATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017**

NOTE 6 PENSION PLAN (CONTINUED)

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

At December 31, 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, and 2017, as amended on October 23, 2017):

PERS 1	\$	-
PERS 2/3		-
Total	<u>\$</u>	<u>-</u>

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

	<u>Proportionate Share 6/30/17</u>	<u>Proportionate 10/23/2017</u>	<u>Change in Proportion</u>
PERS 1	0.007663%	0.000000%	-0.007663%
PERS 2/3	0.009856%	0.000000%	-0.009856%

Effective October 23, 2017, all District employees transferred to the City of Shoreline and the District entered into an operating services agreement with the City. As of that date, the District elected to measure its proportionate share of the net pension liability and related deferred outflows and inflows related to pensions based on the District's projected long-term contribution effort to the plan compared to the long-term contribution effort of all employers. As all employees have transferred to the City and no future employees will be hired, the District's proportionate share of pension related amounts is 0%. Prior to October 23, 2017, employer contribution transmittals received and processed by the DRS for the fiscal year ended June 30 were 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 2017 collective net pension liability (asset) was measured as of June 30, 2017, and the actuarial valuation date on which the total pension liability (asset) is based was as of June 30, 2016, with update procedures used to roll forward the total pension liability to the measurement date. The District's proportionate share was amended on October 23, 2017 as previously disclosed.

Pension Expense

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

PERS 1	\$	44,709
PERS 2/3		58,043
Total	<u>\$</u>	<u>102,752</u>

**RONALD WASTEWATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017**

NOTE 6 PENSION PLAN (CONTINUED)

Deferred Outflows of Resources and Deferred Inflows of Resources

At December 31, 2018, all deferred outflows of resources and deferred inflows of resources related to pensions had been transferred to the City of Shoreline.

NOTE 7 DEFERRED COMPENSATION PLAN

The District offered its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan assets are invested with the Washington State Department of Retirement Systems. The plan, available to all employees, permitted 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 8 RISK MANAGEMENT

The District is 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 68 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; Deadly Weapon/Active Shooter Response Program, and bonds of various types. Most coverages are on an "occurrence" basis.

**RONALD WASTEWATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017**

NOTE 8 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	\$5,000 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 and \$25,000,000 dedicated to Alderwood, \$5,000,000 dedicated to Sammamish Plateau and \$5,000,000 dedicated to Cascade Water Alliance)
Terrorism	\$5,000	\$25,000 Primary layer	\$700,000,000 Primary layer
Boiler & Machinery	\$5,000 - \$350,000 depending on object	\$25,000 - \$350,000 depending on object	\$100,000,000
Auto - Physical Damage	\$5,000	\$25,000	\$15,000,000
Liability:			
Commercial General Liability	\$5,000	\$200,000, subject to \$150,000 Corridor Deductible	\$15,000,000
Auto Liability	\$5,000	Same as above	\$15,000,000
Public Officials Errors and Omissions	\$5,000	Same as above	\$15,000,000
Employment Practices	\$5,000	Same as above	\$15,000,000
Other:			
Cyber Liability	\$100,000	N/A	\$2,000,000
Deadly Weapon/ Active Shooter	\$10,000	N/A	\$500,000
Public Officials Bonds	Various	N/A	Various
Crime	\$5,000	\$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.

**RONALD WASTEWATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017**

NOTE 8 RISK MANAGEMENT (CONTINUED)

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 eight 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, 2019, written notice must be in possession of the Pool by April 30, 2019). 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.

In the past three years (2018, 2017, and 2016), there have been no claim settlements, per occurrence or in aggregate, that have exceeded the coverage provided by excess/reinsurance contracts.

**RONALD WASTEWATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017**

NOTE 9 COMMITMENTS

The District owns 9.488% of the capacity of the City of Edmonds Treatment Plant. Accordingly, the District is obligated to the City of Edmonds to pay for a portion of certain City projects related to the Edmonds Treatment Plant. The District's share of the projects is currently estimated as follows:

<u>Year Ending December 31,</u>	<u>Amount</u>
2019	\$ 252,861
2020	734,497
2021	725,059
2022	52,924
2023	85,392
Total	<u>\$ 1,850,733</u>

The District is obligated to the City of Seattle to pay for a portion of costs related to upgrade of the mainline through which District sewage is transported. The District's share of the costs is currently estimated at approximately \$14,964,000.

The District may have some responsibility for various abandoned lines and facilities. Although the District has not been notified of any obligation, it is possible that the District could perform work on these lines and facilities to secure and/or remove them.

As of December 31, 2018, the district is also committed under construction contracts totaling \$166,256 of which \$-0- has been expended.

NOTE 10 MAJOR SUPPLIER

Sewage collected by the District is treated by other entities. King County Wastewater Treatment Division (KCWTD/METRO) provided approximately 96% and 97% of the District's sewage treatment in 2018 and 2017, respectively.

NOTE 11 RELATED PARTY TRANSACTIONS

During 2002, the District entered into an interlocal operating agreement with the City of Shoreline for a term of fifteen years. Effective June 22, 2017, the agreement was extended for two additional years and may be extended for another two years at the City's option. During the term of the agreement, the City has agreed not to assume jurisdiction over the District.

**RONALD WASTEWATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017**

NOTE 11 RELATED PARTY TRANSACTIONS (CONTINUED)

In consideration, the District is committed to pay an annual operating agreement fee to the City. The fees for the years ended December 31, 2018 and 2017 were \$909,000 and \$883,000 respectively. Future minimum amounts payable under this agreement are as follows:

<u>Year Ending December 31,</u>	<u>Amount</u>
2019	<u>\$ 936,000</u>

The City of Shoreline has been approved, by the King County Review Board, to assume the portion of the District within King County. For the portion of the District residing in unincorporated Snohomish County, the Snohomish County Boundary Review Board had previously determined that it cannot be assumed by the City of Shoreline upon the City's assumption of the District. Due to litigation issues, the assumption of all areas has been deferred.

Effective October 23, 2017, the District and the City of Shoreline amended the interlocal operating agreement. As agreed in the amendment the District continues to exist and governance remains with the District board of commissioners, all District employees transferred to the City and the District and the City will entered into an operating services agreement.

Under the terms of the operating services agreement, the District maintains ownership of the wastewater system, real estate, and improvements. All vehicles, equipment, and personal property were transferred to the City. Additionally, the City provides services and functions in operating and maintaining the District's wastewater system and providing administrative and financial services. The District reimburses the City for costs incurred in operating the District in quarterly installments equal to 25% of the City's budgeted cost of operations. Annually, actual costs are reconciled and if less than the budgeted amounts, the District is credited for the savings. The Districts expenses under the operating agreement for the years ended December 31, 2018 and 2017 were \$2,041,370 and \$317,784, respectively. As of December 31, 2018 and 2017, the balance due from the City of Shoreline was \$206,511 and \$361,783, respectively and is included in accounts receivable – other. As of December 31, 2018 and 2017, the District has recorded a payables to the City in the amount of \$3,000 and \$220,746, respectively.

The transfer of District employees to the City resulted in a gain in 2017 as follows:

Accrued Vacation and Sick Leave Assumed by the City	\$ 114,935
Pension Liability, Deferred Outflows and Inflows of	
Resources Related to Pensions Eliminated on Transfer	<u>820,144</u>
Total	<u>\$ 935,079</u>

The transfer of vehicles, equipment, and personal property to the City resulted in a loss in 2017 of \$208,404 and is included in the net loss on disposal of assets.

**RONALD WASTEWATER DISTRICT
SCHEDULES OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
AS OF JUNE 30 (MEASUREMENT DATE)
LAST 10 FISCAL YEARS***

PERS 1

Year	Employer's Proportion of the Net Pension Liability (Asset)	Employer's Proportionate Share of the Net Pension Liability (Asset)	Employer's Covered Payroll	Net Pension Liability (Asset) as a Percentage of Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2018	0.000000%	\$ -	\$ -	0.00%	63.22%
2017	0.007663%	363,593	966,288	37.63%	61.24%
2016	0.007570%	406,530	906,162	44.86%	57.03%
2015	0.008833%	462,046	1,012,219	45.65%	59.10%
2014	0.009184%	462,668	1,011,715	45.73%	61.19%
2013	0.008653%	505,635	953,314	53.04%	

Notes to Schedule:

1. PERS 1 contributions are from the component of PERS 2 contributions required to address the PERS 1 unfunded actuarially accrued liability (UAAL).
2. On October 23, 2017, all employees of the District transferred to the City of Shoreline. Accordingly, on that date the Employers proportionate share of the net pension liability was reduced to 0% based on the District's projected long-term contribution effort to the plan compared to the long-term contribution effort of all employers.

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

PERS 2/3

Year	Employer's Proportion of the Net Pension Liability (Asset)	Employer's Proportionate Share of the Net Pension Liability (Asset)	Employer's Covered Payroll	Net Pension Liability (Asset) as a Percentage of Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2018	0.000000%	\$ -	\$ -	0.00%	95.77%
2017	0.009856%	342,449	966,288	35.44%	90.97%
2016	0.009699%	488,341	906,162	53.89%	85.82%
2015	0.011406%	407,532	1,012,219	40.26%	89.20%
2014	0.011825%	239,025	1,011,715	23.63%	93.29%
2013	0.011524%	492,069	953,314	51.62%	

Notes to Schedule:

On October 23, 2017, all employees of the District transferred to the City of Shoreline. Accordingly, on that date the Employers proportionate share of the net pension liability was reduced to 0% based on the District's projected long-term contribution effort to the plan compared to the long-term contribution effort of all employers.

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

**RONALD WASTEWATER DISTRICT
SCHEDULES OF EMPLOYER CONTRIBUTIONS
AS OF DECEMBER 31 (EMPLOYER REPORTING DATE)
LAST 10 FISCAL YEARS***

PERS 1

Year	Statutorily Required Contribution	Contributions in Relation to the Statutorily Required Contribution	Contribution Deficiency (Excess)	Employer's Covered Payroll	Contributions as a Percent of Covered Payroll
2018	\$ -	\$ -	\$ -	\$ -	0.00%
2017	41,442	(41,442)	-	851,738	4.87%
2016	44,351	(44,351)	-	929,793	4.77%
2015	39,819	(39,819)	-	917,012	4.34%
2014	43,125	(43,125)	-	1,068,658	4.04%
2013	30,842	(30,842)	-	974,951	3.16%

Notes 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.

PERS 2/3

Year	Statutorily Required Contribution	Contributions in Relation to the Statutorily Required Contribution	Contribution Deficiency (Excess)	Employer's Covered Payroll	Contributions as a Percent of Covered Payroll
2018	\$ -	\$ -	\$ -	\$ -	0.00%
2017	58,540	(58,540)	-	851,738	6.87%
2016	59,599	(59,599)	-	929,793	6.41%
2015	52,666	(52,666)	-	917,012	5.74%
2014	55,298	(55,298)	-	1,068,658	5.17%
2013	48,344	(48,344)	-	974,951	4.96%

Notes to Schedule:

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

ABOUT THE STATE AUDITOR'S OFFICE

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

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

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

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

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

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

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

Contact information for the State Auditor's Office	
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