



Office of the Washington State Auditor
Pat McCarthy

Financial Statements Audit Report
Douglas County Sewer District No. 1

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

Published February 6, 2020

Report No. 1025693





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

February 6, 2020

Board of Commissioners
Douglas County Sewer District No. 1
East Wenatchee, Washington

Report on Financial Statements

Please find attached our report on Douglas County Sewer District No. 1's financial statements.

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

Sincerely,

A handwritten signature in cursive script that reads "Pat McCarthy".

Pat McCarthy
State Auditor
Olympia, WA

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

**Douglas County Sewer District No. 1
January 1, 2017 through December 31, 2018**

Board of Commissioners
Douglas County Sewer District No. 1
East Wenatchee, 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 Douglas County Sewer District No. 1, 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 January 22, 2020.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

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


COMPLIANCE AND OTHER MATTERS

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

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

PURPOSE OF THIS REPORT

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.



Pat McCarthy

State Auditor

Olympia, WA

January 22, 2020

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Douglas County Sewer District No. 1 January 1, 2017 through December 31, 2018

Board of Commissioners
Douglas County Sewer District No. 1
East Wenatchee, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of Douglas County Sewer District No. 1, as of and for the years ended December 31, 2018 and 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed on page 9.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment,

including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Douglas County Sewer District No. 1, as of December 31, 2018 and 2017, and the changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplementary information listed on page 9 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated January 22, 2020 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

January 22, 2020

FINANCIAL SECTION

Douglas County Sewer District No. 1 January 1, 2017 through December 31, 2018

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2018

Management's Discussion and Analysis – 2017

BASIC FINANCIAL STATEMENTS

Statement of Net Position – 2018

Statement of Net Position – 2017

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

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

Statement of Cash Flows – 2018

Statement of Cash Flows – 2017

Notes to Financial Statements – 2018

Notes to Financial Statements – 2017

REQUIRED SUPPLEMENTARY INFORMATION

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

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

Douglas County Sewer District No. 1
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended December 31, 2018

The mission of the Board of Commissioners and the Employees of the Douglas County Sewer District is to provide efficient, effective and timely wastewater collection and treatment and excellent customer service while effectively managing the District's infrastructure in order to maintain a reliable wastewater collection and treatment system for today's, as well as tomorrow's, customers.

The following statements report the net position of the District, and changes to them. Analysis of the District's net position - the difference between assets and liabilities - is a way to measure financial health or financial position. Over time, increases or decreases in the District's net position are one indicator of whether the financial health of the District is improving or deteriorating. However, you will need to also consider other non-financial factors such as changes in economic conditions, customer growth, and legislative mandates.

DISCUSSION OF FINANCIAL STATEMENTS

The District's basic financial statements consist of the following:

- 1 Management's Discussion and Analysis
- 2 Financial Statements
- 3 Notes to Financial Statements
- 4 Required Supplemental Schedules

The District is a single enterprise fund providing wastewater collection and treatment services. The financial statements of the District report information about the District using accounting methods similar to those used by private sector companies, reflecting short- and long-term financial information about its activities.

The financial statements include a Statement of Net Position; Statement of Revenues, Expenses and Changes in Net Position; Statement of Cash Flows; and Notes to the Financial Statements.

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

The Statement of Revenues, Expenses and Changes in Net Position presents the results of business activities over the course of the year. The information is used to determine whether the District has successfully recovered all of the costs through its user fees and charges, profitability and credit worthiness.

The Cash Flow Statement 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 was generated and what is was used for.

Douglas County Sewer District No. 1
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended December 31, 2018

The Notes to the Financial Statements and Required Supplemental Schedules 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.

CONDENSED STATEMENT OF NET POSITION AT DECEMBER 31

	12/31/2018	12/31/2017	Difference
CURRENT AND OTHER ASSETS	\$ 12,731,628	\$ 11,739,860	\$ 991,768
CAPITAL ASSETS, NET	\$ 38,397,299	\$ 38,592,751	\$ (195,452)
DEFERRED OUTFLOWS	\$ 76,927	\$ 94,993	\$ (18,066)
TOTAL ASSETS & DEFERRED OUTFLOWS	<u>\$ 51,205,854</u>	<u>\$ 50,427,604</u>	<u>\$ 778,250</u>
 TOTAL LIABILITIES	 \$ 14,342,106	 \$ 15,734,476	 \$ (1,392,370)
DEFERRED INFLOWS	\$ 164,232	\$ 108,423	\$ 55,809
TOTAL LIABILITIES & DEFERRED INFLOWS	<u>\$ 14,506,338</u>	<u>\$ 15,842,899</u>	<u>\$ (1,336,561)</u>
 NET INVESTMENT IN CAPITAL ASSETS	 \$ 25,990,786	 \$ 25,053,963	 \$ 936,823
RESTRICTED	\$ 2,392,815	\$ 2,649,797	\$ (256,982)
UNRESTRICTED	\$ 8,315,915	\$ 6,880,944	\$ 1,434,971
TOTAL NET POSITION	<u>\$ 36,699,516</u>	<u>\$ 34,584,704</u>	<u>\$ 2,114,812</u>

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

	12/31/2018	12/31/2017	Difference
OPERATING REVENUE	\$ 5,304,581	\$ 5,080,141	\$ 224,440
NON-OPERATING REVENUE	\$ 5,131	\$ 12,775	\$ (7,644)
ULID ASSESSMENTS			
INTEREST EARNED	\$ 208,858	\$ 109,454	\$ 99,404
TOTAL REVENUE	<u>\$ 5,518,570</u>	<u>\$ 5,202,370</u>	<u>\$ 316,200</u>
 PLANT OPERATIONS	 \$ 2,043,522	 \$ 2,046,336	 \$ (2,814)
MAINTENANCE	\$ 104,990	\$ 105,104	\$ (114)
DEPRECIATION	\$ 1,331,085	\$ 1,311,563	\$ 19,522
INTEREST EXPENSES	\$ 394,782	\$ 414,666	\$ (19,884)
LOSS ON INVESTMENTS REALIZED	\$ (2,958)	\$ (2,642)	\$ (316)
TOTAL EXPENSES	<u>\$ 3,871,421</u>	<u>\$ 3,875,027</u>	<u>\$ (3,606)</u>

Douglas County Sewer District No. 1
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended December 31, 2018

INCOME BEFORE CAPITAL CONTRIBUTIONS AND EXTRAORDINARY ITEMS	\$ 1,647,149	\$ 1,327,343	\$ 319,806
CAPITAL CONTRIBUTIONS	\$ 467,664	\$ 514,959	\$ (47,295)
INCOME (LOSS) BEFORE EXTRAORDINARY ITEMS	\$ 2,114,813	\$ 1,842,302	\$ 272,511
EXTRAORDINARY ITEMS			
CHANGE IN NET POSITION	\$ 2,114,813	\$ 1,842,302	\$ 272,511
BEGINNING NET POSITION	\$ 34,584,706	\$ 32,742,404	\$ 1,842,302
ENDING NET POSITION	<u>\$ 36,699,518</u>	<u>\$ 34,584,706</u>	<u>\$ 2,114,813</u>

OVERALL ANALYSIS OF FINANCIAL POSITION AND RESULT OF OPERATION:

The District's financial position continues to strengthen over the year ended December 31, 2018.

Total assets and deferred outflows increased by \$778,250 or 1.54% (\$50,427,604 for 2017 vs. \$51,205,854 for 2018). Net Capital Assets decreased by \$195,452 or 0.51% (\$38,592,751 for 2017 vs. \$38,397,299 for 2018) including land, plant and buildings, collections system, vehicles and construction in progress.

Total net position increased by \$2,114,812 or 6.11% (\$34,584,704 for 2017 vs. \$36,699,516 for 2018). This increase is largely due to completion of Construction in Progress and other capital projects, as well as a decrease in long-term debt through scheduled debt service payments.

Total liabilities and deferred inflows decreased by \$1,336,561 or 8.44% (\$15,842,899 for 2017 vs. \$14,506,338 for 2018). This is largely due to a decrease in long-term debt through scheduled debt service payments.

Operating revenues increased by \$224,441 or 4.418% (\$5,080,141 for 2017 vs. \$5,304,581 for 2018). The sewer service component of operating revenues increased by 8.1% (\$331,793) over 2017 due in part to the implementation of a multi-year rate increase schedule adopted in June of 2015. Effective on October 1, 2018, sewer rates increased by 6.5% from \$38.00 per Equivalent Residential Unit (ERU) to \$40.50 per ERU.

Operating expenses increased minimally by \$108,755 or 3.2263% (\$3,370,843 for 2017 vs. \$3,479,597 for 2018), due in part to contracting for implementation of a safety program and resulting safety equipment purchases and increased chemical costs.

CAPITAL ASSETS AND LONG-TERM DEBT

The following table summarized the District's capital assets, net of accumulated depreciation for the

Douglas County Sewer District No. 1
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended December 31, 2018

NET CAPITAL ASSETS			
	12/31/2018	12/31/2017	Difference
NET CAPITAL ASSETS:			
LAND	\$ 75,731	\$ 75,731	\$ -
COLLECTION SYSTEM	\$ 19,822,950	\$ 19,491,022	\$ 331,928
PLANT BUILDINGS & STRUCTURES	\$ 17,611,957	\$ 18,384,864	\$ (772,907)
MACHINERY & EQUIPMENT	\$ 540,282	\$ 354,464	\$ 185,818
CONSTRUCTION IN PROGRESS	\$ 346,379	\$ 286,669	\$ 59,710
TOTAL CAPITAL ASSETS, NET	<u>\$ 38,397,299</u>	<u>\$ 38,592,750</u>	<u>\$ (195,452)</u>

Major additions for 2018 include:

Developer Contributed Line	467,664
2018 Jetter Truck-Freightliner Chassis	245,876
5th Street Sewer Mainline Upgrade/Install	153,972
Total	<u>\$ 867,512</u>

The District's 2019 Capital Budget plans for investment of \$3,026,570 to the following projects:

Collection System

Summerplace Lift Station	\$ 1,190,000
35th Street Interceptor Extension	\$ 357,500
Wenatchi Landing Empire Ave Interceptor Extension - Design	\$ 301,950
Batterman Lift Station Replacement - Design	\$ 120,000
10th ST NE Interceptor Replacement - Design	\$ 75,000
4th Street Interceptor (S. Lyle Ave to Mason Ave) - Design	\$ 42,120

Treatment Plant

WWTP Small Works Utility Project	\$ 200,000
Headworks Building Roof Replacement	\$ 710,000
Storage Building & Security Fencing/Gate Project - Design	<u>\$ 30,000</u>
	<u>\$ 3,026,570</u>

As of December 31, 2018, the District has the following principal debt balances:

Revenue Bonds	\$ 11,975,000
Public Works Trust Fund Loans	<u>\$ -</u>
	<u>\$ 11,975,000</u>

This excludes the pass-through PWTF loans for the Douglas County Port District in the amount of \$431,513. In all, debt totals \$12,406,513. Debt repayment schedules go out to 2035. The decrease over the prior year is due to continued, scheduled payments on long-term debt.

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

Douglas County Sewer District No. 1
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended December 31, 2018

OTHER POTENTIALLY SIGNIFICANT MATTERS

The District completed a formal rate study in 2015. Rate study recommendations were adopted in June of 2015 became effective on October 1, 2015. Objectives of the study were to plan for anticipated capital needs, evaluate multiple bond coverage scenarios to determine an appropriate balance between protecting its bond rating through sufficient debt service coverage and maintaining affordable sewer service rates, and update the General Facilities Charges/Connection Fees for connection to the system. In addition, the study was based on criteria to maintain the District's cash reserves, begin to formally fund system reinvestment, and entry into the bond market in 2016 for capital projects.

Based on the rate study recommendations, annual sewer rate increases in the amount of \$2.50 per Equivalent Residential Unit are scheduled through 2020. General Facilities Charges were calculated on the Average Cost approach, which defines the connection charge as a pro rata share of existing and planned future capital investments, and increased from \$2,642 to \$5,448 per Equivalent Residential Unit.

Construction of new housing developments is strong locally, and the District anticipates continued strong connection fee revenue in 2019 (128 connection permits totaling \$849,815 in 2018) due to a very tight, high-demand housing market, and a local rental vacancy rate of less than 2%. Active Developer Extension Agreements currently provide approximately 193 lots for residential, mostly single-family, development. Construction of multi-unit developments is becoming more common to meet the demand, with plans for a 96-unit development to be constructed in 2019 that will be served by the District.

The District is experiencing strong commercial / industrial connection fee revenue as local industrial areas develop. In particular, data centers are locating and expanding facilities here due to regionally low electric power rates. Construction of planned data center expansion over the next 20 years will provide strong future revenues for the District.

Growth in connection fee revenue is budgeted for a conservative .75% growth rate in 2019, equating to 71 permits totaling \$390,358.

As the District treatment plant and collection system infrastructure continue to age and wear, the District anticipates increased costs of plant and line maintenance and/or replacement in the future. System condition and analysis is continuing as part of the on-going General Sewer Plan Update scheduled to be concluded by the end of 2019.

An engineering study was recently completed to assess Wastewater Treatment Plant capacity. Based on the results of the study, the Department of Ecology increased the loadings rating of the plant from 2.6 million gallons per day (mgd) to 3.0 mgd. Current treatment volume is 1.43 mgd; 48% of the newly-rated

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the District's ratepayers and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you

Douglas County Sewer District No. 1
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended December 31, 2018

have questions about this report or need additional financial information, contact the Finance Officer at the Douglas County Sewer District, 692 Eastmont Avenue, East Wenatchee, WA 98802.

Douglas County Sewer District No. 1
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended December 31, 2017

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The Notes to the Financial Statements and Required Supplemental Schedules 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.

Douglas County Sewer District No. 1
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended December 31, 2017

CONDENSED STATEMENT OF NET POSITION AT DECEMBER 31

	12/31/2017	12/31/2016	Difference	Percentage of Change
CURRENT AND OTHER ASSETS	\$ 11,739,860	\$ 12,174,949	\$ (435,089)	-3.57%
CAPITAL ASSETS, NET	\$ 38,592,751	\$ 37,667,035	\$ 925,716	2.46%
DEFERRED OUTFLOWS	\$ 94,993	\$ 156,902	\$ (61,909)	-39.46%
TOTAL ASSETS & DEFERRED OUTFLOWS	<u>\$ 50,427,604</u>	<u>\$ 49,998,886</u>	<u>\$ 428,718</u>	<u>0.86%</u>
TOTAL LIABILITIES	\$ 15,734,476	\$ 17,243,482	\$ (1,509,006)	-8.75%
DEFERRED INFLOWS	\$ 108,423	\$ 13,001	\$ 95,422	733.96%
TOTAL LIABILITIES & DEFERRED INFLOWS	<u>\$ 15,842,899</u>	<u>\$ 17,256,483</u>	<u>\$ (1,413,584)</u>	<u>-8.19%</u>
NET INVESTMENT IN CAPITAL ASSETS	\$ 24,958,970	\$ 23,022,888	\$ 1,936,082	8.41%
RESTRICTED	\$ 2,649,797	\$ 4,266,577	\$ (1,616,780)	-37.89%
UNRESTRICTED	\$ 6,975,937	\$ 5,452,938	\$ 1,522,999	27.93%
TOTAL NET POSITION	<u>\$ 34,584,704</u>	<u>\$ 32,742,403</u>	<u>\$ 1,842,301</u>	<u>5.63%</u>

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

	12/31/2017	12/31/2016	Difference	Percentage of
OPERATING REVENUE	\$ 5,080,141	\$ 4,109,972	\$ 970,169	23.61%
NON-OPERATING REVENUE	\$ 12,775	\$ 35,689	\$ (22,914)	-64.21%
ULID ASSESSMENTS				
INTEREST EARNED	\$ 109,455	\$ 51,651	\$ 57,804	111.91%
TOTAL REVENUE	<u>\$ 5,202,370</u>	<u>\$ 4,197,312</u>	<u>\$ 1,005,058</u>	<u>23.95%</u>
PLANT OPERATIONS	\$ 2,046,336	\$ 2,031,148	\$ 15,188	0.75%
MAINTENANCE	\$ 105,104	\$ 90,844	\$ 14,260	15.70%
DEPRECIATION	\$ 1,311,563	\$ 1,167,376	\$ 144,187	12.35%
INTEREST EXPENSES	\$ 414,666	\$ 684,170	\$ (269,504)	-39.39%
LOSS ON INVESTMENTS REALIZED	\$ (2,642)	\$ 43,265	\$ (45,907)	-106.11%
TOTAL EXPENSES	<u>\$ 3,875,026</u>	<u>\$ 4,016,803</u>	<u>\$ (141,777)</u>	<u>-3.53%</u>
INCOME BEFORE CAPITAL CONTRIBUTIONS AND EXTRAORDINARY ITEMS	\$ 1,327,344	\$ 180,509	\$ 1,146,835	635.33%
CAPITAL CONTRIBUTIONS	\$ 514,959	\$ 519,313	\$ (4,354)	-0.84%
INCOME (LOSS) BEFORE EXTRAORDINARY ITEMS	\$ 1,842,303	\$ 699,821	\$ 1,142,481	163.25%
EXTRAORDINARY ITEMS				
CHANGE IN NET POSITION	\$ 1,842,303	\$ 699,821	\$ 1,142,481	163.25%
BEGINNING NET POSITION	<u>\$ 32,742,404</u>	<u>\$ 32,042,583</u>	<u>\$ 699,821</u>	<u>2.18%</u>
ENDING NET POSITION	<u>\$ 34,584,707</u>	<u>\$ 32,742,404</u>	<u>\$ 1,842,302</u>	<u>5.63%</u>

Douglas County Sewer District No. 1
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended December 31, 2017

OVERALL ANALYSIS OF FINANCIAL POSITION AND RESULT OF OPERATIONS

The District's financial position continues to strengthen over the year ended December 31, 2017.

Total assets and deferred outflows increased by \$428,718 or 0.86% (\$49,998,886 for 2016 vs. \$50,427,604 for 2017). Net Capital Assets increased by \$925,716 or 2.46% (\$38,592,751 for 2017 vs. \$37,667,035 for 2016) including land, plant and buildings, collections system, vehicles and construction in progress.

Total net position increased by \$1,842,301 or 5.63% (\$32,742,403 for 2016 vs. \$34,584,704 for 2017). This increase is largely due to completion of Construction in Progress and other capital projects, as well as a decrease in long-term debt through scheduled debt service payments.

Total liabilities and deferred inflows decreased by \$1,426,585 or 8.26% (\$17,269,484 for 2016 vs. \$15,842,899 for 2017). This is largely due to a decrease in long-term debt through scheduled debt service payments.

Operating revenues increased by \$970,169 or 23.61% (\$4,109,972 for 2016 vs. \$5,080,141 for 2017). The sewer service component of operating revenues increased by 6.86% (\$263,989) over 2016 due to the implementation of a multi-year rate increase schedule adopted in June of 2015. Effective on October 1, 2017, sewer rates increased by 7% from \$35.50 per Equivalent Residential Unit (ERU) to \$38.00 per ERU. The General Facilities Charge (Connection Fee) component of operating revenues increased by 264% (\$693,248) over 2016, largely due to two large commercial connections to the system totaling \$351,855 and an increase in residential development.

Operating expenses increased minimally by \$16,829 or 0.5018% (\$3,354,014 for 2016 vs. \$3,370,842 for 2017), made up largely from a decrease in Pension Expense which offset a 3% increase disregarding the Pension Expense adjustment.

CAPITAL ASSETS AND LONG-TERM DEBT

The following table summarized the District's capital assets, net of accumulated depreciation for the years ended

NET CAPITAL ASSETS				
	12/31/2017	12/31/2016	Difference	Percentage of Change
NET CAPITAL ASSETS:				
LAND	\$ 75,731	\$ 75,731	\$ -	0.00%
COLLECTION SYSTEM	\$ 19,491,022	\$ 17,843,200	\$ 1,647,822	9.24%
PLANT BUILDINGS & STRUCTURES	\$ 18,384,864	\$ 19,098,418	\$ (713,554)	-3.74%
MACHINERY & EQUIPMENT	\$ 354,464	\$ 377,909	\$ (23,445)	-6.20%
CONSTRUCTION IN PROGRESS	\$ 286,669	\$ 271,776	\$ 14,893	5.48%
TOTAL CAPITAL ASSETS, NET	<u>\$ 38,592,751</u>	<u>\$ 37,667,034</u>	<u>\$ 925,716</u>	<u>2.46%</u>

Douglas County Sewer District No. 1
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended December 31, 2017

Major additions for 2017 include:

8th Street SE Sewer Extension	544,754
N Baker Ave Sewer Extension & Upsize	474,156
Highline Drive Sewer Extension & Upsize	341,535
Legacy Estates Development	230,500
Clarifier Drive Unit Replacement	110,459
Maryhill Estates Development Phase III	110,147
Plant Pumps & Processors	106,869
Kentucky View Lift Station	57,088
Cascadia Development Phase I	57,760
Cues Camera Transporter	38,676
HVAC Replacement in Admin Building	36,994
Legacy Lift Station	27,542
Total	<u>\$2,136,479</u>

The District's 2018 Capital Budget plans for investment of \$2,450,472 to the following projects:

Collection	5th Street NE - Baker to Eastmont Remaining Balance	\$	2,272
	35th Street NW - Empire Ave to Cascade Ave	\$	422,500
	SR28 - Country Inn Manhole Addition	\$	26,000
	SR28 - Study & Planning for Line Corrosion in 19th to 16th	\$	25,000
	Summerplace Lift Station - Plan for Replacement in New Location	\$	216,000
	Skyview Lift Station - Plan for Panel, Pumps & Misc. Upgrades	\$	22,500
	Top Food /Riverview Lift Station - Plan for Electrical Upgrades	\$	19,200
	Wenatchi Lift Station - Plan for Future Site	\$	50,000
	Miscellaneous Collection System Improvements	\$	250,000
	Misc. Lift Station Improvements (Dosing Stations, etc.)	\$	50,000
Treatment	Headworks Building Roof / Venting & Safety Improvements	\$	455,000
	Shop Building Roof, Workshop, Storage & Jetter Parking	\$	325,000
	Plant-wide Security System and Lighting	\$	260,000
	MCC Building HVAC / Ventilation / Equip. Room Flood Switch	\$	60,000
	ATAD Sulzer Pumps Replacement (2 sets of 2 each)	\$	115,000
	WWTP Outdoor Lighting Upgrade	\$	25,000
	Rebuild or Replace Recycle Pumps	\$	15,000
	UV System Maintenance / 1 of 2 banks each year	\$	12,000
	Miscellaneous Treatment Plant Improvements	\$	100,000
		\$	<u>2,450,472</u>

As of December 31, 2017, the District has the following principal debt balances:

Revenue Bonds	\$	13,095,000
Public Works Trust Fund Loans	\$	18,000
	\$	<u>13,113,000</u>

This excludes the pass-through PWTF loans for the Douglas County Port District in the amount of \$520,782. In all, debt totals \$13,633,781. Debt repayment schedules go out to 2035. The decrease over the prior year is due to continued, scheduled payments on long-term debt.

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

Douglas County Sewer District No. 1
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended December 31, 2017

OTHER POTENTIALLY SIGNIFICANT MATTERS

The District completed a formal rate study in 2015. Rate study recommendations were adopted in June of 2015 became effective on October 1, 2015. Objectives of the study were to plan for anticipated capital needs, evaluate multiple bond coverage scenarios to determine an appropriate balance between protecting its bond rating through sufficient debt service coverage and maintaining affordable sewer service rates, and update the General Facilities Charges/Connection Fees for connection to the system. In addition, the study was based on criteria to maintain the District's cash reserves, begin to formally fund system reinvestment, and entry into the bond market in 2016 for capital projects.

Based on the rate study recommendations, annual sewer rate increases in the amount of \$2.50 per Equivalent Residential Unit are scheduled through 2020. General Facilities Charges were calculated on the Average Cost approach, which defines the connection charge as a pro rata share of existing and planned future capital investments, and increased from \$2,642 to \$5,448 per Equivalent Residential Unit.

Construction of new housing developments is strong locally, and the District anticipates continued strong residential connection fee revenue in 2018 (111 residential permits totaling \$603,876 in 2017, 71 permits totaling \$390,358 conservatively budgeted for 2018) due to a locally tight, high-demand housing market, a local rental vacancy rate of less than 2%. Active Developer Extension Agreements currently provide approximately 150 lots for residential, mostly single-family, development. Developer interest in additional, future developments is strong.

As the District treatment plant and collection system infrastructure continue to age and wear, the District anticipates increased costs of plant and line maintenance and/or replacement in the future. System condition and analysis is continuing as part of the on-going General Sewer Plan Update scheduled to be concluded by the end of 2018.

The Wastewater Treatment Plant has a rated capacity of 2.6 million gallons per day (mgd) and will be adequate for years to come, based on the current demand of 1.43 mgd.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the District's ratepayers and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Finance Officer at the Douglas County Sewer District, 692 Eastmont Avenue, East Wenatchee, WA 98802.

Douglas County Sewer District No. 1

STATEMENT OF NET POSITION

December 31, 2018

ASSETS

Current Assets:

Cash and Cash Equivalents	\$	153,581
Investments		8,437,218
Receivables (Net):		
Service Revenue		376,918
Restricted Assets:		
Bond Debt Service		1,681,988
Construction II		358,003
Prepayments		96,013
TOTAL CURRENT ASSETS		<u>11,103,722</u>

Noncurrent Assets:

Restricted Assets:		
Bond Debt Service Reserve		51,824
Bond Debt Service Reserve Long-Term Investments		301,000
Unrestricted Long-Term Investments		839,817
ULID Assessments		3,752
Loan Receivable - Port District PWTF		431,513
Capital Assets Not Being Depreciated		
Land		75,731
Construction in Progress		346,379
Capital Assets Being Depreciated		
Plant		28,499,399
Collection System		25,497,104
Machinery & Equipment		1,390,706
Less Accumulated Depreciation		<u>(17,412,020)</u>
Total Capital Assets (Net)		38,397,299

TOTAL NONCURRENT ASSETS		40,025,205
TOTAL ASSETS	\$	<u><u>51,128,927</u></u>

DEFERRED OUTFLOWS OF RESOURCES

Deferred Outflows - Pension		76,927
TOTAL DEFERRED OUTFLOWS OF RESOURCES		<u><u>76,927</u></u>

Notes to the Financial Statements are an integral part of this statement.

Douglas County Sewer District No. 1

**STATEMENT OF NET POSITION
December 31, 2018**

LIABILITIES

Current Liabilities:

Accounts/Vouchers Payable	\$ 128,584
Payables from Restricted Assets:	
Bonds, Notes and Loans Payable	1,234,268
Accrued Interest	187,800
Developer Extension Deposits	45,400
TOTAL CURRENT LIABILITIES	1,596,052

Noncurrent Liabilities:

Compensated Absences	229,680
PWTF Loan Payable - Port District	342,245
Payables from Restricted Assets:	
Bonds, Notes and Loans Payable	11,793,697
Pension Liability	380,432
TOTAL NONCURRENT LIABILITIES	12,746,055
TOTAL LIABILITIES	14,342,106

DEFERRED INFLOWS OF RESOURCES

Deferred Inflows - Pension	164,232
TOTAL DEFERRED INFLOWS OF RESOURCES	164,232

NET POSITION

Net Investment in Capital Assets	25,990,786
Restricted - Bond	1,681,988
Restricted - Bond Reserve	352,824
Restricted - Construction II	358,003
Unrestricted	8,315,915
TOTAL NET POSITION	36,699,516

Notes to the Financial Statements are an integral part of this statement.

Douglas County Sewer District No. 1

STATEMENT OF NET POSITION

December 31, 2017

ASSETS

Current Assets:

Cash and Cash Equivalents	\$	128,333
Investments		7,153,391
Receivables (Net):		
Service Revenue		355,011
Restricted Assets:		
Debt Service		1,945,072
Construction Accounts		351,901
Prepayments		85,926
TOTAL CURRENT ASSETS		<u>10,019,635</u>

Noncurrent Assets:

Restricted Assets:

Bond Debt Service Reserve		51,824
Bond Debt Service Reserve Long-Term Investments		301,000
Unrestricted Long-Term Investments		836,859
ULID Assessments		9,760
Loan Receivable - Port District PWTF		520,781
Capital Assets Not Being Depreciated		
Land		75,731
Construction in Progress		286,669
Capital Assets Being Depreciated		
Plant		28,642,295
Collection System		24,791,809
Machinery & Equipment		1,159,076
Less Accumulated Depreciation		<u>(16,362,831)</u>
Total Capital Assets (Net)		38,592,751

TOTAL NONCURRENT ASSETS 40,312,976

TOTAL ASSETS \$ 50,332,611

DEFERRED OUTFLOWS OF RESOURCES

Deferred Outflows - Pension		94,993
TOTAL DEFERRED OUTFLOWS OF RESOURCES		<u><u>94,993</u></u>

Notes to the Financial Statements are an integral part of this statement.

Douglas County Sewer District No. 1

**STATEMENT OF NET POSITION
December 31, 2017**

LIABILITIES

Current Liabilities:

Accounts/Vouchers Payable	\$	84,567
Payables from Restricted Assets:		
Bonds, Notes and Loans Payable		1,227,268
Accrued Interest		196,943
Developer Extension Deposits		55,031
TOTAL CURRENT LIABILITIES		<u>1,563,809</u>

Noncurrent Liabilities:

Compensated Absences		214,424
PWTF Loan Payable - Port District		431,513
Payables from Restricted Assets:		
Bonds, Notes and Loans Payable		13,010,950
Pension Liability		513,780
TOTAL NONCURRENT LIABILITIES		<u>14,170,668</u>
TOTAL LIABILITIES		<u>15,734,476</u>

DEFERRED INFLOWS OF RESOURCES

Deferred Inflows - Pension		108,423
TOTAL DEFERRED INFLOWS OF RESOURCES		<u>108,423</u>

NET POSITION

Net Investment in Capital Assets		24,958,970
Restricted - Bond		1,945,072
Restricted - Bond Reserve		352,824
Restricted - Construction II		351,901
Unrestricted		6,975,937
TOTAL NET POSITION		<u>34,584,704</u>

Notes to the Financial Statements are an integral part of this statement.

Douglas County Sewer District No. 1

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
For the Year Ended December 31, 2018

OPERATING REVENUES:

Utility Sales and Service Fees	\$ 4,444,918
Connection Fees	849,815
Other Charges for Services	9,848
Other Operating Revenue-ULID Assessments	
Total Operating Revenue	<u>5,304,581</u>

OPERATING EXPENSES:

Operations:

General Operations	1,117,586
Cost of Power	115,063
Maintenance	104,990

Administration:

General Administration	665,748
Depreciation and Depletion	1,331,085
Property, Excise and B&O Taxes	145,125
Total Operating Expenses	<u>3,479,597</u>

OPERATING INCOME (LOSS)

<u><u>\$ 1,824,984</u></u>

Notes to the Financial Statements are an integral part of this statement.

Douglas County Sewer District No. 1

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
For the Year Ended December 31, 2018

NONOPERATING REVENUES (EXPENSES)	
Interest Income	\$ 208,857
(Interest Expense, Amortization and Related Charges)	(394,782)
Gains (Losses) on Investments Realized	2,958
Gains (Losses) on Capital Asset Disposition	-
Other Nonoperating Revenues	5,131
(Other Nonoperating Expenses)	
Total Nonoperating Revenues (Expenses)	<u>(177,836)</u>
Income Before Contributions, Transfers and Extraordinary Items	1,647,148
Capital Contributions	467,664
Extraordinary/Special Items	
CHANGE IN NET POSITION	<u>2,114,812</u>
TOTAL NET POSITION, January 1	34,584,704
TOTAL NET POSITION, December 31	<u><u>\$ 36,699,516</u></u>

Notes to the Financial Statements are an integral part of this statement.

Douglas County Sewer District No. 1

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
For the Year Ended December 31, 2017

OPERATING REVENUES:

Utility Sales and Service Fees	\$ 4,107,237
Connection Fees	955,731
Other Charges for Services	17,172
Other Operating Revenue-ULID Assessments	
Total Operating Revenue	<u>5,080,141</u>

OPERATING EXPENSES:

Operations:	
General Operations	1,024,853
Cost of Power	121,386
Maintenance	105,104
Administration:	
General Administration	713,506
Depreciation/Amortization/Depletion	1,311,563
Property, Excise and B&O Taxes	94,432
Total Operating Expenses	<u>3,370,843</u>

OPERATING INCOME (LOSS)	<u><u>\$ 1,709,298</u></u>
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Notes to the Financial Statements are an integral part of this statement.

Douglas County Sewer District No. 1

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
For the Year Ended December 31, 2017

NONOPERATING REVENUES (EXPENSES)	
Interest Income	\$ 109,454
(Interest Expense and Related Charges)	(414,666)
Gains (Losses) on Investments Realized	2,642
Gains (Losses) on Capital Asset Disposition	(92,159)
Other Nonoperating Revenues	12,775
(Other Nonoperating Expenses)	
Total Nonoperating Revenues (Expenses)	<u>(381,955)</u>
Income Before Contributions, Transfers and Extraordinary Items	1,327,343
Capital Contributions	514,959
Extraordinary/Special Items	
CHANGE IN NET POSITION	<u>1,842,302</u>
TOTAL NET POSITION, January 1	32,742,402
TOTAL NET POSITION, December 31	<u><u>\$ 34,584,704</u></u>

Notes to the Financial Statements are an integral part of this statement.

Douglas County Sewer District
Statement of Cash Flows
For the Year Ended December 31, 2018

CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from Customers	\$ 5,293,813
Payments to Suppliers	(955,039)
Payments to Employees	<u>(1,213,391)</u>
Net Cash Provided by Operating Activities	3,125,383
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Payments on Long-Term Debt	(1,227,268)
Interest Paid	(476,178)
Acquisition of Capital Assets	<u>(667,969)</u>
Net Cash Used by Capital and Related Financing Activities	(2,371,415)
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest Received	208,857
Payments Received on Notes Receivable	<u>89,268</u>
Net Cash Provided by Investing Activities	298,125
INCREASE IN CASH	<u><u>1,052,093</u></u>
BEGINING CASH AND CASH EQUIVALENTS	9,630,522
ENDING CASH AND CASH EQUIVALENTS	<u><u>\$ 10,682,615</u></u>

Notes to the Financial Statements are an integral part of this statement.

Douglas County Sewer District
Statement of Cash Flows
For the Year Ended December 31, 2018

RECONCILIATION OF CHANGE IN NET OPERATING INCOME TO
NET CASH PROVIDED BY OPERATING ACTIVITIES

Net Operating Income	\$ 1,824,984
Noncash and nonoperating Income	
Other non-operating income	5,131
Gain on disposal of capital asset	-
ULID assessments	
Noncash and nonoperating expenses	
Depreciation	1,331,085
Bond amortization	
Change in pension expense	(59,474)
(Increase) decrease in operating assets	
Accounts receivable	(21,907)
Prepaid expenses	(10,087)
ULID assessments	6,008
Increase (decrease) in operating liabilities	
Accounts payable	34,386
Compensated absences	15,256
Net cash provided by operating activities	<u>\$ 3,125,383</u>

SUPPLEMENTAL SCHEDULE OF NON-CASH CAPITAL AND
RELATED FINANCING ACTIVITIES

Capital Assets Contributed by Developers	467,664
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Notes to the Financial Statements are an integral part of this statement.

Douglas County Sewer District
Statement of Cash Flows
For the Year Ended December 31, 2017

CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from Customers	\$ 4,996,442
Payments to Suppliers	(975,905)
Payments to Employees	<u>(1,198,605)</u>
Net Cash Provided by Operating Activities	2,821,932
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Payments on Long-Term Debt	(1,167,268)
Interest Paid	(493,964)
Acquisition of Capital Assets	<u>(1,722,320)</u>
Net Cash Used by Capital and Related Financing Activities	(3,383,552)
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest Received	109,454
Payments Received on Notes Receivable	<u>89,268</u>
Net Cash Provided by Investing Activities	198,721
DECREASE IN CASH	<u><u>(362,899)</u></u>
BEGINING CASH AND CASH EQUIVALENTS	9,993,420
ENDING CASH AND CASH EQUIVALENTS	<u><u>\$ 9,630,521</u></u>

Notes to the Financial Statements are an integral part of this statement.

Douglas County Sewer District

**Statement of Cash Flows
For the Year Ended December 31, 2017**

**RECONCILIATION OF CHANGE IN NET OPERATING INCOME TO
NET CASH PROVIDED BY OPERATING ACTIVITIES**

Net Operating Income	\$ 1,709,298
Noncash and nonoperating Income	
Other non-operating income	12,775
Gain on disposal of capital asset	(92,159)
ULID assessments	
Noncash and nonoperating expenses	
Depreciation	1,311,563
Bond amortization	
Change in pension expense	(50,160)
(Increase) decrease in operating assets	
Accounts receivable	(10,089)
Prepaid expenses	(10,121)
ULID assessments	5,774
Increase (decrease) in operating liabilities	
Accounts payable	(66,977)
Compensated absences	12,028
Net cash provided by operating activities	<u>\$ 2,821,932</u>

**SUPPLEMENTAL SCHEDULE OF NON-CASH CAPITAL AND
RELATED FINANCING ACTIVITIES**

Capital Assets Contributed by Developers	514,959
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Notes to the Financial Statements are an integral part of this statement.

DOUGLAS COUNTY SEWER DISTRICT NO. 1

NOTES TO FINANCIAL STATEMENTS January 1, 2018 through December 31, 2018

THESE NOTES ARE AN INTEGRAL PART OF THE ACCOMPANYING FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Douglas County Sewer District No. 1 have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The significant accounting policies are described below.

A. Reporting Entity

Douglas County Sewer District no. 1 is a municipal corporation established in 1964 in with the laws of the State of Washington, RCW Chapter 57 and governed by an elected three member board, As required by generally accepted accounting principles, management has considered all potential component units in defining the reporting entity. The Douglas County Sewer District No. 1 has no component units.

B. Basis of Accounting and Presentation

The District uses the full-accrual basis of accounting where revenues are recognized when earned and expenses are recognized when incurred except for ULID assessment interest and penalties. Assessment interest and penalties are not recorded until funds are received. This practice is not in accordance with general accepted accounting principles (GAAP). Capital asset purchases are capitalized and long-term liabilities are accounted for in the appropriate funds.

The District distinguishes between operating revenues and expenses from nonoperating ones. Operating revenues and expenses result from providing services and producing and delivering goods in connection with a district's principal ongoing operations. The principal operating revenues of the district are charges to customers for sewer service. The district also recognizes as operating revenue connection fees and developer extension fees. Operating expenses for the district include the cost of operations and maintenance, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Unbilled utility service receivables are not recorded at year end, which is a departure from generally accepted accounting principles.

C. Cash and Cash Equivalents

It is the District's policy to invest all temporary cash surpluses. As of December 31, 2018, \$10,529,034 was invested in the Local Government Investment Pool administered through the Douglas County Treasurer and \$1,140,817 was invested in U.S. Securities Bonds with U.S. Bank and administered through the Douglas County Treasurer and Time Value Investments, LLC. The amounts are classified on the Statement of Net Position as 'Investments', 'Restricted Assets: Debt Services', 'Restricted Assets: Construction Accounts', 'Restricted Assets: Debt Service Reserve', 'Restricted Assets: Debt Service Reserve Long-term Investments' and 'Unrestricted Assets: Long-term Investments'.

For purposes of the Statement of Cash Flows, the District considers all highly liquid investments (including restricted assets) with a maturity of 3 months or less when purchased to be cash equivalents.

D. Capital Assets and Depreciation: Also See Note 3 - Capital Assets

Capital assets placed in service are recorded at cost. Depreciation is computed on the straight-line method with useful lives of 3 to 66.67 years. Initial depreciation on capital assets is recorded in the year subsequent to purchase. Preliminary costs incurred for proposed projects are deferred pending construction of the facility. Costs relating to projects ultimately constructed are transferred to capital assets. Charges that relate to abandoned projects are expensed.

Major asset categories and anticipated useful lives are as follows:

<u>Asset Category</u>	<u>Years</u>
Sewer Lines	66.67
Buildings & Major Infrastructure	50
Building Improvements	20
Vehicles	10
Equipment	10
Pumps, Computer Hardware/Software, Misc.	3-10

E. Restricted Assets

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

Restricted funds balances are as follows:

Bond Fund	\$1,681,988
Bond Reserve Fund	\$352,824
Construction II Fund	<u>\$358,003</u>
Totals	\$2,392,815

The Bond Fund balance of \$1,681,988 is reserved to pay the current portion of long-term bond debt included in Payables From Restricted Assets - Bonds, Notes and Loans Payable on the Statement of Net Position.

F. Receivables

The District has the power to file liens against the property when sewer service charges are not paid. Consequently, there are no write-offs of uncollectible accounts, nor an allowance for uncollectible receivables.

G. Investments: Also See Note 2 - Deposits and Investments

All investments of District funds are in the Local Government Investment Pool utilized through the Douglas County Treasurer or in U.S. Treasury securities with U.S. Bank purchased through the Douglas County Treasurer's Office in conjunction with Time Value Investments, LLC. During the year ended December 31, 2016 the District implemented Governmental Accounting Standards Board Statement No. 72, Fair Value Measurement and Application. The District evaluates the methods used by brokers, custodian, or pricing services to determine fair value of their investments as required by GASB Statement No. 72.

H. Unamortized Debt Expense

In accordance with generally accepted accounting principles for regulated businesses, the District's unamortized bond premiums/discounts relating to the sale of bonds are amortized over the lives of the various bond issues. Amortization expense for 2018 is \$72,253.

I. Deferred Compensation

The District participates in the Washington State Deferred Compensation Program (DCP), an IRS Section 457(b) defined contribution pension plan, administered by the Washington State Department of Retirement Systems.

The minimum monthly contribution is \$30 or 1% of pretax income up to a maximum of \$1,541 per month or \$18,500 a year. Participants age 50 and older are allowed an additional \$6,000 contribution per year up to a maximum of \$24,500. Special Catch-up and Deferral limits may be allowed under certain criteria. Withdrawal eligibility begins upon separation from DCP-covered employment, with no tax penalties or age requirements. A one-time, voluntary in-service withdrawal is allowed in the event that the account value does not exceed \$5,000 and contributions have been suspended for 2 years or longer. Internal Revenue Service Code 401(a)(9) requires that, unless you are still actively employed, beginning at age 70 1/2, your payments must be an amount that will exhaust your entire account balance with your projected life expectancy as determined by taking the prior year's December 31 account balance and dividing by an estimated distribution period. Payment options include whole or partial lump sum, periodic payment amounts and an annuity purchase. In the event of the participant's death, designated beneficiaries can choose from a number of withdrawal options to receive benefits from the DCP account.

The Dept. of Retirement Systems is authorized to interpret the provisions of the plan to the extent that they are not inconsistent with state and federal law. The Department has the authority to decide all issues concerning the rights of participants and beneficiaries under the plan.

The District provides a dollar match of up to \$75 a month to its full time employees. In 2018, 11 of 12 employees participated at a total cost to the District of \$9,825.

J. 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, and adjusts this amount annually.

Vacation pay, which may be accumulated up to 480 hours, is payable upon retirement, death or separation from employment, unless terminated for intentional misconduct as determined by the District.

Sick leave may accumulate indefinitely. Upon retirement, death or separation from employment, accumulated sick leave will be paid up to a maximum of 240 hours, unless terminated for intentional misconduct as determined by the District.

The recorded liability for unpaid vacations benefits at December 31, 2018 was \$87,712. At December 31, 2018 the recorded liability for sick pay was \$141,968.

K. 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 market value.

NOTE 2 - DEPOSITS AND INVESTMENTS

A. Deposits

The District's deposits and any certificates of deposit are entirely covered by Federal Depository Insurance Corporation (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (PDPC). The District's treasurer is the Douglas County Treasurer and all cash funds are controlled and invested by that office, with the exception of a FDIC covered account utilized to receive and temporarily hold ACH and credit card payments.

B. Investments

All investments of District funds are in the Local Government Investment Pool utilized through the Douglas County Treasurer or in U.S. Treasury securities with U.S. Bank purchased through the Douglas County Treasurer's Office in conjunction with Time Value Investments, LLC.

During the year ended December 31, 2016, the District implemented Governmental Accounting Standards Board Statement 72, *Fair Value Measurement and Application*. The District evaluates the methods used by brokers, custodians or pricing services to determine fair value of their investments as required by GASB Statement No. 72. All long-term investments in the LGIP are measured at amortized cost; all long-term investments in U.S. Treasury securities with U.S. Bank are measured at fair market value.

Investments in Local Government Investment Pool (LGIP)

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

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

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

Investments Measured at Fair Value

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

Level 1: Quoted prices in active markets for identical assets or liabilities;

Level 2:

These are quoted market prices for similar assets, quoted prices for identical or similar assets in markets that are not active, or other than quoted prices that are not observable;

Level 3: Unobservable inputs for an asset.

At December 31, 2018, the District had the following investments measured at fair value:

Investments by Fair Value Level	Level 1	Level 2	Level 3	12/31/2018
U.S. Treasury Securities		\$ 1,140,817		\$ 1,140,817
Investments Measured at Amortized Cost				
State Local Government Investment Pool (LGIP)				\$ 10,529,034
Total Investments in Statement of Net Position				<u>\$ 11,669,851</u>

NOTE 3 - CAPITAL ASSETS

Capital assets are defined by the District as assets with initial individual cost of more than \$5,000.00 and an estimated useful life in excess of 1 year.

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.

Capital assets are recorded at cost where the historical cost is known. Where the historical cost is not known, assets are recorded at market value. Donations by developers and customers are recorded at the contract price and donor cost or appraised value.

Capital Asset Change by Categories during 2018 is as follows:

	Beginning Balance	Reclassify	Increase	Decrease	Ending Balance
Capital Assets Not Being Depreciated:					
Land	75,731				75,731
Construction In Progress	286,669		416,398	356,689	346,379
Total Capital Assets Not Being Depreciated	362,400	0	416,398	356,689	422,110
Capital Assets Being Depreciated:					
Plant & Buildings	28,642,295		124,753	267,650	28,499,398
Machinery & Equipment	1,159,076		245,876	14,246	1,390,706
Collection System	24,791,810		705,294	0	25,497,104
Total Capital Assets Being Depreciated	54,593,181	0	1,075,923	281,895	55,387,209
Less Accumulated Depreciation for:					
Plant & Buildings	10,257,432		897,622	267,612	10,887,442
Machinery & Equipment	804,611		60,059	14,246	850,424

Collection System	5,300,788		373,366	0	5,674,154
Total Accumulated Depreciation	16,362,831	0	1,331,047	281,858	17,412,020
Total Capital Assets Being Depreciated, Net	38,230,350		-255,124	37	37,975,188
Total Capital Assets, Net	<u>\$38,592,750</u>	<u>\$0</u>	<u>\$161,274</u>	<u>\$356,726</u>	<u>\$38,397,298</u>

The original cost of operating property retired or otherwise disposed of and the cost of installation, less salvage, is installation, less salvage, is charged to accumulated depreciation. However, in the case of the sale of a significant operating unit or system, the original cost is removed from the capital assets accounts, accumulated depreciation is charged with the accumulated depreciation related to the property sold, and the net gain or loss is credited or charged to income.

Depreciation is computed using the straight-line method with useful lives of 3 to 66.67 years. Initial depreciation on capital assets is recorded in the year subsequent to purchase.

Preliminary costs incurred for the proposed projects are deferred pending construction of the facility. Costs relating to projects ultimately constructed are transferred to capital assets; charges that related to abandoned projects are expensed.

The District expenses any impairment losses that may arise. There were no impairment losses to report for 2018.

NOTE 4 - CONSTRUCTION IN PROGRESS

The District completed \$467,664 worth of construction. The District had \$700,664 in new projects leaving \$346,379 worth of construction in progress. The following projects were in progress at year end:

	Project Authorization	Expended thru 12/31/18	Committed	Required Future Financing	Funding Source
WWTP Headworks Building Improvement	710,000	208,501	501,499		Cash Reserves
35th NW Cascade Avenue Dry Line	357,500	28,056	329,444		Cash Reserves
Empire Ave/Wenatchi Landing Extension	301,950	68,131	233,819	TBD	TBD
Batterman Lift Station Improvements	120,000	25,452	94,548	TBD	TBD
Summerplace Lift Station Improvements	1,190,000	16,240	1,173,760	TBD	TBD
	\$ 2,679,450	\$ 346,379	\$ 2,333,071	\$ -	TBD: To be determined

NOTE 5 - LONG-TERM DEBT: Also see attached NOTE 5 - LONG-TERM DEBT GRAPH

The District issues revenue bonds to finance construction of Wastewater Treatment Plant upgrades and other capital projects. Bonded indebtedness has also been entered into in prior years to advance refund several revenue bonds. The revenue bonds are being repaid by proprietary fund reserves.

At December 31, 2018, the District has \$1,681,987.54 available in a debt service fund to service the bonded debt. Restricted assets in proprietary funds contain \$2,392,815.28 in sinking funds and reserves as required by bond covenants. There are a number of other limitations and restrictions contained in the bond covenants. The District is in compliance with all significant limitations and restrictions.

The District has pledged future enterprise revenues, net of enterprise operating expenses, to repay \$11,975,000.00 in sewer revenue bonds issued in 2006, 2013 and 2016.

The District's revenue bonds are payable solely from sewer revenues and are payable through 2035. Annual principal and interest payments on the bonds are expected to require less than 40 percent of net revenues. The total principal and interest remaining to be paid on the bonds is \$14,799,569. Total bond principal and interest paid for the current year and total enterprise revenue were \$1,593,394 and \$5,309,712 respectively.

The District also has two non-parity, Public Works Trust Fund loans for WWTP upgrades and system extension projects. Total principal and interest remaining to be paid on the non-parity debt is \$437,875, which includes two PWTF pass-through loans for which the Port of Douglas County reimburses the District for debt service in the amount of \$437,875. Principal and interest for the current year on the non-parity debt is \$91,872 of which the Port of Douglas County reimbursed \$91,872 of debt service to the District.

Revenue Bonds and general obligation debt outstanding as of December 31, 2018:

ID #	Description	Maturity / Payment Due Date	Beginning Balance 01/01/2018	Additions	Reductions	Ending Balance 12/31/18
259	Compensated Absences		214,424	15,256		229,680
259	Pension Liability		513,778		133,346	380,432
263	2001 PWTF - Port Preconstructio	7/1/2021	29,653		7,414	22,240
263	2003 PWTF - Port Construction	7/1/2023	491,128		81,854	409,273
252	2006 Bond - Plant Upgrade	8/1/2024	860,000		0	860,000
252	2013 Bond - Refunding	8/1/2019	1,060,000		525,000	535,000
263	2015 PWTF - N Baker Ave Ext	6/1/2018	18,000		18,000	0
252	2016 Bond - Refunding/New	8/1/2035	11,175,000		595,000	10,580,000
	Total Long-Term Debt		14,361,983	15,256	1,360,614	13,016,625

See attached Note 5 Long-Term Debt Graph

DOUGLAS COUNTY SEWER DISTRICT NO. 1

NOTES TO FINANCIAL STATEMENTS
January 1, 2018 through December 31, 2018

NOTE 5 - LONG-TERM DEBT - GRAPH

A. Long-Term Debt

The annual requirements to amortize all debts outstanding as of December 31, 2018, including interest, are:

	2006 Bond WWTP Upgrade		2013 Refunding Bonds Refunded 2003 Bond		2016 Refunding Bonds Refund 2008/New Money		2001 PWTF Loan Port Dist Pass-thru Preconstruction		2003 PWTF Loan Port Dist Pass-thru Construction		2013 PWTF Loan Baker Avenue Extension		Total Long- Term Debt and Interest
Year	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	
2019	0	36,550	535,000	13,375	610,000	398,444	7,414	111	81,854	2,046	0	0	1,684,794
2020	0	36,550			1,185,000	374,044	7,414	74	81,854	1,637	0	0	1,686,573
2021	0	36,550			1,220,000	338,494	7,414	37	81,854	1,228	0	0	1,685,577
2022	0	36,550			1,260,000	301,894	0	0	81,854	819	0	0	1,681,117
2023	0	36,550			1,295,000	264,094	0	0	81,855	409	0	0	1,677,908
2024- 2028	860,000	36,550			3,260,000	670,969	0	0	0	0	0	0	4,827,519
2029- 2033					1,205,000	218,669	0	0	0	0	0	0	1,423,669
2034 - 2038					545,000	25,288	0	0	0	0	0	0	570,288
Totals	860,000	219,300	535,000	13,375	10,580,000	2,591,894	22,241	222	409,272	6,139	0	0	15,237,444
ID#	252.11		252.11		252.11		263.82		263.82		263.82		

Original Amount	\$8,440,000	\$2,930,000	\$11,850,000	\$179,962	\$1,555,235	\$54,000	12,406,513 Principal Only
Interest Rate	4.20%	1.56%	2.42%	0.50%	0.50%	1.00%	2,830,930 Interest Only
Dated	11/15/06	5/28/13	5/23/16	3/19/01	7/29/03	1/29/13	
Maturity	2024	2019	2035	2021	2023	2018	15,237,444
Last Pmt	8/1/24	8/1/19	08/01/35	7/1/21	7/1/23	6/1/18	

NOTE 6 - RESTRICTED COMPONENT OF NET POSITION

The District's Statement of Net Position reports \$2,392,815 of restricted component of net assets, of which \$2,392,815 is restricted by bond covenants.

NOTE 7 - RISK MANAGEMENT

Douglas County Sewer District 1 is a member of Enduris. Chapter 48.62 RCW provides the exclusive source of local government entity authority to individually or jointly self-insure risks, jointly purchase insurance or reinsurance, and to contract for risk management, claims, and administrative services. Enduris was formed July 10, 1987 pursuant to the provisions of Chapter 48.62 RCW, Chapter 200-100 WAC, and Chapter 39.34 RCW. Two (2) counties and two (2) cities in the State of Washington joined together by signing an interlocal governmental agreement to fund their self-insured losses and jointly purchase insurance and administrative services. As of August 31, 2018, there are 549 Enduris members representing a broad array of special purpose districts throughout the state. Enduris provides property and liability coverage as well as risk management services and other related administrative services.

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

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

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

For property losses related to boiler and machinery Enduris is responsible for the first \$4,000 of the claim.

Enduris acquires reinsurance from unrelated insurance companies on a "per occurrence" basis to cover all losses over the self-insured retentions as shown on the policy maximum limits. Liability coverage is

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

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

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

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

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

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

NOTE 8 - Pensions Plans

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 plan 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.

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

Aggregate Pension Amounts - All Plans	
Pension liabilities	\$ 380,432
Pension assets	\$ -
Deferred outflows of resources	\$ 82,465
Deferred inflows of resources	\$ (164,227)
Pension expense	\$ 36,265

State Sponsored Pension Plans

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

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

Department of Retirement Systems
Communications Unit
P.O. Box 48380
Olympia, WA 98540-8380

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

Public Employees' Retirement System (PERS)

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

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

Contributions

The **PERS Plan 1** member contribution rate is established by State statute at 6 percent. The employer contribution rate is developed by the Office of the State Actuary and includes an administrative expense component that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates. The PERS Plan 1 required contribution rates (expressed as a percentage of covered payroll) for 2018 were as follows:

PERS Plan 1		
Actual Contribution Rates:	Employer	Employee*
January - August 2018:		
PERS PLAN 1	7.49%	6.00%
PERS Plan 1 UAAL	5.03%	6.00%
Administrative Fee	1.80%	
TOTAL	12.70%	6.00%
Actual Contribution Rates:	Employer	Employee*
September - December 2018:		
PERS PLAN 1	7.52%	6.00%
PERS Plan 1 UAAL	5.13%	
Administrative Fee	0.18%	
TOTAL	12.83%	6.00%

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

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

With a benefit that is reduced by three percent for each year before age 65;

With a benefit that has a smaller (or no) reduction (depending on age) that imposes stricter return-to-work rules.

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

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

Contributions

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

PERS Plan 2/3		
	Employer 2/3	Employee 2*
Actual Contribution Rates:		
January - August 2018:		
PERS PLAN 2/3	7.49%	7.38%
PERS Plan 1 UAAL	5.03%	
Administrative Fee	0.18%	
Employee PERS Plan 3		varies
TOTAL	12.70%	7.38%
	Employer 2/3	Employee 2*
Actual Contribution Rates:		
September - December 2018:		
PERS PLAN 2/3	7.50%	7.41%
PERS Plan 1 UAAL	5.13%	
Administrative Fee	0.18%	
Employee PERS Plan 3		varies
TOTAL	12.83%	7.41%

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

The Douglas County Sewer District's actual PERS plan contributions were \$48,000 to PERS Plan 1 and \$57,457 to PERS Plan 2/3 for the year ended December 31, 2018.

Actuarial Assumptions

The total pension liability (TPL) for each of the DRS plans was determined using the most recent actuarial valuation completed in 2018 with a valuation date of June 30, 2017. The actuarial assumptions used in the valuation were based on the results of the Office of the State Actuary's (OSA) 2007-2012 Experience Study and the the 2015 Economic Experience Study.

Additional assumptions for subsequent events and law changes are current as of the 2017 actuarial valuation report. The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2018. Plan liabilities were rolled forward from June 30, 2018, to June 30, 20178, reflecting each plan's normal cost (using the entry-age cost method), assumed interest and actual benefit payments.

Inflation: 2.75% total economic inflation; 3.50% salary inflation

Salary increases: In addition to the base 3.50% salary inflation assumption, salaries are also expected to grow by promotions and longevity.

Investment rate of return: 7.4%

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

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

- * Lowered the valuation interest rate from 7.70% to 7.5% for all systems except LEOFF 2. For LEOFF 2 the valuation interest rate was lowered from 7.5% to 7.40%.
- * Lowered the assumed general salary growth from 3.75% to 3.5% for all systems.
- * Lowered assumed inflation from 3.00% to 2.75% for all systems.
- * Modified how the valuation software calculates benefits paid to remarried duty-related death survivors of LEOFF 2 members.
- * Updated the trend that the valuation software uses to project medical inflation for LEOFF 2 survivors of a duty-related death, and for certain LEOFF 2 medical-related duty disability benefits.

Discount Rate

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

To determine that rate, an asset sufficiency test included an assumed 7.5 percent long-term discount rate to determine funding liabilities for calculating future contribution rate requirements. (All plans use 7.5 percent except LEOFF 2, which has assumed 7.4 percent). Contributions from plan members and employers are assumed to continue being made at contractually required rates (including PERS 2/3, PSERS 2, SERS 2/3, and TRS 2/3 employers, whose rates include a component for the PERS 1, and TRS 1 plan liabilities). Consistent with the long-term expected rate of return, a 7.4 percent future investment rate of return on invested assets was assumed for the test. Contributions from plan members and employers are assumed to continue being made at contractually required rates (including PERS 2/3, PSERS 2 SERS 2/3, and TRS 2/3 employers, whose rates included a component for PERS 1, and TRS 1 plan liabilities). Based on these assumptions, the pension plans' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return of 7.4 percent was used to determine the total liability.

Long-Term Expected Rate of Return

The long-term expected rate of return on the DRS pension plan investments of 7.4 percent was determined using a building-block-method. In selecting this assumption, the Office of the State Actuary (OSA) reviewed the historical experience data, considered the historical conditions that produced past annual investment returns, and considered capital market assumptions and simulated expected investment returns provided by the Washington State Investment Board (WSIB). The WSIB uses the capital 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.

Estimated Rates of Return by Asset Class

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

Sensitivity of the Net Pension Liability (Asset)

The table below presents the Districts proportionate share* of the net pension liability calculated using the discount rate of 7.4 percent, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.4 percent) or 1-percentage point higher (8.4 percent) than the current rate.

	1% Decrease (6.4%)	Current Discount (7.4%)	1% Increase (8.4%)
PERS 1	314,160	255,636	204,942
PERS 2/3	570,814	124,795	-240,891

* See Note 4.C of the DRS Participating Employer Financial Information report for the year ended June 30. Multiply the total net pension liability amounts for each applicable plan by your proportionate share for that plan.

Pension Plan Fiduciary Net Position

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

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

At June 30, 2018, the Douglas County Sewer District No. 1 reported a total pension liability of \$380,430 for its proportionate share of the net pension liabilities as follows:

	Liability (or Asset)
PERS 1	255,636
PERS 2/3	124,795

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

	Proportionate Share 06/30/17	Proportionate Share 06/30/18	Change in Proportionate Share
PERS Plan 1	0.005576%	0.007172	0.000801%
PERS Plan 2/3	0.005724%	0.007309	0.000979%

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* for all plans except LEOFF 1.

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

Pension Expense

For the year ended December 31, 2018, the Douglas County Sewer District recognized pension expense as follows:

	Pension Expense
PERS 1	\$29,719
PERS 2/3	\$6,546
TOTAL	\$36,265

Deferred Outflows of Resources and Deferred Inflows of Resources

At December 31, 2018, the Douglas County Sewer District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

PERS 1	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	0	0
Net difference between projected and actual investment earnings on pension plan investments	0	10,159
Changes of assumptions	0	0

Changes in proportion and differences between contributions and proportionate share of contributions	0	0
Contributions subsequent to the measurement date	19,455	0
TOTAL	19,455	10,159

PERS 2/3	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	15,297	21,849
Net difference between projected and actual investment earnings on pension plan investments	0	76,580
Changes of assumptions	1,460	35,516
Changes in proportion and differences between contributions and proportionate share of contributions	17,591	20,124
Contributions subsequent to the measurement date	28,664	0
TOTAL	63,012	154,069

Deferred outflows of resources related to pensions resulting from the Douglas County Sewer District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2019. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31:	PERS 1 - Yearly Amortization
2019	\$444
2020	-\$2,221
2021	-\$6,664
2022	-\$1,719
2023	\$0
Thereafter	\$0

Year ended December 31:	PERS 2/3 - Yearly Amortization
2019	-\$4,466
2020	-\$26,417
2021	-\$49,691
2022	-\$20,175
2023	-\$9,242
Thereafter	-\$9,732

DOUGLAS COUNTY SEWER DISTRICT NO. 1

NOTES TO FINANCIAL STATEMENTS January 1, 2017 through December 31, 2017

THESE NOTES ARE AN INTEGRAL PART OF THE ACCOMPANYING FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Douglas County Sewer District No. 1 have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The significant accounting policies are described below.

A. Reporting Entity

Douglas County Sewer District no. 1 is a municipal corporation established in 1964 in with the laws of the State of Washington, RCW Chapter 57 and governed by an elected three member board, As required by generally accepted accounting principles, management has considered all potential component units in defining the reporting entity. The Douglas County Sewer District No. 1 has no component units.

B. Basis of Accounting and Presentation

The District uses the full-accrual basis of accounting where revenues are recognized when earned and expenses are recognized when incurred except for ULID assessment interest and penalties. Assessment interest and penalties are not recorded until funds are received. This practice is not in accordance with general accepted accounting principles (GAAP). Capital asset purchases are capitalized and long-term liabilities are accounted for in the appropriate funds.

The District distinguishes between operating revenues and expenses from nonoperating ones. Operating revenues and expenses result from providing services and producing and delivering goods in connection with a district's principal ongoing operations. The principal operating revenues of the district are charges to customers for sewer service. The district also recognizes as operating revenue connection fees and developer extension fees. Operating expenses for the district include the cost of operations and maintenance, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Unbilled utility service receivables are not recorded at year end, which is a departure from generally accepted accounting principles.

C. Cash and Cash Equivalents

It is the District's policy to invest all temporary cash surpluses. As of December 31, 2017, \$9,502,188 was invested in the Local Government Investment Pool administered through the Douglas County Treasurer and \$1,137,859 was invested in U.S. Securities Bonds with U.S. Bank and administered through the Douglas County Treasurer and Time Value Investments, LLC. The amounts are classified on the Statement of Net Position as 'Investments', 'Restricted Assets: Debt Services', 'Restricted Assets: Construction Accounts', 'Restricted Assets: Debt Service Reserve', 'Restricted Assets: Debt Service Reserve Long-term Investments' and 'Unrestricted Assets: Long-term Investments'.

For purposes of the Statement of Cash Flows, the District considers all highly liquid investments (including restricted assets) with a maturity of 3 months or less when purchased to be cash equivalents.

D. Capital Assets and Depreciation: Also See Note 3 - Capital Assets

Capital assets placed in service are recorded at cost. Depreciation is computed on the straight-line method with useful lives of 3 to 66.67 years. Initial depreciation on capital assets is recorded in the year subsequent to purchase. Preliminary costs incurred for proposed projects are deferred pending construction of the facility. Costs relating to projects ultimately constructed are transferred to capital assets. Charges that relate to abandoned projects are expensed.

Major asset categories and anticipated useful lives are as follows:

<u>Asset Category</u>	<u>Years</u>
Sewer Lines	66.67
Buildings & Major Infrastructure	50
Building Improvements	20
Vehicles	10
Equipment	10
Pumps, Computer Hardware/Software, Misc.	3-10

E. Restricted Assets

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

Restricted funds balances are as follows:

Bond Fund	\$1,945,072
Bond Reserve Fund	\$352,824
Construction II Fund	<u>\$351,901</u>
Totals	\$2,649,797

The Bond Fund balance of \$1,945,072 is reserved to pay the current portion of long-term bond debt included in Payables From Restricted Assets - Bonds, Notes and Loans Payable on the Statement of Net Position.

F. Receivables

The District has the power to file liens against the property when sewer service charges are not paid. Consequently, there are no write-offs of uncollectible accounts, nor an allowance for uncollectible receivables.

G. Investments: Also See Note 2 - Deposits and Investments

All investments of District funds are in the Local Government Investment Pool utilized through the Douglas County Treasurer or in U.S. Treasury securities with U.S. Bank purchased through the Douglas County Treasurer's Office in conjunction with Time Value Investments, LLC. During the year ended December 31, 2016 the District implemented Governmental Accounting Standards Board Statement No. 72, Fair Value Measurement and Application. The District evaluates the methods used by brokers, custodian, or pricing services to determine fair value of their investments as required by GASB Statement No. 72.

H. Unamortized Debt Expense

In accordance with generally accepted accounting principles for regulated businesses, the District's unamortized bond premiums/discounts relating to the sale of bonds are amortized over the lives of the various bond issues. Amortization expense for 2017 is \$72,253.

I. Deferred Compensation

The District participates in the Washington State Deferred Compensation Program (DCP), an IRS Section 457(b) defined contribution pension plan, administered by the Washington State Department of Retirement Systems.

The minimum monthly contribution is \$30 or 1% of pretax income up to a maximum of \$1,541 per month or \$18,500 a year. Participants age 50 and older are allowed an additional \$6,000 contribution per year up to a maximum of \$24,500. Special Catch-up and Deferral limits may be allowed under certain criteria. Withdrawal eligibility begins upon separation from DCP-covered employment, with no tax penalties or age requirements. A one-time, voluntary in-service withdrawal is allowed in the event that the account value does not exceed \$5,000 and contributions have been suspended for 2 years or longer. Internal Revenue Service Code 401(a)(9) requires that, unless you are still actively employed, beginning at age 70 1/2, your payments must be an amount that will exhaust your entire account balance with your projected life expectancy as determined by taking the prior year's December 31 account balance and dividing by an estimated distribution period. Payment options include whole or partial lump sum, periodic payment amounts and an annuity purchase. In the event of the participant's death, designated beneficiaries can choose from a number of withdrawal options to receive benefits from the DCP account.

The Dept. of Retirement Systems is authorized to interpret the provisions of the plan to the extent that they are not inconsistent with state and federal law. The Department has the authority to decide all issues concerning the rights of participants and beneficiaries under the plan.

The District provides a dollar match of up to \$75 a month to its full time employees. In 2017, 11 of 12 employees participated at a total cost to the District of \$10,050.

J. 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, and adjusts this amount annually.

Vacation pay, which may be accumulated up to 480 hours, is payable upon retirement, death or separation from employment, unless terminated for intentional misconduct as determined by the District.

Sick leave may accumulate indefinitely. Upon retirement, death or separation from employment, accumulated sick leave will be paid up to a maximum of 240 hours, unless terminated for intentional misconduct as determined by the District.

The recorded liability for unpaid vacations benefits at December 31, 2017 was \$82,177. At December 31, 2017 the recorded liability for sick pay was \$132,248

K. Pensions

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

NOTE 2 - DEPOSITS AND INVESTMENTS

A. Deposits

The District's deposits and any certificates of deposit are entirely covered by Federal Depository Insurance Corporation (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (PDPC). The District's treasurer is the Douglas County Treasurer and all cash funds are controlled and invested by that office, with the exception of a FDIC covered account utilized to receive and temporarily hold ACH and credit card payments.

B. Investments

All investments of District funds are in the Local Government Investment Pool utilized through the Douglas County Treasurer or in U.S. Treasury securities with U.S. Bank purchased through the Douglas County Treasurer's Office in conjunction with Time Value Investments, LLC.

During the year ended December 31, 2016, the District implemented Governmental Accounting Standards Board Statement 72, *Fair Value Measurement and Application*. The District evaluates the methods used by brokers, custodians or pricing services to determine fair value of their investments as required by GASB Statement No. 72. All long-term investments in the LGIP are measured at amortized cost; all long-term investments in U.S. Treasury securities with U.S. Bank are measured at fair market value.

Investments in Local Government Investment Pool (LGIP)

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

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

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

Investments Measured at Fair Value

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

Level 1: Quoted prices in active markets for identical assets or liabilities;

Level 2:

These are quoted market prices for similar assets, quoted prices for identical or similar assets in markets that are not active, or other than quoted prices that are not observable;

Level 3: Unobservable inputs for an asset.

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

Investments by Fair Value Level	Level 1	Level 2	Level 3	12/31/2017
U.S. Treasury Securities		\$ 1,137,859		\$ 1,137,859
Investments Measured at Amortized Cost				
State Local Government Investment Pool (LGIP)				\$ 9,502,188
Total Investments in Statement of Net Position				<u>\$ 10,640,048</u>

NOTE 3 - CAPITAL ASSETS

Capital assets are defined by the District as assets with initial individual cost of more than \$5,000.00 and an estimated useful life in excess of 1 year.

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.

Capital assets are recorded at cost where the historical cost is known. Where the historical cost is not known, assets are recorded at market value. Donations by developers and customers are recorded at the contract price and donor cost or appraised value.

Capital Asset Change by Categories during 2017 is as follows:

	Beginning Balance	Reclassify	Increase	Decrease	Ending Balance
Capital Assets Not Being Depreciated:					
Land	75,731				75,731
Construction In Progress	271,776		1,592,796	1,577,902	286,669
Total Capital Assets Not Being Depreciate	347,507	0	1,592,796	1,577,902	362,400
Capital Assets Being Depreciated:					
Plant & Buildings	28,496,476		276,990	131,170	28,642,295
Machinery & Equipment	1,143,324		47,725	31,974	1,159,076
Collection System	22,801,980		1,989,830	0	24,791,810
Total Capital Assets Being Depreciated	52,441,780	0	2,314,545	163,144	54,593,181
Less Accumulated Depreciation for:					
Plant & Buildings	9,398,058		898,385	39,011	10,257,432
Machinery & Equipment	765,415		71,170	31,974	804,611
Collection System	4,958,780		342,008	0	5,300,788
Total Accumulated Depreciation	15,122,253	0	1,311,563	70,985	16,362,831
Total Capital Assets Being Depreciated, Net	37,319,527		1,002,982	92,159	38,230,350
Total Capital Assets, Net	<u>\$37,667,034</u>	<u>\$0</u>	<u>\$2,595,778</u>	<u>\$1,670,061</u>	<u>\$38,592,750</u>

The original cost of operating property retired or otherwise disposed of and the cost of installation, less salvage, is installation, less salvage, is charged to accumulated depreciation. However, in the case of the sale of a significant operating unit or system, the original cost is removed from the capital assets accounts, accumulated depreciation is charged with the accumulated depreciation related to the property sold, and the net gain or loss is credited or charged to income.

Depreciation is computed using the straight-line method with useful lives of 3 to 66.67 years. Initial depreciation on capital assets is recorded in the year subsequent to purchase.

Preliminary costs incurred for the proposed projects are deferred pending construction of the

facility. Costs relating to projects ultimately constructed are transferred to capital assets; charges that related to abandoned projects are expensed.

The District expenses any impairment losses that may arise. There were no impairment losses to report for 2017.

NOTE 4 - CONSTRUCTION IN PROGRESS

The District completed \$1,577,902 worth of construction, leaving \$286,669 in progress. The following projects were in progress at year end:

	Project Authorization	Expended thru 12/31/17	Remaining Commitment	Required Future Financing	Funding Source
WWTP Headworks Building Improvement	455,000	15,414	439,586		Cash Reserves
5th Street NE Extension		153,140			Cash Reserves
35th NW Cascade to Empire	422,500	21,689	400,811		Cash Reserves
Admin Bldg. Front Parking Lot	15,000	2,844	12,156		Cash Reserves
Empire Way Extension		68,131		TBD	TBD
Batterman Lift Station Improvements		25,452		TBD	TBD
	\$ 892,500	\$ 286,669	\$ 852,553	\$ -	TBD: To be determined

NOTE 5 - LONG-TERM DEBT: Also see attached NOTE 5 - LONG-TERM DEBT GRAPH

The District issues revenue bonds to finance construction of Wastewater Treatment Plant upgrades and other capital projects. Bonded indebtedness has also been entered into in prior years to advance refund several revenue bonds. The revenue bonds are being repaid by proprietary fund reserves.

At December 31, 2017, the District has \$1,945,072.29 available in a debt service fund to service the bonded debt. Restricted assets in proprietary funds contain \$2,649,797.47 in sinking funds and reserves as required by bond covenants. There are a number of other limitations and restrictions contained in the bond covenants. The District is in compliance with all significant limitations and restrictions.

The District has pledged future enterprise revenues, net of enterprise operating expenses, to repay \$13,095,000.00 in sewer revenue bonds issued in 2006, 2013 and 2016.

The District's revenue bonds are payable solely from sewer revenues and are payable through 2035. Annual principal and interest payments on the bonds are expected to require less than 40 percent of net revenues. The total principal and interest remaining to be paid on the bonds is \$13,290,532. Principal and interest paid for the current year and total enterprise revenue were \$1,120,000.00 and \$5,092,915 respectively.

The District also has three non-parity, Public Works Trust Fund loans for WWTP upgrades and system extension projects. Total principal and interest remaining to be paid on the non-parity debt is \$547,926, which includes two PWTF pass-through loans for which the Port of Douglas County reimburses the District for debt service in the amount of \$529,746. Principal and interest for the current year on the non-parity debt is \$110,678 of which the Port of Douglas County reimbursed \$92,318 of debt service to the District.

Revenue Bonds and general obligation debt outstanding as of December 31, 2017:

ID #	Description	Maturity / Payment Due Date	Beginning Balance 01/01/2017	Additions	Reductions	Ending Balance 12/31/17
259	Compensated Absences		202,396	12,028		214,424
259	Pension Liability		721,271		207,491	513,780
263	2001 PWTF - Port Preconstruction	7/1/2021	37,067		7,414	29,653
263	2003 PWTF - Port Construction	7/1/2023	572,982		81,854	491,128
252	2006 Bond - Plant Upgrade	8/1/2024	860,000		0	860,000
252	2013 Bond - Refunding	8/1/2019	1,580,000		520,000	1,060,000
263	2015 PWTF - N Baker Ave Ext	6/1/2018	36,000		18,000	18,000
252	2016 Bond - Refunding/New	8/1/2035	11,715,000		540,000	11,175,000
	Total Long-Term Debt		15,724,716	12,028	1,374,759	14,361,985

See attached Note 5 Long-Term Debt Graph

DOUGLAS COUNTY SEWER DISTRICT NO. 1

NOTES TO FINANCIAL STATEMENTS

January 1, 2017 through December 31, 2017

NOTE 5 - LONG-TERM DEBT

A. Long-Term Debt

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

Year	1996 PWTIF Loan WWTP Upgrade	2006 Bond WWTP Upgrade	2013 Refunding Bonds Refunded 2003 Bond	2016 Refunding Bonds Refund 2008/New Money	2001 PWTIF Loan Port Dist Pass-thru Preconstruction	2003 PWTIF Loan Port Dist Pass-thru Construction	2013 PWTIF Loan Baker Avenue Extension	Total Long- Term Debt and Interest
2018	Principal 0	Principal 0	Principal 525,000	Principal 595,000	Principal 7,414	Principal 81,854	Principal 18,000	1,703,446
2019	Interest 36,550	Interest 36,550	Interest 26,500	Interest 410,344	Interest 148	Interest 2,456	Interest 180	1,703,446
2020	Principal 0	Principal 0	Principal 535,000	Principal 610,000	Principal 7,414	Principal 81,854	Principal 0	1,684,794
2021	Interest 36,550	Interest 36,550	Interest 13,375	Interest 398,444	Interest 111	Interest 2,046	Interest 0	1,684,794
2022	Principal 0	Principal 0	Principal 535,000	Principal 1,185,000	Principal 7,414	Principal 81,854	Principal 0	1,686,573
2023 - 2027	Interest 36,550	Interest 36,550	Interest 13,375	Interest 374,044	Interest 74	Interest 1,637	Interest 0	1,686,573
2028 - 2032	Principal 860,000	Principal 109,650	Principal 535,000	Principal 1,220,000	Principal 7,414	Principal 81,854	Principal 0	1,685,577
2033 - 2037	Interest 36,550	Interest 36,550	Interest 13,375	Interest 301,894	Interest 0	Interest 819	Interest 0	1,681,117
Totals	263.82	252.11	252.11	252.11	263.82	263.82	263.82	16,977,440
ID#	0	0	0	0	0	0	0	0

Original Amount	\$3,500,000	\$8,440,000	\$2,930,000	\$11,850,000	\$179,962	\$1,555,235	\$54,000	13,633,782 Principal Only
Interest Rate	1.00%	4.20%	1.56%	2.42%	0.50%	0.50%	1.00%	3,343,658 Interest Only
Dated	4/26/96	11/15/06	5/28/13	5/23/16	3/19/01	7/29/03	1/29/13	
Maturity	2016	2024	2019	2035	2021	2023	2018	
Last Pmt	7/1/2016	8/1/24	8/1/19	08/01/35	7/1/21	7/1/23	6/1/18	

NOTE 6 - RESTRICTED COMPONENT OF NET POSITION

The District's Statement of Net Position reports \$2,649,797 of restricted component of net assets, of which \$2,649,797 is restricted by bond covenants.

NOTE 7 - RISK MANAGEMENT

Douglas County Sewer District 1 is a member of Enduris. Chapter 48.62 RCW provides the exclusive source of local government entity

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

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

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

Enduris is responsible for the \$4,000 deductible on boiler and machinery loss.

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

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

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

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

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

Settlement claims have not exceeded insurance coverage for any of the past three years.

NOTE 8 - PENSION PLANS

The following table represents the aggregate pension amounts for all plans subject to the requirements of the GASB Statement 68, *Accounting and Financial Reporting for Pensions* for the year 2016:

Aggregate Pension Amounts - All Plans	
Pension liabilities	\$ 513,780
Pension assets	\$ -
Deferred outflows of resources	\$ 100,126
Deferred inflows of resources	\$ (108,421)
Pension expense	\$ 38,658

State Sponsored Pension Plans

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

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

Department of Retirement Systems
Communications Unit
P.O. Box 48380
Olympia, WA 98540-8380

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

Public Employees' Retirement System (PERS)

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

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

Contributions

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

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

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

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

With a benefit that is reduced by three percent for each year before age 65; or

With a benefit that has a smaller (or no) reduction (depending on age) that imposes stricter return-to-work rules.

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

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

Contributions

The **PERS Plan 2/3** employer and employee contribution rates are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. The Plan 2/3 employer rates include a component to address the PERS Plan 1 UAAL and an administrative expense that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 2 employer and employee contribution rates and Plan 3 contribution rates. The PERS Plan 2/3 required contribution rates (expressed as a percentage of covered payroll) for 2016 were as follows:

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

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

The Douglas County Sewer District's actual PERS plan contributions were \$36,500 to PERS Plan 1 and \$47,671 to PERS Plan 2/3 for the year ended December 31, 2017.

Actuarial Assumptions

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

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

Inflation: 3.0% total economic inflation; 3.75% salary inflation

Salary increases: In addition to the base 3.75% salary inflation assumption, salaries are

Investment rate of return: 7.5%

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

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

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

Discount Rate

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

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

Long-Term Expected Rate of Return

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

Estimated Rates of Return by Asset Class

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

Estimated Rates of Return by Asset Class

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

Sensitivity of the Net Pension Liability (Asset)

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

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
PERS 1	322,316	264,586	214,579
PERS 2/3	671,351	249,193	-96,704

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

At June 30, 2017, the Douglas County Sewer District No. 1 reported a total pension liability of \$513,780 for its proportionate share of the net pension liabilities as follows:

	Liability (or Asset)
PERS 1	264,586
PERS 2/3	249,193

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

	Proportionate Share 06/30/16	Proportionate Share 06/30/17	Change in Proportionate Share
PERS Plan 1	0.006097%	0.005760%	0.000801%
PERS Plan 2/3	0.007822%	0.007172%	0.000979%

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* for all plans except LEOFF 1.

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

Pension Expense

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

	Pension Expense
PERS 1	-\$8,030
PERS 2/3	\$46,688
TOTAL	\$38,658

Deferred Outflows of Resources and Deferred Inflows of Resources

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

PERS 1	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	0	0
Net difference between projected and actual investment earnings on pension plan investments	0	9,874
Changes of assumptions	0	0
Changes in proportion and differences between contributions and proportionate share of contributions	0	0
Contributions subsequent to the measurement date	19,117	0
TOTAL	19,117	9,874

PERS 2/3	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual	25,249	8,196
Net difference between projected and actual	0	66,429
Changes of assumptions	2,647	0
Changes in proportion and differences between	25,225	23,924
Contributions subsequent to the measurement	27,888	0
TOTAL	81,009	98,549

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

Year ended December 31:	PERS 1 - Yearly Amortization
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2018	-\$6,674
2019	\$2,107
2020	-\$489
2021	\$4,817
2022	\$0
Thereafter	\$0

Year ended December 31:	PERS 2/3 - Yearly Amortization
2018	-\$17,764
2019	\$14,064
2020	-\$7,642
2021	-\$30,515
2022	-\$1,552
Thereafter	-\$2,018

Required Supplementary Information (RSI) - all cost-sharing employers

Douglas County Sewer District
Schedule of Proportionate Share of the Net Pension Liability
PERS Plan 1

As of June 30					
PERS Plan 1	2015	2016	2017	2018	
Employer's proportion of the net pension liability (asset)	0.0133520%	0.0060970%	0.5576000%	0.005724%	
Employer's proportionate share of the net pension liability	277,030	327,438	264,586	255,636	
Employer's covered employee payroll	607,096	724,815	769,471	763,094	
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	45.63%	45.18%	34.39%	33.50%	
Plan fiduciary net position as a percentage of the total pension liability	59.10%	57.03%	61.24%	63.22%	

Schedule of Proportionate Share of the Net Pension Liability
PERS Plan 2/3

As of June 30					
PERS Plan 2/3	2015	2016	2017	2018	
Employer's proportion of the net pension liability (asset)	0.0127400%	0.0078220%	0.0071720%	0.0073090%	
Employer's proportionate share of the net pension liability	244,504	393,832	249,193	124,795	
Employer's covered employee payroll	607,096	724,815	769,471	763,094	
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	40.27%	54.34%	32.38%	16.35%	
Plan fiduciary net position as a percentage of the total pension liability	89.20%	85.82%	90.97%	95.77%	

Schedule of Employer Contributions
PERS 1

As of December 31,					
PERS 1	2015	2016	2017	2018	
Statutorily or contractually required contributions	29,789	36,500	37,249	38,791	
Contributions in relation to the statutorily or contractually required contributions	-29,789	-36,500	-37,249	-38,791	
Contribution deficiency (excess)	0	0	0	0	
Covered employer payroll	677,552	765,192	763,612	766,081	
Contributions as a percentage of covered employee payroll	4.40%	4.77%	4.88%	5.06%	

Schedule of Employer Contributions
PERS 2/3

As of December 31,					
PERS Plan 2/3	2015	2016	2017	2018	
Statutorily or contractually required contributions	38,268	47,671	51,569	57,457	
Contributions in relation to the statutorily or contractually required contributions	-38,268	-47,671	-51,569	-57,457	
Contribution deficiency (excess)	0	0	0	0	
Covered employer payroll	677,552	765,192	763,612	766,081	
Contributions as a percentage of covered employee payroll	5.65%	6.23%	6.75%	7.50%	

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