Office of the Washington State Auditor
Pat McCarthy

Financial Statements Audit Report

# Silver Lake Water and Sewer District

**For the period January 1, 2016 through December 31, 2018**

**Published April 2, 2020**

**Report No. 1025851**

# Office of the Washington State Auditor
# Pat McCarthy

April 2, 2020

Board of Commissioners
Silver Lake Water and Sewer District
Bothell, Washington

## Report on Financial Statements

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

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

Sincerely,

Pat McCarthy

State Auditor

Olympia, WA

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

**Silver Lake Water and Sewer District**
**January 1, 2016 through December 31, 2018**

Board of Commissioners
Silver Lake Water and Sewer District
Bothell, Washington

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the Silver Lake Water and Sewer District, as of and for the years ended December 31, 2018, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated March 6, 2020. As discussed in Note 1 to the financial statements, during the year ended December 31, 2018, the District implemented Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*.

## INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

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

In addition, we noted certain matters that we have reported to the management of the District in a separate letter dated March 6, 2020.

## COMPLIANCE AND OTHER MATTERS

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

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

## PURPOSE OF THIS REPORT

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

Pat McCarthy

State Auditor

Olympia, WA

March 6, 2020

# INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

**Silver Lake Water and Sewer District**
**January 1, 2016 through December 31, 2018**

Board of Commissioners
Silver Lake Water and Sewer District
Bothell, Washington

## REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the Silver Lake Water and Sewer District, as of and for the years ended December 31, 2018, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed on page 10.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

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

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

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

## Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Silver Lake Water and Sewer District, as of December 31, 2018, 2017 and 2016, and the changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## Matters of Emphasis

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

## Other Matters

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplementary information listed on page 10 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

## OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated March 6, 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.

Pat McCarthy

State Auditor

Olympia, WA

March 6, 2020

# FINANCIAL SECTION

**Silver Lake Water and Sewer District**
**January 1, 2016 through December 31, 2018**

## REQUIRED SUPPLEMENTARY INFORMATION


Management's Discussion and Analysis – 2018 and 2017
Management's Discussion and Analysis – 2017 and 2016


## BASIC FINANCIAL STATEMENTS


Statement of Net Position – 2018 and 2017
Statement of Net Position – 2017 and 2016
Statement of Revenues, Expenses and Changes in Net Position – 2018 and 2017
Statement of Revenues, Expenses and Changes in Net Position – 2017 and 2016
Statement of Cash Flows – 2018 and 2017
Statement of Cash Flows – 2017 and 2016
Notes to Financial Statements – 2018 and 2017
Notes to Financial Statements – 2017 and 2016


## REQUIRED SUPPLEMENTARY INFORMATION


Schedule of Changes in Total OPEB Liability and Related Ratios – 2018
Other Post-Employment Benefits – Schedule of Funding Progress – 2017
Schedule of Proportionate Share of Net Pension Liability – PERS 1 and PERS 2/3 – 2018, 2017 and 2016
Schedule of Employer Contributions – PERS 1 and PERS 2/3 – 2018, 2017 and 2016

**SILVER LAKE WATER AND SEWER DISTRICT**
**MANAGEMENT'S DISCUSSION AND ANALYSIS**
**DECEMBER 31, 2018 AND 2017**

## INTRODUCTION

Silver Lake Water and Sewer District was founded in 1934 and provides water and sewer services to customers residing within the District boundaries. The District's primary mission is to provide its customers with high quality water for today and into the future at a fair and equitable price, while meeting overall public and regulatory approval. The District has secondary goals of providing fire flow, maintaining level of service goals, and maintaining the financial health of the District. The District has prioritized the following goals and objectives:

1. Protect the health and safety of District employees and customers.
2. Meet or exceed regulatory requirements and industry standards for water quality, levels of service and operation and maintenance practices.
3. Provide a high standard of service at an affordable rate.
4. Provide fire flow while maintaining a minimum pressure of 20 psi system wide.
5. Maintain the financial viability of the District.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

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

## OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

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

## OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

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

### *CONDENSED STATEMENTS OF NET POSITION AT DECEMBER 31*

| | 2018 | 2017 | 2016 |
|---|---|---|---|
| Capital Assets | $ 158,551,619 | $ 153,754,295 | $ 151,646,914 |
| Other Assets | 47,024,003 | 49,838,102 | 45,552,643 |
| Total Assets | 205,575,622 | 203,592,397 | 197,199,557 |
| Deferred Outflows of Resources | 282,152 | 301,967 | 429,651 |
| Long-Term Liabilities | 7,520,126 | 7,708,168 | 9,327,669 |
| Other Liabilities | 2,906,839 | 3,947,172 | 3,575,037 |
| Total Liabilities | 10,426,965 | 11,655,340 | 12,902,706 |
| Deferred Inflows of Resources | 473,004 | 277,655 | 37,664 |
| Net Investment in Capital Assets | 151,955,408 | 145,920,041 | 143,375,546 |
| Restricted Amounts | - | 783,274 | 779,832 |
| Unrestricted Amounts | 43,002,397 | 45,258,054 | 40,533,460 |
| Total Net Position | $ 194,957,805 | $ 191,961,369 | $ 184,688,838 |

## OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

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

| | 2018 | 2017 | 2016 |
|---|---|---|---|
| Sewer Service Revenue | $ 13,982,309 | $ 13,347,640 | $ 12,745,229 |
| Water Service Revenue | 6,092,751 | 5,935,228 | 5,502,267 |
| Other Sewer Operating Revenues | 268,260 | 260,179 | 383,640 |
| Other Water Operating Revenues | 384,237 | 413,005 | 469,042 |
| Total Operating Revenues | 20,727,557 | 19,956,052 | 19,100,178 |
| Sewer Operation and Maintenance Expenses | 8,863,230 | 8,416,191 | 7,718,324 |
| Water Operation and Maintenance Expenses | 3,270,577 | 2,922,941 | 2,681,271 |
| Sewer General and Administrative Expenses | 2,032,354 | 2,162,056 | 2,019,014 |
| Water General and Administrative Expenses | 2,499,920 | 2,442,844 | 2,452,675 |
| Depreciation, Sewer | 1,954,867 | 1,908,690 | 1,851,145 |
| Depreciation, Water | 1,441,430 | 1,377,680 | 1,351,394 |
| Total Operating Expenses | 20,062,378 | 19,230,402 | 18,073,823 |
| Operating Income | 665,179 | 725,650 | 1,026,355 |
| Nonoperating Revenue (Expense): | | | |
| Investment and Assessment Income | 845,426 | 425,333 | 177,638 |
| Interest and Amortization on Long-Term Debt - Net of Amount Capitalized | (47,430) | (52,934) | (46,066) |
| Net Gain (Loss) on Disposal of Assets | 21,857 | 5,163 | 1,658 |
| Total Nonoperating Revenue (Expense) | 819,853 | 377,562 | 133,230 |
| Income before Capital Contributions | 1,485,032 | 1,103,212 | 1,159,585 |
| Capital Contributions | 2,513,002 | 6,169,319 | 4,621,050 |
| Increase in Net Position | 3,998,034 | 7,272,531 | 5,780,635 |
| Net Position, January 1 | 191,961,369 | 184,688,838 | 178,908,203 |
| Restatement - Change in Accounting Principle | (1,001,598) | - | - |
| Net Position - January 1, as Restated | 190,959,771 | 184,688,838 | 178,908,203 |
| Net Position, December 31 | $ 194,957,805 | $ 191,961,369 | $ 184,688,838 |

Effective January 1, 2018, the District adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (GASB 75). This statement replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*. GASB 75 establishes new accounting and financial reporting requirements for OPEB plans, establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense.

## OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

The cumulative impact of implementation of GASB 75 resulted in a $1,001,598 reduction of net position as of January 1, 2018 as a result of recognizing the January 1, 2018 OPEB liability of $1,001,598. It was not practicable to measure the net OPEB liability as of January 1, 2017 and restate the 2017 financial statements as the alternative measurement tool prepared by the Washington State Actuary did not have the ability to produce those amounts.

Effective January 1, 2018, the District early implemented Governmental Accounting Standards Board (GASB) Statement No. 89, *Accounting for Interest Cost Incurred before the end of the Construction Period*. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset. This statement is applied on a prospective basis and did not affect prior year results.

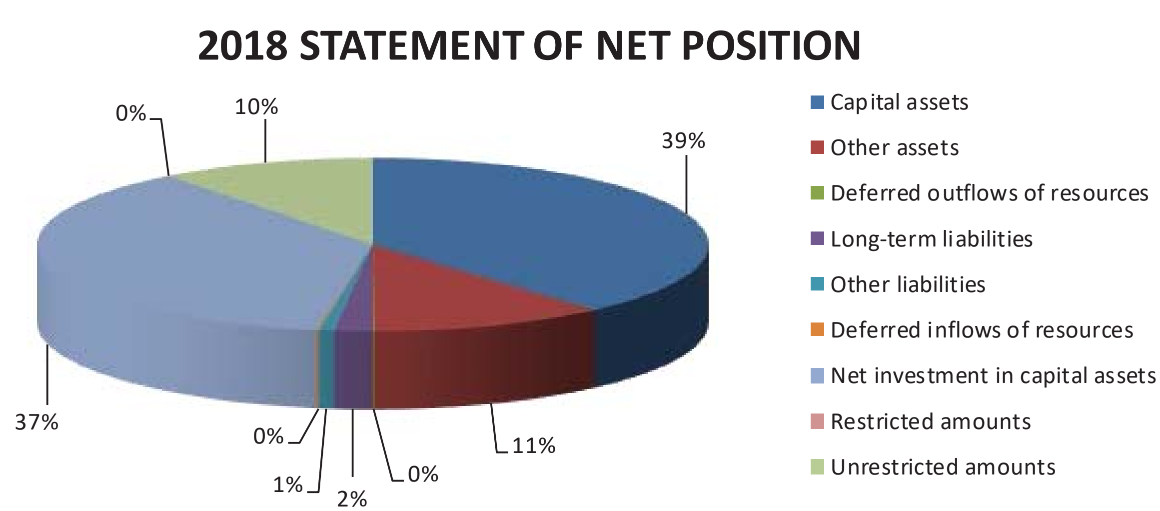
## FINANCIAL POSITION

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

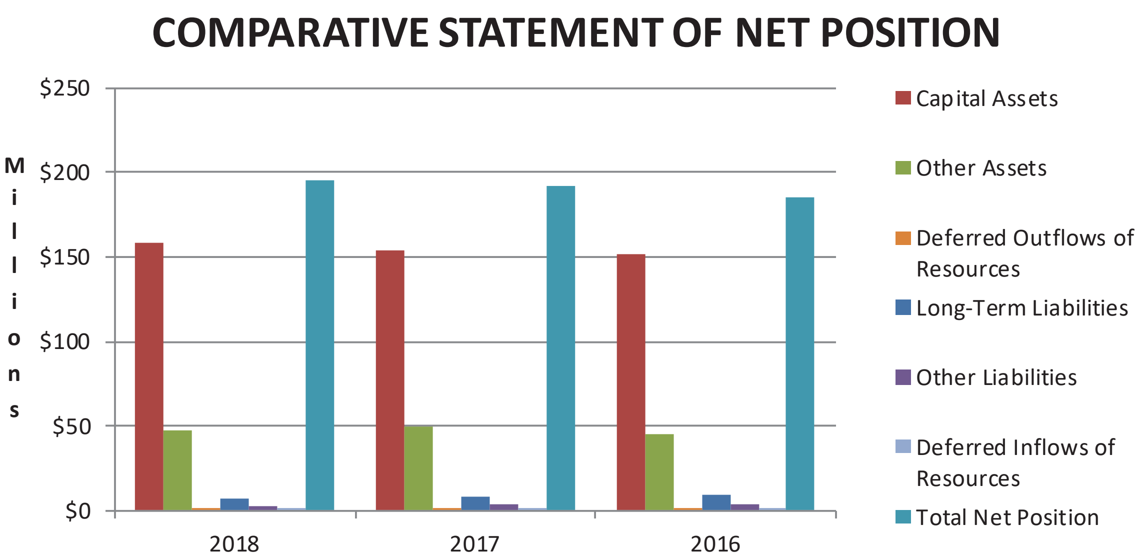
The District is financed primarily by equity and substantial liquid assets are available to fund liabilities and construction**.** Capital assets increased in 2018 and 2017 due to growth in the District's customer base and system improvements.

The District is located in a growing area of Snohomish County, Washington.

The following charts indicate the components of financial position:

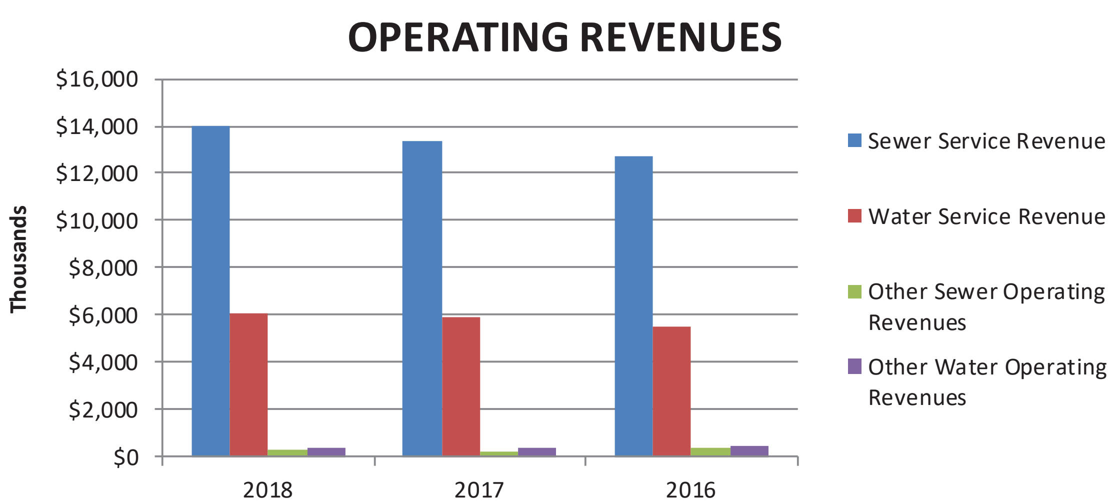


## FINANCIAL POSITION (CONTINUED)




## RESULTS OF OPERATIONS

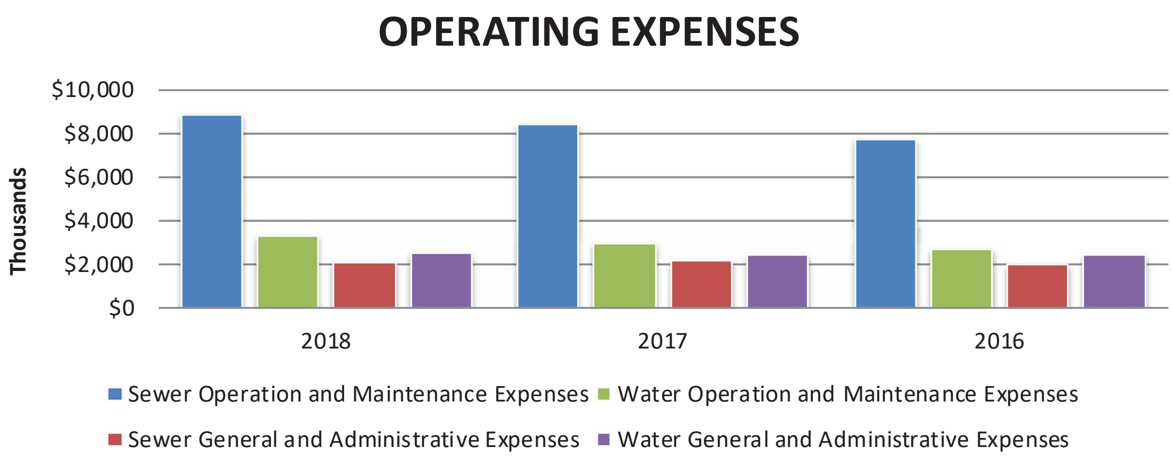
Operating revenues are received principally from two sources: water service and sewer service. The following chart indicates operating revenue over the last three years:




The increase in sewer revenue in 2018 and 2017 was due to growth in the customer base and rate increases. Water usage, and corresponding revenues, can vary significantly due to weather conditions. Water revenue increased in 2018 and 2017 due to summers that were hotter and dryer than normal and rate increases.

## RESULTS OF OPERATIONS (CONTINUED)

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



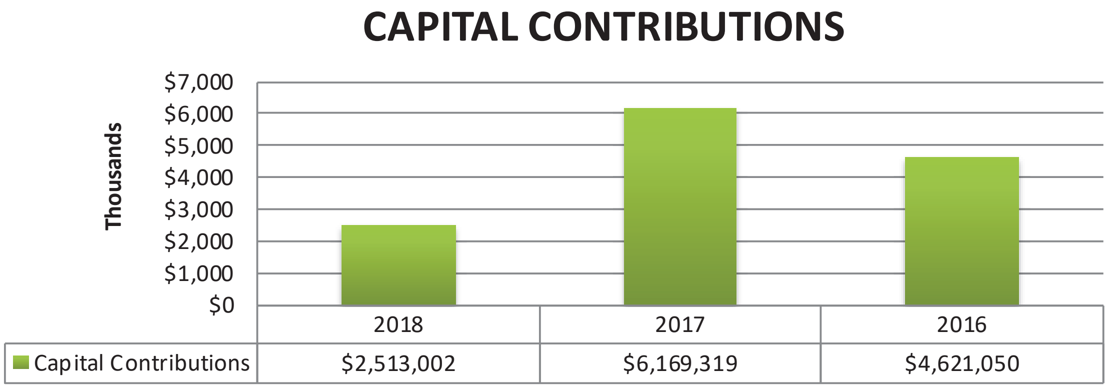

Sewer operation and maintenance expenses increased in 2018 and 2017 primarily due to rate increases for sewage treatment. Water operation and maintenance expenses increased in 2018 and 2017 primarily due to variation in water purchases as a result of summer weather conditions as discussed above for operating revenue and, in 2018, increased maintenance costs from Clearview Water Supply Agency. Sewer and water general and administrative expenses decreased in 2018 primarily due to a decrease in pension expense. See note 8 in the financial statements for details regarding pensions. Sewer and water general and administrative expenses increased in 2017 primarily due to increased state taxes as a result of the increase in revenue.

The District operated at a profit in 2018, 2017 and 2016. Operating results are augmented by earnings on investments, capital contributions, and other non-operating revenues, less non-operating expenses.

## RESULTS OF OPERATIONS (CONTINUED)

The District collects capital contributions from new customers. These contributions consist of connection charges, grants, ULID assessments and donated systems.

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




The contributions are indicative of the growth of the District and include donated systems totaling $1,053,535, $2,242,244, and $2,071,713 for the years ended December 31, 2018, 2017 and 2016, respectively. The growth of the District is increasing due to the effects of the improving overall economy.

## CAPITAL ASSETS AND LONG-TERM DEBT

The capital assets of the District have increased due to growth in the customer base and system improvements. Significant capital asset additions included the following:

| 2018 | | 2017 | |
|---|---|---|---|
| **Water System:** | | **Water System:** | |
| Donated Systems | $ 355,766 | Donated Systems | $ 1,406,442 |
| Building Remodel | 1,766,207 | Building Remodel | 729,634 |
| Res No. 3 Improvements #16439 | 2,663,400 | Res No.3 Improvements #16439 | 274,980 |
| Seattle Hill Rd - Water Phase II | 95,890 | Seattle Hill Rd Water Phase II | 32,580 |
| Headquarter Facility Impr | 68,688 | Comprehensive Plan | 35,384 |
| | | 725 Zone Extension | 571,534 |
| | | Valve Adjustments | 52,812 |
| **Sewer System:** | | **Sewer System:** | |
| Donated Systems | 697,769 | Donated Systems | 835,802 |
| Waldenwood Lift Station | 162,425 | Comprehensive Plan | 46,115 |
| 12th Street NE Dike #3435 | 57,676 | 12th Street NE Dike #3435 | 103,707 |
| #3614-North Chlorine Bldg. | 206,972 | #3614-North Chlorine Bldg. | 31,615 |
| Headquarter Facility Impr | 60,912 | Lift Station #3 Modifications | 78,849 |
| Building Remodel | 1,530,042 | Building Remodel | 650,590 |
| Seattle Hill Rd - Sewer Phase II | 83,238 | Seattle Hill Rd-Sewer Phase II | 43,948 |

## CAPITAL ASSETS AND LONG-TERM DEBT (CONTINUED)

Long-term liabilities decreased in 2018 and 2017 due to principal payments made by the District in excess of new borrowings and changes in the net pension liability.

See notes 4, 5, 6, and 7 in the financial statements for detail activity in capital assets and long-term debt.

As of December 31, 2018, the District has $44,067,042 of unrestricted cash and investments available for operating costs and capital asset acquisition.

The District is committed to pay a portion of certain City of Everett projects. See Note 11 in the financial statements for the District's estimated share of these projects over the next 10 years.

## ADDITIONAL COMMENTS

The District purchases wholesale water and sewage treatment services from other entities. The District intends to adjust rates to compensate for increases in these direct costs.

## INTRODUCTION

Silver Lake Water and Sewer District was founded in 1934 and provides water and sewer services to customers residing within the District boundaries. The District's primary mission is to provide its customers with high quality water for today and into the future at a fair and equitable price, while meeting overall public and regulatory approval. The District has secondary goals of providing fire flow, maintaining level of service goals, and maintaining the financial health of the District. The District has prioritized the following goals and objectives:

1. Protect the health and safety of District employees and customers.
2. Meet or exceed regulatory requirements and industry standards for water quality, levels of service and operation and maintenance practices.
3. Provide a high standard of service at an affordable rate.
4. Provide fire flow while maintaining a minimum pressure of 20 psi system wide.
5. Maintain the financial viability of the District.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of management's discussion and analysis presents our review of the District's financial position as of December 31, 2017 and 2016 and our financial performance for the years then ended. Please read these comments in conjunction with the District's financial statements, which follow this section.

## OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

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

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

***CONDENSED STATEMENTS OF NET POSITION AT DECEMBER 31***

| | 2017 | 2016 | 2015 |
|---|---|---|---|
| Capital Assets | $ 153,754,295 | $ 151,646,914 | $ 149,618,689 |
| Other Assets | 49,838,102 | 45,552,643 | 41,760,274 |
| Total Assets | 203,592,397 | 197,199,557 | 191,378,963 |
| Deferred Outflows of Resources | 301,967 | 429,651 | 238,283 |
| Long-Term Liabilities | 7,708,168 | 9,327,669 | 9,391,530 |
| Other Liabilities | 3,947,172 | 3,575,037 | 3,061,937 |
| Total Liabilities | 11,655,340 | 12,902,706 | 12,453,467 |
| Deferred Inflows of Resources | 277,655 | 37,664 | 255,576 |
| Net Investment in Capital Assets | 146,625,508 | 143,375,546 | 140,931,496 |
| Restricted Amounts | 783,274 | 779,832 | 780,953 |
| Unrestricted Amounts | 44,552,587 | 40,533,460 | 37,195,754 |
| Total Net Position | $ 191,961,369 | $ 184,688,838 | $ 178,908,203 |

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

| | 2017 | 2016 | 2015 |
|---|---|---|---|
| Sewer Service Revenue | $ 13,347,640 | $ 12,745,229 | $ 12,312,927 |
| Water Service Revenue | 5,935,228 | 5,502,267 | 5,531,208 |
| Other Sewer Operating Revenues | 260,179 | 383,640 | 330,538 |
| Other Water Operating Revenues | 413,005 | 469,042 | 429,176 |
| Total Operating Revenues | 19,956,052 | 19,100,178 | 18,603,849 |
| Sewer Operation and Maintenance Expenses | 8,416,191 | 7,718,324 | 7,436,040 |
| Water Operation and Maintenance Expenses | 2,922,941 | 2,681,271 | 2,673,053 |
| Sewer General and Administrative Expenses | 2,162,056 | 2,019,014 | 1,805,659 |
| Water General and Administrative Expenses | 2,442,844 | 2,452,675 | 2,253,873 |
| Depreciation, Sewer | 1,908,690 | 1,851,145 | 1,764,115 |
| Depreciation, Water | 1,377,680 | 1,351,394 | 1,295,089 |
| Total Operating Expenses | 19,230,402 | 18,073,823 | 17,227,829 |
| Operating Income | 725,650 | 1,026,355 | 1,376,020 |
| Nonoperating Revenue (Expense): | | | |
| Investment and Assessment Income | 425,333 | 177,638 | 47,935 |
| Interest and amortization on Long-Term Debt - Net of Amount Capitalized | (52,934) | (46,066) | (67,370) |
| Net Gain (Loss) on Disposal of Assets | 5,163 | 1,658 | (54,241) |
| Total Nonoperating Revenue (Expenses) | 377,562 | 133,230 | (73,676) |
| Income before Capital Contributions | 1,103,212 | 1,159,585 | 1,302,344 |
| Capital Contributions | 6,169,319 | 4,621,050 | 4,733,074 |
| Increase in Net Position | 7,272,531 | 5,780,635 | 6,035,418 |
| Net Position, January 1 | 184,688,838 | 178,908,203 | 172,872,785 |
| Net Position, December 31 | $ 191,961,369 | $ 184,688,838 | $ 178,908,203 |

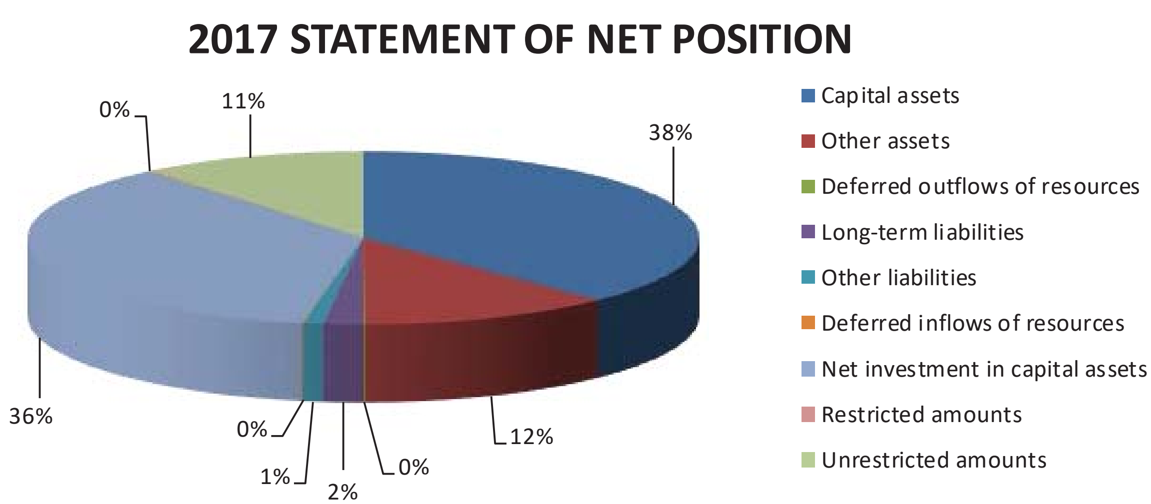
## FINANCIAL POSITION

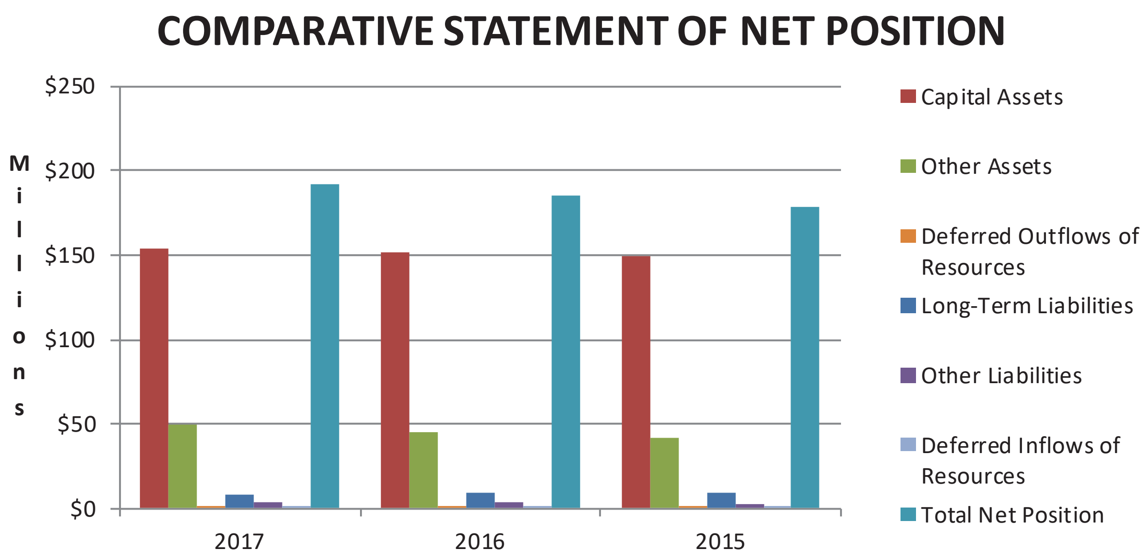
The District's overall financial position continues to be strong with sufficient liquidity, growing revenues and debt capacity to finance future capital improvements if necessary.

The District is financed primarily by equity and substantial liquid assets are available to fund liabilities and construction. Capital assets increased in 2017 and 2016 due to growth in the District's customer base and system improvements.

The District is located in a growing area of Snohomish County, Washington.

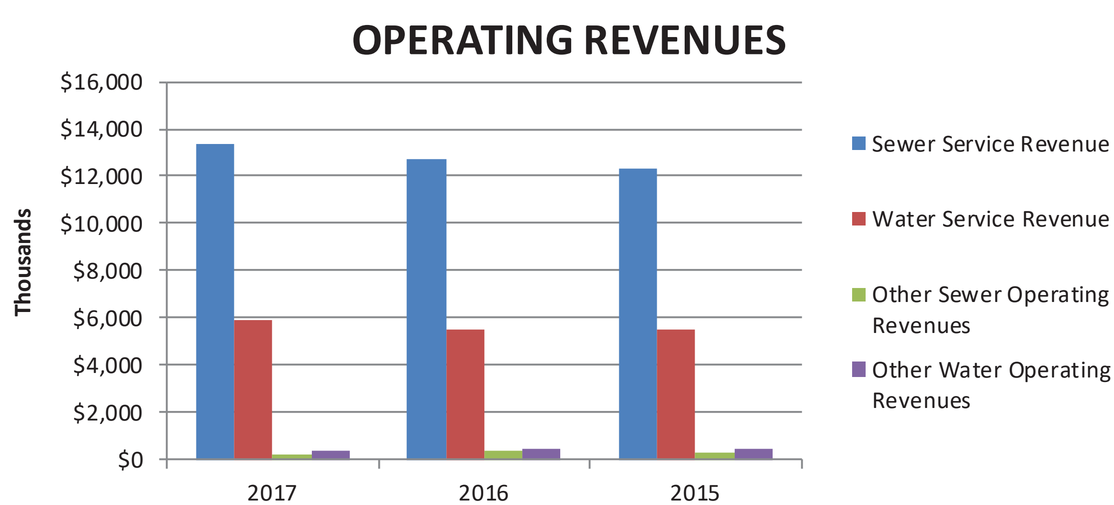
The following charts indicate the components of financial position:





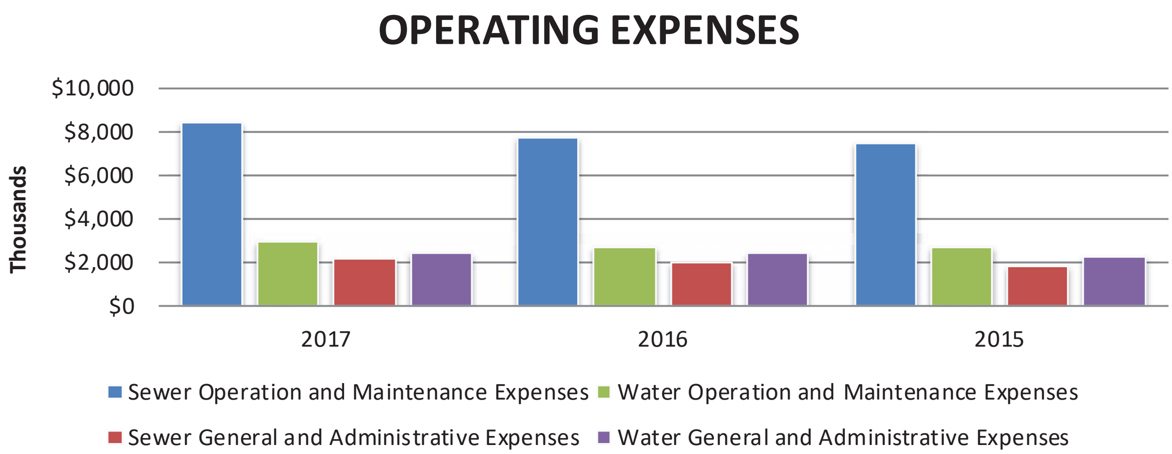

## RESULTS OF OPERATIONS

Operating revenues are received principally from two sources: water service and sewer service. The following chart indicates operating revenue over the last three years:




The increase in sewer revenue in 2017 and 2016 was due to growth in the customer base and rate increases. Water usage, and corresponding revenues, can vary significantly due to weather conditions. Water revenue increased in 2017 due to a summer that was hotter and dryer than normal and rate increases. Water revenue decreased in 2016 due to the conditions being more temperate than in 2015.

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

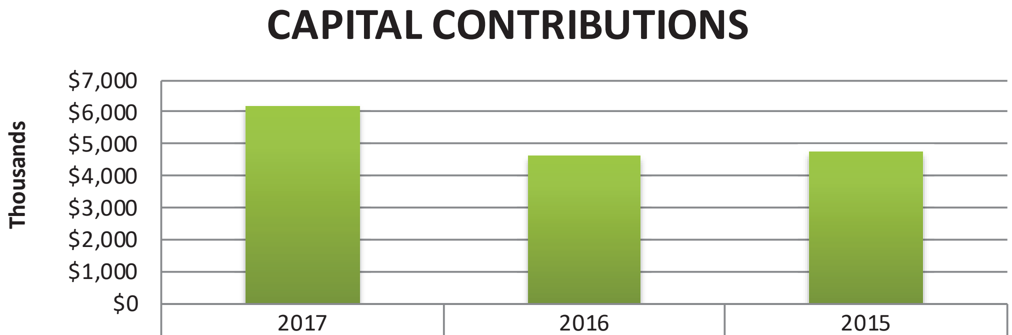



Sewer operation and maintenance expenses increased in 2017 and 2016 primarily due to rate increases for sewage treatment. Water operation and maintenance expenses increased in 2017 primarily due to variation in water purchases as a result of summer weather conditions as discussed above for operating revenue. Water operating expenses increased slightly in 2016 primarily due to increases in system maintenance. Sewer and water general and administrative expenses increased in 2017 primarily due to increased state taxes as a result of the increase in revenue and in 2016 primarily due to increases in personnel costs.

The District operated at a profit in 2017, 2016 and 2015. Operating results are augmented by earnings on investments, capital contributions, and other non-operating revenues, less non-operating expenses.

The District collects capital contributions from new customers. These contributions consist of connection charges, grants, ULID assessments and donated systems.

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




| | 2017 | 2016 | 2015 |
|---|---|---|---|
| Capital Contributions | $6,169,319 | $4,621,050 | $4,733,074 |

The contributions are indicative of the growth of the District and include donated systems totaling $2,242,244, $2,071,713 and $1,909,309 for the years ended December 31, 2017, 2016 and 2015, respectively. The growth of the District is increasing due to the effects of the improving overall economy.

## CAPITAL ASSETS AND LONG-TERM DEBT

The capital assets of the District have increased due to growth in the customer base and system improvements. Significant capital asset additions included the following:

| 2017 | | 2016 | |
|---|---|---|---|
| **Water System:** | | **Water System:** | |
| Donated Systems | $ 1,406,442 | Donated Systems | $ 1,076,951 |
| Building Remodel | 729,634 | Reservoir #3 Interior | 66,218 |
| Valve Adjustments | 52,812 | Building Remodel | 87,863 |
| Comprehensive Plan | 35,384 | Seattle Hill Road Water | 1,293,026 |
| Res No.3 Improvements #16439 | 274,980 | Comprehensive Plan | 36,694 |
| Seattle Hill Rd Water Phase II | 32,580 | | |
| 725 Zone Extension | 571,534 | | |
| **Sewer System:** | | **Sewer System:** | |
| Donated Systems | 835,802 | Donated Systems | 994,762 |
| 12th Street NE Dike #3435 | 103,707 | WPCF Expansion Phase C | 476,891 |
| #3614-North Clorine Bldg. | 31,615 | 12th Street NE Dike #3435 | 51,083 |
| Comprehensive Plan | 46,115 | Comprehensive Plan | 50,815 |
| Lift Station #3 Modifications | 78,849 | Silver Firs Force Main | 90,136 |
| Building Remodel | 650,590 | 51st Avenue Gravity | 489,442 |
| Seattle Hill Rd-Sewer Phase II | 43,948 | Building Remodel | 78,441 |

Long-term liabilities decreased in 2017 and 2016 due to principal payments made by the District in excess of new borrowings and changes in the net pension liability.

See notes 4, 5, 6, and 7 in the financial statements for detail activity in capital assets and long-term debt.

As of December 31, 2017, the District has $46,442,251 of unrestricted cash and investments available for operating costs and capital asset acquisition.

The District is committed to pay a portion of certain City of Everett projects. See Note 10 in the financial statements for the District's estimated share of these projects over the next 10 years.

## ADDITIONAL COMMENTS

The District purchases wholesale water and sewage treatment services from other entities. The District intends to adjust rates to compensate for increases in these direct costs.

# SILVER LAKE WATER AND SEWER DISTRICT
## STATEMENTS OF NET POSITION
## DECEMBER 31, 2018 AND 2017

| | 2018 | 2017 |
|---|---|---|
| **ASSETS AND DEFERRED OUTFLOWS OF RESOURCES** | | |
| **CURRENT ASSETS** | | |
| Unrestricted: | | |
| Cash | $ 3,371,438 | $ 4,194,016 |
| Investments | 40,695,604 | 42,248,235 |
| Accounts Receivable | 1,827,215 | 1,760,389 |
| Unbilled Utility Service Receivable | 675,871 | 665,266 |
| Accounts Receivable, Other | 255,181 | - |
| Prepaid Expenses | 7,595 | 11,393 |
| Materials and Supplies | 191,099 | 173,796 |
| Total Unrestricted | 47,024,003 | 49,053,095 |
| Restricted: | | |
| Cash | - | 124,093 |
| Investments | - | 660,914 |
| Total Restricted | - | 785,007 |
| Total Current Assets | 47,024,003 | 49,838,102 |
| **NONCURRENT ASSETS** | | |
| Capital Assets not being Depreciated: | | |
| Land and Land Rights | 3,449,020 | 3,449,020 |
| Construction in Progress | 3,783,879 | 3,224,173 |
| Capital Assets being Depreciated: | | |
| Plant in Service | 211,584,206 | 203,972,176 |
| Less: Accumulated Depreciation | (60,265,486) | (56,891,074) |
| Net Capital Assets | 158,551,619 | 153,754,295 |
| Total Noncurrent Assets | 158,551,619 | 153,754,295 |
| Total Assets | 205,575,622 | 203,592,397 |
| **DEFERRED OUTFLOWS OF RESOURCES** | | |
| Deferred Loss on Refunding of Debt | - | 688 |
| Deferred Outflows Related to Pensions | 278,024 | 301,279 |
| Deferred Outflows Related to Other Postemployment Benefits | 4,128 | - |
| Total Deferred Outflows of Resources | 282,152 | 301,967 |
| Total Assets and Deferred Outflows of Resources | $ 205,857,774 | $ 203,894,364 |

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

## SILVER LAKE WATER AND SEWER DISTRICT
## STATEMENTS OF NET POSITION (CONTINUED)
## DECEMBER 31, 2018 AND 2017

| LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION | 2018 | 2017 |
|---|---|---|
| **CURRENT LIABILITIES** | | |
| Payable from Unrestricted Assets: | | |
| Accounts Payable | $ 1,544,058 | $ 2,265,044 |
| Retainage Payable | 196,941 | 67,093 |
| Accrued Compensated Absences | 394,000 | 314,900 |
| Deposits | - | 7,500 |
| Accrued Interest | 16,146 | 18,683 |
| Long-Term Debt, Current Maturities | 755,694 | 752,219 |
| Total Payable from Unrestricted Assets | 2,906,839 | 3,425,439 |
| Payable from Restricted Assets: | | |
| Accrued Interest | - | 1,733 |
| Long-Term Debt, Current Maturities | - | 520,000 |
| Total Payable from Restricted Assets | - | 521,733 |
| Total Current Liabilities | 2,906,839 | 3,947,172 |
| **NONCURRENT LIABILITIES** | | |
| Long-Term Debt Payable from Unrestricted Assets, Net of Current Maturities | 5,221,863 | 5,854,375 |
| Long-Term Debt Payable from Restricted Assets, Net of Current Maturities | - | 2,881 |
| Compensated Absences | 15,731 | 129,597 |
| Net Pension Liability | 1,242,073 | 1,721,315 |
| Other Postemployment Benefits Liability | 1,040,459 | - |
| Total Noncurrent Liabilities | 7,520,126 | 7,708,168 |
| Total Liabilities | 10,426,965 | 11,655,340 |
| **DEFERRED INFLOWS OF RESOURCES** | | |
| Deferred Inflows Related to Pensions | 473,004 | 277,655 |
| Total Liabilities and Deferred Inflows of Resources | 10,899,969 | 11,932,995 |
| **NET POSITION** | | |
| Net Investment in Capital Assets | 151,955,408 | 145,920,041 |
| Restricted for Debt Service | - | 783,274 |
| Unrestricted | 43,002,397 | 45,258,054 |
| Total Net Position | 194,957,805 | 191,961,369 |
| Total Liabilities and Deferred Inflows of Resources and Net Position | $ 205,857,774 | $ 203,894,364 |

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

## SILVER LAKE WATER AND SEWER DISTRICT
## STATEMENTS OF NET POSITION
## DECEMBER 31, 2017 AND 2016

| ASSETS AND DEFERRED OUTFLOWS OF RESOURCES | 2017 | 2016 |
|---|---|---|
| **CURRENT ASSETS** | | |
| Unrestricted: | | |
| Cash | $ 4,194,016 | $ 4,712,320 |
| Investments | 42,248,235 | 37,553,553 |
| Accounts Receivable | 1,760,389 | 1,682,713 |
| Unbilled Utility Service Receivable | 665,266 | 631,564 |
| Accounts Receivable, Other | - | 23,550 |
| Prepaid Expenses | 11,393 | - |
| Materials and Supplies | 173,796 | 165,544 |
| Total Unrestricted | 49,053,095 | 44,769,244 |
| Restricted: | | |
| Cash | 124,093 | 124,093 |
| Investments | 660,914 | 654,593 |
| Interest Receivable | - | 419 |
| Assessments Receivable - Current Portion | - | 4,294 |
| Total Restricted | 785,007 | 783,399 |
| Total Current Assets | 49,838,102 | 45,552,643 |
| **NONCURRENT ASSETS** | | |
| Capital Assets not being Depreciated: | | |
| Land and Land Rights | 3,449,020 | 3,449,020 |
| Construction in Progress | 3,224,173 | 815,224 |
| Capital Assets being Depreciated: | | |
| Plant in Service | 203,972,176 | 201,012,760 |
| Less: Accumulated Depreciation | (56,891,074) | (53,630,090) |
| Net Capital Assets | 153,754,295 | 151,646,914 |
| Total Noncurrent Assets | 153,754,295 | 151,646,914 |
| Total Assets | 203,592,397 | 197,199,557 |
| **DEFERRED OUTFLOWS OF RESOURCES** | | |
| Deferred Loss on Refunding of Debt | 688 | 2,101 |
| Deferred Outflows Related to Pensions | 301,279 | 427,550 |
| Total Deferred Outflows of Resources | 301,967 | 429,651 |
| Total Assets and Deferred Outflows of Resources | $ 203,894,364 | $ 197,629,208 |

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

# SILVER LAKE WATER AND SEWER DISTRICT
## STATEMENTS OF NET POSITION (CONTINUED)
## DECEMBER 31, 2017 AND 2016

| LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION | 2017 | 2016 |
|---|---|---|
| **CURRENT LIABILITIES** | | |
| Payable from Unrestricted Assets: | | |
| Accounts Payable | $ 2,265,044 | $ 1,955,139 |
| Retainage Payable | 67,093 | 52,401 |
| Accrued Compensated Absences | 314,900 | 285,300 |
| Deposits | 7,500 | 12,500 |
| Accrued Interest | 18,683 | 21,045 |
| Long-Term Debt, Current Maturities | 752,219 | 745,085 |
| Total Payable from Unrestricted Assets | 3,425,439 | 3,071,470 |
| Payable from Restricted Assets: | | |
| Accrued Interest | 1,733 | 3,567 |
| Long-Term Debt, Current Maturities | 520,000 | 500,000 |
| Total Payable from Restricted Assets | 521,733 | 503,567 |
| Total Current Liabilities | 3,947,172 | 3,575,037 |
| **NONCURRENT LIABILITIES** | | |
| Long-Term Debt Payable from Unrestricted Assets, Net of Current Maturities | 5,854,375 | 6,499,590 |
| Long-Term Debt Payable from Restricted Assets, Net of Current Maturities | 2,881 | 528,794 |
| Compensated Absences | 129,597 | 127,366 |
| Net Pension Liability | 1,721,315 | 2,171,919 |
| Total Noncurrent Liabilities | 7,708,168 | 9,327,669 |
| Total Liabilities | 11,655,340 | 12,902,706 |
| **DEFERRED INFLOWS OF RESOURCES** | | |
| Deferred Inflows Related to Pensions | 277,655 | 37,664 |
| Total Liabilities and Deferred Inflows of Resources | 11,932,995 | 12,940,370 |
| **NET POSITION** | | |
| Net Investment in Capital Assets | 146,625,508 | 143,375,546 |
| Restricted for Debt Service | 783,274 | 779,832 |
| Unrestricted | 44,552,587 | 40,533,460 |
| Total Net Position | 191,961,369 | 184,688,838 |
| Total Liabilities and Deferred Inflows of Resources and Net Position | $ 203,894,364 | $ 197,629,208 |

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

**SILVER LAKE WATER AND SEWER DISTRICT**
**STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION**
**YEARS ENDED DECEMBER 31, 2018 AND 2017**

| | 2018 | 2017 |
|---|---|---|
| **OPERATING REVENUES** | | |
| Service Charges | $ 20,075,060 | $ 19,282,868 |
| Permits | 53,023 | 145,923 |
| Miscellaneous | 599,474 | 527,261 |
| Total Operating Revenues | 20,727,557 | 19,956,052 |
| **OPERATING EXPENSES** | | |
| Operation Expenses | 11,121,467 | 10,328,444 |
| Maintenance Expenses | 1,012,340 | 1,010,688 |
| General and Administrative | 4,532,274 | 4,604,900 |
| Depreciation | 3,396,297 | 3,286,370 |
| Total Operating Expenses | 20,062,378 | 19,230,402 |
| **OPERATING INCOME** | 665,179 | 725,650 |
| **NONOPERATING REVENUE (EXPENSE)** | | |
| Investment and Assessment Income | 845,426 | 425,333 |
| Interest and Amortization on Long-Term Debt - Net of Amount Capitalized | (47,430) | (52,934) |
| Net Gain (Loss) on Disposal of Assets | 21,857 | 5,163 |
| Total Nonoperating Revenue (Expense) | 819,853 | 377,562 |
| **INCOME BEFORE CAPITAL CONTRIBUTIONS** | 1,485,032 | 1,103,212 |
| Capital Contributions | 2,513,002 | 6,169,319 |
| **CHANGE IN NET POSITION** | 3,998,034 | 7,272,531 |
| Net Position - January 1, as Originally Reported | 191,961,369 | 184,688,838 |
| Restatement - Change in Accounting Principle | (1,001,598) | - |
| Net Position - January 1, as Restated | 190,959,771 | 184,688,838 |
| **NET POSITION - END OF YEAR** | $ 194,957,805 | $ 191,961,369 |

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

## SILVER LAKE WATER AND SEWER DISTRICT
## STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
## YEARS ENDED DECEMBER 31, 2017 AND 2016

| | 2017 | 2016 |
|---|---|---|
| **OPERATING REVENUES** | | |
| Service Charges | $ 19,282,868 | $ 18,247,496 |
| Permits | 145,923 | 274,803 |
| Miscellaneous | 527,261 | 577,879 |
| Total Operating Revenues | 19,956,052 | 19,100,178 |
| **OPERATING EXPENSES** | | |
| Operation Expenses | 10,616,424 | 9,723,367 |
| Maintenance Expenses | 722,708 | 676,228 |
| General and Administrative | 4,604,900 | 4,471,689 |
| Depreciation | 3,286,370 | 3,202,539 |
| Total Operating Expenses | 19,230,402 | 18,073,823 |
| **OPERATING INCOME** | 725,650 | 1,026,355 |
| **NONOPERATING REVENUES (EXPENSES)** | | |
| Investment and Assessment Income | 425,333 | 177,638 |
| Interest and Amortization on Long-Term Debt - Net of Amount Capitalized | (52,934) | (46,066) |
| Net Gain (Loss) on Disposal of Assets | 5,163 | 1,658 |
| Total Nonoperating Revenue (Expenses) | 377,562 | 133,230 |
| **INCOME BEFORE CAPITAL CONTRIBUTIONS** | 1,103,212 | 1,159,585 |
| Capital Contributions | 6,169,319 | 4,621,050 |
| **CHANGE IN NET POSITION** | 7,272,531 | 5,780,635 |
| Net Position - Beginning of Year | 184,688,838 | 178,908,203 |
| **NET POSITION - END OF YEAR** | $ 191,961,369 | $ 184,688,838 |

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

# SILVER LAKE WATER AND SEWER DISTRICT
## STATEMENTS OF CASH FLOWS
## YEARS ENDED DECEMBER 31, 2018 AND 2017

| | 2018 | 2017 |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Cash Received from Customers and Other | $ 20,394,945 | $ 19,868,224 |
| Cash Paid to Vendors | (13,296,756) | (12,433,617) |
| Cash Paid to and for Employees and Commissioners | (4,155,326) | (3,779,005) |
| Net Cash Provided by Operating Activities | 2,942,863 | 3,655,602 |
| **CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES** | | |
| Contributions in Aid of Construction | 1,459,467 | 3,927,075 |
| Collections on ULID Assessments Receivable | - | 4,294 |
| Interest Received on Assessments | - | 419 |
| Proceeds from Issuance of Long-Term Debt | 128,041 | 111,776 |
| Proceeds from Disposal of Assets | 23,475 | 11,907 |
| Expenditures for Plant in Service and Construction | (7,228,517) | (2,623,175) |
| Payment on Long-Term Debt | (1,277,078) | (1,249,857) |
| Interest Paid on Long-Term Debt | (53,893) | (80,675) |
| Net Cash Provided (Used) by Capital and Related Financing Activities | (6,948,505) | 101,764 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| Proceeds from Sale of Investments | 2,213,545 | - |
| Purchase of Investments | - | (4,701,003) |
| Interest Received on Investments | 845,426 | 425,333 |
| Net Cash Provided (Used) by Investing Activities | 3,058,971 | (4,275,670) |
| **NET DECREASE IN CASH** | (946,671) | (518,304) |
| Cash - Beginning of Year | 4,318,109 | 4,836,413 |
| **CASH - END OF YEAR** | $ 3,371,438 | $ 4,318,109 |
| Cash is Comprised of the Following at December 31: | | |
| Cash - Current Assets | $ 3,371,438 | $ 4,194,016 |
| Cash - Restricted Assets | - | 124,093 |
| | $ 3,371,438 | $ 4,318,109 |

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

**SILVER LAKE WATER AND SEWER DISTRICT**
**STATEMENTS OF CASH FLOWS (CONTINUED)**
**YEARS ENDED DECEMBER 31, 2018 AND 2017**

| | 2018 | 2017 |
|---|---|---|
| **RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES** | | |
| Operating Income | $ 665,179 | $ 725,650 |
| Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities: | | |
| Depreciation | 3,396,297 | 3,286,370 |
| (Increase) Decrease in Assets: | | |
| Receivables | (332,612) | (87,828) |
| Materials and Supplies | (17,303) | (8,252) |
| Prepaid Expenses | 3,798 | (11,393) |
| Deferred Outflows Related to Pensions | 23,255 | 126,271 |
| Deferred Outflows Related to Other Postemployment Benefits | (4,128) | - |
| Increase (Decrease) in Liabilities: | | |
| Accounts Payable | (504,325) | (191,434) |
| Accrued Compensated Absences | (34,766) | 31,831 |
| Deposits | (7,500) | (5,000) |
| Other Postemployment Benefits Liability | 38,861 | - |
| Net Pension Liability | (479,242) | (450,604) |
| Deferred Inflows Related to Pensions | 195,349 | 239,991 |
| Net Cash Provided by Operating Activities | $ 2,942,863 | $ 3,655,602 |
| **SUPPLEMENTAL SCHEDULE OF SIGNIFICANT NONCASH FINANCING AND INVESTING ACTIVITIES** | | |
| Utility Plant Donations Received | $ 1,053,535 | $ 2,242,244 |

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

## SILVER LAKE WATER AND SEWER DISTRICT
## STATEMENTS OF CASH FLOWS
## YEARS ENDED DECEMBER 31, 2017 AND 2016

| | 2017 | 2016 |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Cash Received from Customers and Other | $ 19,868,224 | $ 19,106,938 |
| Cash Paid to Vendors | (12,433,617) | (10,545,163) |
| Cash Paid to and for Employees and Commissioners | (3,779,005) | (3,538,209) |
| Net Cash Provided by Operating Activities | 3,655,602 | 5,023,566 |
| **CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES** | | |
| Contributions in Aid of Construction | 3,927,075 | 2,549,337 |
| Collections on ULID Assessments Receivable | 4,294 | 5,520 |
| Interest Received on Assessments | 419 | 1,090 |
| Proceeds from Issuance of Long-Term Debt | 111,776 | 829,278 |
| Proceeds from Disposal of Assets | 11,907 | 1,658 |
| Expenditures for Plant in Service and Construction | (2,623,175) | (3,467,409) |
| Payment on Long-Term Debt | (1,249,857) | (1,238,389) |
| Interest Paid on Long-Term Debt | (80,675) | (103,018) |
| Net Cash Provided (Used) by Capital Financing Activities | 101,764 | (1,421,933) |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| Purchase of Investments | (4,701,003) | (13,137,931) |
| Interest Received on Investments | 425,333 | 176,966 |
| Net Cash Used by Investing Activities | (4,275,670) | (12,960,965) |
| **NET DECREASE IN CASH** | (518,304) | (9,359,332) |
| Cash - Beginning of Year | 4,836,413 | 14,195,745 |
| **CASH - END OF YEAR** | $ 4,318,109 | $ 4,836,413 |
| Cash is Comprised of the Following at December 31: | | |
| Cash - Current Assets | $ 4,194,016 | $ 4,712,320 |
| Cash - Restricted Assets | 124,093 | 124,093 |
| | $ 4,318,109 | $ 4,836,413 |

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

## SILVER LAKE WATER AND SEWER DISTRICT
## STATEMENTS OF CASH FLOWS (CONTINUED)
## YEARS ENDED DECEMBER 31, 2017 AND 2016

| | 2017 | 2016 |
|---|---|---|
| **RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES** | | |
| Operating Income | $ 725,650 | $ 1,026,355 |
| Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities: | | |
| Depreciation | 3,286,370 | 3,202,539 |
| (Increase) Decrease in Assets: | | |
| Receivables | (87,828) | 6,760 |
| Materials and Supplies | (8,252) | (36,290) |
| Prepaid Expenses | (11,393) | - |
| Deferred Outflows Related to Pensions | 126,271 | (193,475) |
| Increase (Decrease) in Liabilities: | | |
| Accounts Payable | (191,434) | 751,455 |
| Accrued Compensated Absences | 31,831 | 20,559 |
| Deposits | (5,000) | - |
| Net Pension Liability | (450,604) | 463,575 |
| Deferred Inflows Related to Pensions | 239,991 | (217,912) |
| Net Cash Provided by Operating Activities | $ 3,655,602 | $ 5,023,566 |
| **SUPPLEMENTAL SCHEDULE OF SIGNIFICANT NONCASH FINANCING AND INVESTING ACTIVITIES** | | |
| Utility Plant Donations Received | $ 2,242,244 | $ 2,071,713 |

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

## NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Organization

Silver Lake Water and Sewer District (the District), a municipal corporation organized under the laws of the state of Washington, was created for the purpose of constructing, maintaining and operating water and sewer systems within its boundaries, which encompass an area in south Snohomish County. The District is governed by an elected three member board and has no component units.

### Basis of Presentation and Accounting

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

### Change in Accounting Principle

Effective January 1, 2018, the District adopted Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (GASB 75). This statement replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*. GASB 75 establishes new accounting and financial reporting requirements for OPEB plans, establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense.

The cumulative impact of implementation of GASB 75 resulted in a $1,001,598 reduction of net position as of January 1, 2018 as a result of recognizing the January 1, 2018 OPEB liability of $1,001,598. It was not practicable to measure the net OPEB liability as of January 1, 2017 and restate the 2017 financial statements as the alternative measurement tool prepared by the Washington State Actuary did not have the ability to produce those amounts.

### Investments

Investments in the State of Washington Treasurer's Investment Pool are stated at share price which is equal to amortized cost.

### Accounts Receivable

The District utilizes the allowance method of accounting for doubtful accounts. However, all accounts are considered fully collectible since nonpayment of an account can result in a lien assessment filed against the property. Therefore, no allowance for doubtful accounts has been provided in the financial statements.

### Materials and Supplies

Materials and supplies are inventories available for future use and are stated at the lower of cost (FIFO) or net realizable value.

## NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Capital Assets

Capital assets are stated at cost. For water and sewer systems installed by developers or customers and conveyed to the District by bill of sale, the District records the cost of the system at acquisition value, which is determined by the contributing party's estimated cost. Expenditures for capital assets exceeding $5,000, including capital leases and major repairs that increase useful lives, are capitalized. Certain assets including meters, hydrants and titled motor vehicles and trailers are capitalized regardless of cost. Maintenance, repairs, and minor renewals are accounted for as expenses when incurred. When capital assets are retired or otherwise disposed of, the cost and accumulated depreciation are removed from the accounts and any resulting gain or loss is recognized in income for the period.

Depreciation on capital assets is computed using the straight-line method over the following estimated useful lives:

| | |
|---|---|
| Water System | 10-75 Years |
| Sewer System | 30-75 Years |
| Office Building and Improvements | 10-40 Years |
| Equipment and Other | 3-10 Years |

### Interest Capitalization

Effective January 1, 2018, the District early implemented Governmental Accounting Standards Board (GASB) Statement No. 89, *Accounting for Interest Cost Incurred before the end of the Construction Period*. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset. This statement is applied on a prospective basis and did not affect prior year results.

Prior to implementation, interest costs incurred for the construction of capital assets were subject to capitalization. Total interest and amortization cost incurred for the year ended December 31, 2017 was $71,979. Interest capitalized to Construction in Progress for the year ended December 31, 2017 was $19,045.

### 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 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Accrued Compensated Absences

The District accrues accumulated unpaid vacation and sick leave benefit amounts as earned. District employees accumulate vacation and sick leave hours, subject to certain restrictions, for subsequent use or payment upon termination, retirement, or death.

### Deferred Outflows/Inflows of Resources

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

Deferred inflows of resources represent an acquisition of net position that applies to future periods and will not be recognized as an inflow of resources (revenue) until that time. Deferred inflows of resources consist of the District's proportionate share of deferred inflows related to pension plans. Deferred inflows of resources related to pensions for the net difference between projected and actual earnings on plan investments are amortized over a closed five-year period. The remaining deferred inflows of resources related to pensions are amortized over the average expected service lives of all employees provided with pensions through each plan.

### Long-Term Debt

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

## NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Net Position

Net position is classified in the following three components:

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

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

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

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

### Revenues and Expenses

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

### Capital Contributions

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

### Use of Estimates in Financial Statement Preparation

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

### Reclassifications

Certain reclassifications have been made to the 2017 financial statements to conform to the 2018 financial statement presentation.

## NOTE 2 DEPOSITS AND INVESTMENTS

### Deposits

The District's bank balances as of December 31, 2018 and 2017 were $4,354,454 and $4,784,867, respectively.

Custodial credit risk for deposits is the risk that, in event of a failure of a depository financial institution, the District would not be able to recover deposits or will not be able to recover collateral securities that are in possession of an outside party. The District deposits and certificates of deposit are covered by federal depository insurance (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (PDPC).

### Investments

As required by state law, all investments of the District's funds are obligations of the U.S. Government, U.S. agency issues, obligations of the state of Washington, certificates of deposit with Washington State Banks and the Local Government Investment Pool managed by the Washington State Treasurer's office.

As of December 31, the District had the following investments, which are measured at amortized cost:

| | 2018 | 2017 |
|---|---|---|
| Local Government Investment Pool | $ 40,695,604 | $ 42,909,149 |

### Investments in Local Government Investment Pool

The District is a participant in the Local Government Investment Pool (LGIP). The LGIP 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 LGIP. The policy is reviewed annually and proposed changes are reviewed by the LGIP advisory committee.

Investment in the LGIP are stated at share price, which is equal to amortized cost, and approximates fair value. The LGIP was not rated by a nationally recognized statistical rating organization (NRSRO). The LGIP is invested in a manner that meets the maturity, quality, diversity, and liquidity requirements of Governmental Accounting Standards Board Statement 79 for external investment pools that elect to measure, for financial reporting purposes, investments at amortized cost. The LGIP does not have any legally binding guarantees of share value. 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, P.O. Box 40200, Olympia, Washington 98504-0200, or online at www.tre.wa.gov.

## NOTE 3 RESTRICTED ASSETS

In accordance with the bond resolutions, separate restricted accounts were required to be established. The assets held in these accounts were restricted for specific uses, including debt service and reserve. Restricted assets were as follows:

| | Revenue Bond Debt Service Account | Revenue Bond Reserve Account | Total |
|---|---|---|---|
| 2017 | | | |
| Current Restricted Assets: | | | |
| Cash | $ 73,006 | $ 51,087 | $ 124,093 |
| Investments | 228,778 | 432,136 | 660,914 |
| Total | $ 301,784 | $ 483,223 | $ 785,007 |

Terms of the revenue bond issues required the District to establish and maintain debt service and reserve accounts. The debt service accounts were to accumulate funds for payment of bond, principal and interest and the reserve accounts were to provide security for bond holders.

The required reserve account at December 31, 2018 and 2017 was $-0- and $426,000, respectively.

## NOTE 4 CAPITAL ASSETS

Major classes of capital assets and capital asset activity was as follows:

| | 2018 | | | |
|---|---|---|---|---|
| | Balance - Beginning of Year | Increases | Decreases | Balance - End of Year |
| Capital Assets not being Depreciated: | | | | |
| Land and Land Rights | $ 3,449,020 | $ - | $ - | $ 3,449,020 |
| Construction in Progress | 3,224,173 | 6,770,055 | (6,210,349) | 3,783,879 |
| | 6,673,193 | 6,770,055 | (6,210,349) | 7,232,899 |
| Capital Assets being Depreciated: | | | | |
| Water System | 81,708,520 | 1,253,595 | (9,441) | 82,952,674 |
| Sewer System | 103,668,068 | 831,772 | - | 104,499,840 |
| Office Building and Improvements | 14,984,857 | 5,156,440 | - | 20,141,297 |
| Equipment and Other | 3,610,731 | 393,727 | (14,063) | 3,990,395 |
| | 203,972,176 | 7,635,534 | (23,504) | 211,584,206 |
| Accumulated Depreciation: | | | | |
| Water System | (19,041,667) | (1,060,312) | 7,822 | (20,094,157) |
| Sewer System | (30,325,460) | (1,627,048) | - | (31,952,508) |
| Office Building and Improvements | (4,780,345) | (500,203) | - | (5,280,548) |
| Equipment and Other | (2,743,602) | (208,734) | 14,063 | (2,938,273) |
| | (56,891,074) | (3,396,297) | 21,885 | (60,265,486) |
| Net Capital Assets | $ 153,754,295 | $ 11,009,292 | $ (6,211,968) | $ 158,551,619 |

| | 2017 | | | |
|---|---|---|---|---|
| | Balance - Beginning of Year | Increases | Decreases | Balance - End of Year |
| Capital Assets not being Depreciated: | | | | |
| Land and Land Rights | $ 3,449,020 | $ - | $ - | $ 3,449,020 |
| Construction in Progress | 815,224 | 2,714,891 | (305,942) | 3,224,173 |
| | 4,264,244 | 2,714,891 | (305,942) | 6,673,193 |
| Capital Assets being Depreciated: | | | | |
| Water System | 79,965,897 | 1,742,623 | - | 81,708,520 |
| Sewer System | 102,808,314 | 866,877 | (7,123) | 103,668,068 |
| Office Building and Improvements | 14,881,325 | 103,532 | - | 14,984,857 |
| Equipment and Other | 3,357,224 | 278,513 | (25,006) | 3,610,731 |
| | 201,012,760 | 2,991,545 | (32,129) | 203,972,176 |
| Accumulated Depreciation: | | | | |
| Water System | (18,002,993) | (1,038,674) | - | (19,041,667) |
| Sewer System | (28,710,068) | (1,615,772) | 380 | (30,325,460) |
| Office Building and Improvements | (4,352,490) | (427,855) | - | (4,780,345) |
| Equipment and Other | (2,564,539) | (204,069) | 25,006 | (2,743,602) |
| | (53,630,090) | (3,286,370) | 25,386 | (56,891,074) |
| Net Capital Assets | $ 151,646,914 | $ 2,420,066 | $ (312,685) | $ 153,754,295 |

## NOTE 5 LONG-TERM DEBT PAYABLE FROM UNRESTRICTED ASSETS

Long-term debt outstanding, payable from unrestricted assets, consisted of the following Public Works Trust Fund loans secured by the revenue of the water and sewer systems issued for utility construction:

| | 2018 | 2017 |
|---|---|---|
| 1998 $101,144 loan, payable $5,324 annually through the year 2018, plus interest at 1.0 annual percentage rate. | $ - | $ 5,324 |
| 1999 $6,208,160 loan, payable $346,486 annually through the year 2019, plus interest at 1.0 annual percentage rate. | 346,486 | 692,972 |
| 2012 $1,859,000 loan, payable $97,842 annually through the year 2031, plus interest at .25 annual percentage rate. | 1,271,947 | 1,369,790 |
| 2013 loan: $7,810,000 authorized, $5,458,406 drawn to December 31, 2018. Based on draws to December 31, 2018, payable $311,366 annually through the year 2032, plus interest at .50 annual percentage rate. | 4,359,124 | 4,538,508 |
| | 5,977,557 | 6,606,594 |
| Less: Current Maturities | (755,694) | (752,219) |
| Total | $ 5,221,863 | $ 5,854,375 |

Long-term debt service requirements to maturity, payable by the District from unrestricted assets, are as follows (based on draws received through December 31, 2018):

| Year Ending December 31, | Principal | Interest | Total |
|---|---|---|---|
| 2019 | $ 755,694 | $ 28,279 | $ 783,973 |
| 2020 | 409,208 | 23,174 | 432,382 |
| 2021 | 409,208 | 21,373 | 430,581 |
| 2022 | 409,208 | 19,571 | 428,779 |
| 2023 | 409,208 | 17,770 | 426,978 |
| 2024-2028 | 2,046,040 | 61,827 | 2,107,867 |
| 2029-2032 | 1,538,991 | 17,036 | 1,556,027 |
| Total | $ 5,977,557 | $ 189,030 | $ 6,166,587 |

## NOTE 6 LONG-TERM DEBT PAYABLE FROM RESTRICTED ASSETS

Long-term debt outstanding, payable from restricted assets, consisted of the following:

| | 2017 |
|---|---|
| Revenue Bonds: | |
| $4,260,000 issued June 11, 2009 for refunding, due serially through the year 2018, with interest payable semi-annually at 4.00 annual percentage rate. | $ 520,000 |
| Less: Current Maturities | (520,000) |
| Unamortized Premiums (Discounts) | 2,881 |
| Total | $ 2,881 |

## NOTE 7 CHANGES IN LONG-TERM LIABILITIES

Changes in long-term liabilities were as follows:

| | Balance - Beginning of Year | Additions | Reductions | Balance - End of Year | Amounts Due Within One Year |
|---|---|---|---|---|---|
| 2018 | | | | | |
| Long-Term Debt Payable from Unrestricted Assets: | | | | | |
| 1998 Loan | $ 5,324 | $ - | $ (5,324) | $ - | $ - |
| 1999 Loan | 692,972 | - | (346,486) | 346,486 | 346,486 |
| 2012 Loan | 1,369,790 | - | (97,843) | 1,271,947 | 97,842 |
| 2013 Loan | 4,538,508 | 128,042 | (307,426) | 4,359,124 | 311,366 |
| | $ 6,606,594 | $ 128,042 | $ (757,079) | $ 5,977,557 | $ 755,694 |
| Long-Term Debt Payable from Restricted Assets: | | | | | |
| 2009 Revenue Bonds | $ 520,000 | $ - | $ (520,000) | $ - | $ - |
| Compensated Absences | $ 444,497 | $ 359,389 | $ (394,155) | $ 409,731 | $ 394,000 |
| Net Pension Liability | $ 1,721,315 | $ - | $ (479,242) | $ 1,242,073 | |
| Other Postemployment Benefits Liability | $ - | $ 1,110,377 | $ (69,918) | $ 1,040,459 | |

## NOTE 7 CHANGES IN LONG-TERM LIABILITIES (CONTINUED)

Changes in long-term liabilities were as follows:

| | Balance - Beginning of Year | Additions | Reductions | Balance - End of Year | Amounts Due Within One Year |
|---|---|---|---|---|---|
| 2017 | | | | | |
| Long-Term Debt Payable from Unrestricted Assets: | | | | | |
| 1998 Loan | $ 10,647 | $ - | $ (5,323) | $ 5,324 | $ 5,324 |
| 1999 Loan | 1,039,458 | - | (346,486) | 692,972 | 346,486 |
| 2012 Loan | 1,467,632 | - | (97,842) | 1,369,790 | 97,842 |
| 2013 Loan | 4,726,938 | 111,776 | (300,206) | 4,538,508 | 302,567 |
| | $ 7,244,675 | $ 111,776 | $ (749,857) | $ 6,606,594 | $ 752,219 |
| Long-Term Debt Payable from Restricted Assets: | | | | | |
| 2009 Revenue Bonds | $ 1,020,000 | $ - | $ (500,000) | $ 520,000 | $ 520,000 |
| Compensated Absences | $ 412,666 | $ 299,516 | $ (267,685) | $ 444,497 | $ 314,900 |
| Net Pension Liability | $ 2,171,919 | $ - | $ (450,604) | $ 1,721,315 | |

## NOTE 8 PENSION PLAN

The following table represents the aggregate pension amounts for all plans as of and for the years ended December 31, 2018 and 2017:

| Aggregate Pension Amounts - All Plans | 2018 | 2017 |
|---|---|---|
| Pension Liabilities | $ 1,242,073 | $ 1,721,315 |
| Deferred Outflows of Resources | 278,024 | 301,279 |
| Deferred Inflows of Resources | 473,004 | 277,655 |
| Pension Expense | 71,948 | 220,855 |

## NOTE 8 PENSION PLAN (CONTINUED)

**State Sponsored Pension Plans**

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

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

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

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 2% of the member's average final compensation (AFC) times the member's years of service. The AFC is the average of the member's 24 highest consecutive service months. Members are eligible for retirement from active status at any age with at least 30 years of service, at age 55 with at least 25 years of service, or at age 60 with at least five years of service. Members retiring from active status prior to the age of 65 may receive actuarially reduced benefits. Retirement benefits are actuarially reduced to reflect the choice of a survivor benefit. Other benefits include duty and nonduty disability payments, an optional cost-of-living adjustment (COLA), and a one-time duty-related death benefit, if found eligible by the Department of Labor and Industries. 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.

## NOTE 8 PENSION PLAN (CONTINUED)

**Public Employees Retirement System (PERS) (Continued)**

**Contributions** The PERS Plan 1 member contribution rate is established by State statute at 6%. The employer contribution rate is developed by the Office of the State Actuary and includes an administrative expense component that is currently set at 0.18%. Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates.

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

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

The District's actual contributions to the plan were $132,137 and $138,249 for the years ended December 31, 2018 and 2017, respectively.

## NOTE 8 PENSION PLAN (CONTINUED)

**Public Employees Retirement System (PERS) (Continued)**

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

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

- With a benefit that is reduced by 3% for each year before age 65, or
- With a benefit that has a smaller (or no) reduction (depending on age) that imposes stricter return-to-work rules.

PERS Plan 2/3 members hired on or after May 1, 2013 have the option to retire early by accepting a reduction of 5% 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 nonduty disability payments, a cost-of-living allowance (based on the CPI), capped at 3% annually and a one-time duty related death benefit, if found eligible by the 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% and escalate to 15% with a choice of six options. Employers do not contribute to the defined contribution benefits. PERS Plan 3 members are immediately vested in the defined contribution portion of their plan.

**Contributions** The PERS Plan 2/3 employer and employee contribution rates are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. The Plan 2/3 employer rates include a component to address the PERS Plan 1 unfunded actuarially accrued liability (UAAL) and an administrative expense that is currently set at 0.18%. Each biennium, the state Pension Funding Council adopts Plan 2 employer and employee contribution rates and Plan 3 contribution rates.

## NOTE 8 PENSION PLAN (CONTINUED)

### Public Employees Retirement System (PERS) (Continued)

The PERS Plan 2/3 required contribution rates (expressed as a percentage of covered payroll) were as follows:

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

The District's actual contributions to the plan were $195,751 and $162,671 for the years ended December 31, 2018 and 2017, respectively.

### Actuarial Assumptions

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

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

## NOTE 8 PENSION PLAN (CONTINUED)

### Actuarial Assumptions (Continued)

Additional 2018 assumptions for subsequent events and law changes are current as of the 2017 actuarial valuation report. Additional 2017 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, 2018 and June 30, 2017. 2018 Plan liabilities were rolled forward from June 30, 2017, to June 30, 2018, and 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:** 2.75% total economic inflation; 3.50% salary inflation
- **Salary increases:** In addition to the base 3.50% salary inflation assumption, salaries are also expected to grow by promotions and longevity.
- **Investment rate of return:** 7.4%

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

There were changes in methods and assumptions between the 2018 and 2017 valuations.

- Lowered the valuation interest rate from 7.70% to 7.50% for all plans.
- Lowered the assumed general salary growth from 3.75% to 3.50% for all plans.
- Lowered assumed inflation from 3.00% to 2.75% for all plans.

There were changes in methods and assumptions between the 2017 and 2016 valuations.

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

## NOTE 8 PENSION PLAN (CONTINUED)

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

**Long-Term Expected Rate of Return**

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

**Estimated Rates of Return by Asset Class**

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

## NOTE 8 PENSION PLAN (CONTINUED)

As of June 30, 2018 and 2017:

| Asset Class | Target Allocation | Percent Long-Term Expected Real Rate of Return Arithmetic |
|---|---|---|
| 2018 | | |
| Fixed Income | 20 % | 1.70 % |
| Tangible Assets | 7 | 4.90 |
| Real Estate | 18 | 5.80 |
| Global Equity | 32 | 6.30 |
| Private Equity | 23 | 9.30 |
| Total | 100 % | |
| 2017 | | |
| Fixed Income | 20 % | 1.70 % |
| Tangible Assets | 5 | 4.90 |
| Real Estate | 15 | 5.80 |
| Global Equity | 37 | 6.30 |
| Private Equity | 23 | 9.30 |
| Total | 100 % | |

**Sensitivity of NPL**

The table below presents the District's proportionate share of the net pension liability calculated using the applicable discount rate, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than applicable discount rate.

| | 1% Decrease (6.4%) | Current Discount Rate (7.4%) | 1% Increase (8.4%) |
|---|---|---|---|
| 2018 | | | |
| PERS 1 | $ 1,022,716 | $ 832,194 | $ 667,166 |
| PERS 2/3 | 1,874,801 | 409,879 | (791,192) |

| | 1% Decrease (6.5%) | Current Discount Rate (7.5%) | 1% Increase (8.5%) |
|---|---|---|---|
| 2017 | | | |
| PERS 1 | $ 1,105,133 | $ 907,191 | $ 735,732 |
| PERS 2/3 | 2,193,337 | 814,124 | (315,935) |

## NOTE 8 PENSION PLAN (CONTINUED)

**Pension Plan Fiduciary Net Position**

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

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

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

| | Liability (Asset) | |
|---|---|---|
| | 2018 | 2017 |
| PERS 1 | $ 832,194 | $ 907,191 |
| PERS 2/3 | 409,879 | 814,124 |
| Total | $ 1,242,073 | $ 1,721,315 |

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

| | Proportionate Share 6/30/17 | Proportionate Share 6/30/18 | Change in Proportion |
|---|---|---|---|
| PERS 1 | 0.019119% | 0.018634% | -0.000485% |
| PERS 2/3 | 0.023431% | 0.024006% | 0.000575% |

| | Proportionate Share 6/30/16 | Proportionate Share 6/30/17 | Change in Proportion |
|---|---|---|---|
| PERS 1 | 0.019197% | 0.019119% | -0.000078% |
| PERS 2/3 | 0.022660% | 0.023431% | 0.000771% |

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

The 2018 and 2017 collective net pension liability (asset) was measured as of June 30, 2018 and 2017, respectively, and the actuarial valuation date on which the total pension liability (asset) is based was as of June 30, 2017 and 2016, respectively, with update procedures used to roll forward the total pension liability to the measurement date.

## NOTE 8 PENSION PLAN (CONTINUED)

### Pension Expense

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

| | 2018 | 2017 |
|---|---|---|
| PERS 1 | $ 48,775 | $ 72,898 |
| PERS 2/3 | 18,475 | 143,679 |
| Expenses and Other | 4,698 | 4,278 |
| Total | $ 71,948 | $ 220,855 |

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

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

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|---|
| 2018 | | |
| PERS 1 | | |
| Differences Between Expected and Actual Experience | $ - | $ - |
| Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments | - | 33,072 |
| Changes of Assumptions | - | - |
| Changes in Proportion and Differences Between Contributions and Proportionate Share of Contributions | - | - |
| Contributions Subsequent to the Measurement Date | 67,240 | - |
| Total | $ 67,240 | $ 33,072 |
| PERS 2/3 | | |
| Differences Between Expected and Actual Experience | $ 50,241 | $ 71,762 |
| Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments | - | 251,521 |
| Changes of Assumptions | 4,795 | 116,649 |
| Changes in Proportion and Differences Between Contributions and Proportionate Share of Contributions | 56,634 | - |
| Contributions Subsequent to the Measurement Date | 99,114 | - |
| Total | $ 210,784 | $ 439,932 |
| Total all Plans | $ 278,024 | $ 473,004 |

## NOTE 8 PENSION PLAN (CONTINUED)

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

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|---|
| 2017 | | |
| PERS 1 | | |
| Differences Between Expected and Actual Experience | $ - | $ - |
| Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments | - | 33,854 |
| Changes of Assumptions | - | - |
| Changes in Proportion and Differences Between Contributions and Proportionate Share of Contributions | - | - |
| Contributions Subsequent to the Measurement Date | 59,657 | - |
| Total | $ 59,657 | $ 33,854 |
| PERS 2/3 | | |
| Differences Between Expected and Actual Experience | $ 82,490 | $ 26,775 |
| Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments | - | 217,026 |
| Changes of Assumptions | 8,648 | - |
| Changes in Proportion and Differences Between Contributions and Proportionate Share of Contributions | 61,888 | - |
| Contributions Subsequent to the Measurement Date | 88,596 | - |
| Total | $ 241,622 | $ 243,801 |
| Total all Plans | $ 301,279 | $ 277,655 |

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

| Year Ending December 31, | PERS 1 | PERS 2/3 |
|---|---|---|
| 2019 | $ 1,447 | $ (19,873) |
| 2020 | (7,229) | (73,474) |
| 2021 | (21,694) | (146,105) |
| 2022 | (5,596) | (49,161) |
| 2023 | - | (13,252) |
| Thereafter | - | (26,397) |
| Total | $ (33,072) | $ (328,262) |

## NOTE 9 OTHER POSTEMPLOYMENT BENEFITS

The following table represents the aggregate OPEB amounts for all plans subject to the requirements of GASB 75 for the year ended December 31:

| | 2018 |
|---|---|
| OPEB Liabilities | $ 1,040,459 |
| Deferred Outflows of Resources | 4,128 |
| OPEB Expense | 42,505 |

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

**General Information about the OPEB Plan**

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

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

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

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

## NOTE 9 OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

### Employees Covered by Benefit Terms

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

| | 2018 |
|---|---|
| Inactive Employees or Beneficiaries Currently Receiving Benefit Payments | 1 |
| Inactive Employees Entitled to But Not Yet Receiving Benefit Payments | 0 |
| Active Employees | 30 |

### Funding Policy

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

### Contributions

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

### Total OPEB Liability

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

## NOTE 9 OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

### Total OPEB Liability (Continued)

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

| | |
|---|---|
| Methodology: | |
| Actuarial Cost Method | Entry Age |
| Amortization Method | Recognized Immediately |
| Assumptions: | |
| Discount Rate - Based on Bond Buyer General Obligation 20-Bond Municipal Index: | |
| Beginning of Measurement Year | 3.58% |
| End of Measurement Year | 3.87% |
| Projected Salary Changes | 3.75% Plus Service-Based Increases |
| Healthcare Trend Rates | Initial Rate is approximately 7%, trends down to approximately 5% in 2080 |

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

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

## NOTE 9 OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

### Changes in the Total OPEB Liability

| | 2018 |
|---|---|
| Balance - January 1 | $ 1,001,598 |
| Service Cost | 70,464 |
| Interest | 38,315 |
| Changes in Experience and Data Assumptions | (66,274) |
| Changes in Benefit Terms | - |
| Benefit Payments | (3,644) |
| Other | - |
| Total | $ 1,040,459 |

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

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

| 2018 | 1% Decrease | Current Rate | 1% Increase |
|---|---|---|---|
| Discount Rate | $ 1,281,842 | $ 1,040,459 | $ 852,557 |
| Healthcare Cost Trend Rate | 829,774 | 1,040,459 | 1,319,991 |

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

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

| | 2018 |
|---|---|
| Service Cost | $ 70,464 |
| Interest Cost | 38,315 |
| Changes in Experience and Data Assumptions | (66,274) |
| Total | $ 42,505 |

## NOTE 9 OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

**OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB (Continued)**

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

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|---|
| 2018 | | |
| Contributions Subsequent to the Measurement Date | $ 4,128 | $ - |

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

## NOTE 10 DEFERRED COMPENSATION

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

## NOTE 11 COMMITMENTS

The District is obligated to the City of Everett to pay for a portion of certain city projects. The District does not record a liability and related asset for city project billings until billing has been received. As of December 31, 2018, the District's share of the projects is estimated to be as follows:

| Year Ending December 31, | Amount |
|---|---|
| 2019 | $ 1,622,400 |
| 2020 | 548,800 |
| 2021 | 1,024,000 |
| 2022 | 1,720,000 |
| 2023 | 3,592,000 |
| 2024-2028 | 20,952,000 |
| Total | $ 29,459,200 |

## NOTE 12 RISK MANAGEMENT

The District is a member of the Washington Cities Insurance Authority (WCIA).

Utilizing Chapter 48.62 RCW (self-insurance regulation) and Chapter 39.34 RCW (Interlocal Cooperation Act), nine cities originally formed WCIA on January 1, 1981. WCIA was created for the purpose of providing a pooling mechanism for jointly purchasing insurance, jointly self-insuring, and / or jointly contracting for risk management services. WCIA has a total of 160 members.

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

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

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

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

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

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

## NOTE 12 RISK MANAGEMENT (CONTINUED)

A Board of Directors governs WCIA, which is comprised of one designated representative from each member. The Board elects an Executive Committee and appoints a Treasurer to provide general policy direction for the organization. The WCIA Executive Director reports to the Executive Committee and is responsible for conducting the day to day operations of WCIA.

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

## NOTE 13 MAJOR SUPPLIERS

All sewage collected by the District is treated by the City of Everett and the Department of Natural Resources / King County, Washington.

Water purchased by the District is supplied by the City of Everett, the Clearview Water Supply Agency and Alderwood Water and Wastewater District. In 2004, the District negotiated a 50-year supply contract for water with the Clearview Water Supply Agency.

## NOTE 14 CLEARVIEW WATER SUPPLY AGENCY JOINT VENTURE

During 2004, the District negotiated a 50-year supply contract for water with the Clearview Water Supply Agency (CWSA). CWSA is a municipal corporation formed by Alderwood Water and Sewer District, Silver Lake Water and Sewer District and Cross Valley Water District. A three member board with each member district providing a representative governs CWSA. The purposes of CWSA is to provide water to the members and maintain and operate certain facilities. CWSA currently has no plant and equipment; the member districts jointly own the facilities. Alderwood Water and Sewer District has been contracted to maintain and operate the facilities as well as provide administrative support for CWSA.

CWSA purchases all of its water from Alderwood Water and Sewer District at the District's cost, which includes the wholesale cost of water from the City of Everett and the associated pumping costs. The members are responsible for all expenses based on metered water use and an agreed upon expense allocation formula. In order to ensure that revenues are sufficient to meet the expenses, monthly charges to the three members are equal to the monthly expenses. Annual financial statements are available by contacting the Clearview Water Supply Agency at 3626 – 156th St. SW, Lynnwood, WA 98087 or by calling (425) 743-4605.

District transactions with CWSA consisted of water purchase and reimbursement of construction costs expended by CWSA. Water purchases were $1,419,995 and $1,268,665 and reimbursable construction costs were $20,168 and $45 for the years ended December 31, 2018 and 2017, respectively. As of December 31, 2018 and 2017 accounts payable included $104,657 and $168,232, respectively, due to CWSA.

## NOTE 15 LEASES

The District leases space for cell towers on certain reservoirs under noncancelable provisions of operating leases. Future rental income due to the District under the noncancelable portion of the leases is as follows:

| Year Ending December 31, | Amount |
|---|---|
| 2019 | $ 177,269 |
| 2020 | 185,883 |
| 2021 | 171,232 |
| 2022 | 117,047 |
| 2023 | 98,523 |
| Thereafter | 25,862 |
| Total | $ 775,816 |

## NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Organization

Silver Lake Water and Sewer District (the District), a municipal corporation organized under the laws of the state of Washington, was created for the purpose of constructing, maintaining and operating water and sewer systems within its boundaries, which encompass an area in south Snohomish County. The District is governed by an elected three member board and has no component units.

### Basis of Presentation and Accounting

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

### Investments

Investments in the State of Washington Treasurer's Investment Pool are stated at share price which is equal to amortized cost.

### Accounts Receivable

The District utilizes the allowance method of accounting for doubtful accounts. However, all accounts are considered fully collectible since nonpayment of an account can result in a lien assessment filed against the property. Therefore, no allowance for doubtful accounts has been provided in the financial statements.

### Materials and Supplies

Materials and supplies are inventories available for future use and are stated at the lower of cost (FIFO) or market.

### Capital Assets

Capital assets are stated at cost. For water and sewer systems installed by developers or customers and conveyed to the District by bill of sale, the District records the cost of the system at acquisition value, which is determined by the contributing party's estimated cost. Expenditures for capital assets exceeding $5,000, including capital leases and major repairs that increase useful lives, are capitalized. Certain assets including meters, hydrants and titled motor vehicles and trailers are capitalized regardless of cost. Maintenance, repairs, and minor renewals are accounted for as expenses when incurred. When capital assets are retired or otherwise disposed of, the cost and accumulated depreciation are removed from the accounts and any resulting gain or loss is recognized in income for the period.

## NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Capital Assets (Continued)

Depreciation on capital assets is computed using the straight-line method over the following estimated useful lives:

| | |
|---|---|
| Water System | 10-75 Years |
| Sewer System | 20-75 Years |
| Office Building and Improvements | 10-40 Years |
| Equipment and Other | 3-10 Years |

### Interest Capitalization

Interest costs incurred for the construction of capital assets are subject to capitalization.

Total interest and amortization cost incurred for the years ended December 31, 2017 and 2016 was $71,979 and $96,096, respectively. Interest capitalized to Construction in Progress for the years ended December 31, 2017 and 2016 was $19,045 and $50,030, respectively.

### Pensions

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

### Accrued Compensated Absences

The District accrues accumulated unpaid vacation and sick leave benefit amounts as earned. District employees accumulate vacation and sick leave hours, subject to certain restrictions, for subsequent use or payment upon termination, retirement, or death.

### Deferred Outflows/Inflows of Resources

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

## NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Deferred Outflows/Inflows of Resources (Continued)

Deferred inflows of resources represent an acquisition of net position that applies to future periods and will not be recognized as an inflow of resources (revenue) until that time. Deferred inflows of resources consist of the District's proportionate share of deferred outflows related to pension plans. Deferred inflows of resources for the net difference between projected and actual earnings on plan investments are amortized over a closed five-year period. The remaining deferred inflows of resources related to pensions are amortized over the average expected service lives of all employees provided with pensions through each plan.

### Long-Term Debt

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

### Net Position

Net position is classified in the following three components:

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

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

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

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

### Revenues and Expenses

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

## NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Capital Contributions

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

### Use of Estimates in Financial Statement Preparation

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

## NOTE 2 DEPOSITS AND INVESTMENTS

### Deposits

The Districts bank balances as of December 31, 2017 and 2016 were $4,784,867 and $4,914,724, respectively.

Custodial credit risk for deposits is the risk that, in event of a failure of a depository financial institution, the District would not be able to recover deposits or will not be able to recover collateral securities that are in possession of an outside party. The District deposits and certificates of deposit are covered by federal depository insurance (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (PDPC).

### Investments

As required by state law, all investments of the District's funds are obligations of the U.S. Government, U.S. agency issues, obligations of the state of Washington, certificates of deposit with Washington State Banks and the Local Government Investment Pool managed by the Washington State Treasurer's office.

As of December 31, the District had the following investments, which are measured at amortized cost:

| | Fair Value |
|---|---|
| 2017 | |
| Local Government Investment Pool | $ 42,909,149 |
| 2016 | |
| Local Government Investment Pool | $ 38,208,146 |

## NOTE 2 DEPOSITS AND INVESTMENTS (CONTINUED)

**Investments in Local Government Investment Pool**

The District is a participant in the Local Government Investment Pool (LGIP). The LGIP 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 LGIP. The policy is reviewed annually and proposed changes are reviewed by the LGIP advisory committee.

Investment in the LGIP are stated at share price, which is equal to amortized cost, and approximates fair value. The LGIP was not rated by a nationally recognized statistical rating organization (NRSRO). The LGIP is invested in a manner that meets the maturity, quality, diversity, and liquidity requirements of Governmental Accounting Standards Board Statement 79 for external investment pools that elect to measure, for financial reporting purposes, investments at amortized cost. The LGIP does not have any legally binding guarantees of share value. 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, P.O. Box 40200, Olympia, Washington 98504-0200, or online at www.tre.wa.gov.

## NOTE 3 RESTRICTED ASSETS

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

| | Revenue Bond Debt Service Account | Revenue Bond Reserve Account | Total |
|---|---|---|---|
| 2017 | | | |
| Current Restricted Assets: | | | |
| Cash | $ 73,006 | $ 51,087 | $ 124,093 |
| Investments | 228,778 | 432,136 | 660,914 |
| Total | $ 301,784 | $ 483,223 | $ 785,007 |
| 2016 | | | |
| Current Restricted Assets: | | | |
| Cash | $ 73,006 | $ 51,087 | $ 124,093 |
| Investments | 226,590 | 428,003 | 654,593 |
| Interest Receivable | 419 | - | 419 |
| Assessments Receivable, Current | 4,294 | - | 4,294 |
| Total | $ 304,309 | $ 479,090 | $ 783,399 |

Terms of the revenue bond issues require the District to establish and maintain debt service and reserve accounts. The debt service accounts are to accumulate funds for payment of bond, principal and interest and the reserve accounts are to provide security for bond holders.

The required reserve account at December 31, 2017 and 2016 was $426,000 and $462,000, respectively. Both the debt service and reserve accounts are fully funded.

## NOTE 4 CAPITAL ASSETS

Major classes of capital assets and capital asset activity was as follows:

| | 2017 | | | |
|---|---|---|---|---|
| | Balance, Beginning of Year | Increases | Decreases | Balance, End of Year |
| Capital Assets not being Depreciated: | | | | |
| Land and Land Rights | $ 3,449,020 | $ - | $ - | $ 3,449,020 |
| Construction in Progress | 815,224 | 2,714,891 | (305,942) | 3,224,173 |
| | 4,264,244 | 2,714,891 | (305,942) | 6,673,193 |
| Capital Assets being Depreciated: | | | | |
| Water System | 79,965,897 | 1,742,623 | - | 81,708,520 |
| Sewer System | 102,808,314 | 866,877 | (7,123) | 103,668,068 |
| Office Building and Improvements | 14,881,325 | 103,532 | - | 14,984,857 |
| Equipment and Other | 3,357,224 | 278,513 | (25,006) | 3,610,731 |
| | 201,012,760 | 2,991,545 | (32,129) | 203,972,176 |
| Accumulated Depreciation: | | | | |
| Water System | (18,002,993) | (1,038,674) | - | (19,041,667) |
| Sewer System | (28,710,068) | (1,615,772) | 380 | (30,325,460) |
| Office Building and Improvements | (4,352,490) | (427,855) | - | (4,780,345) |
| Equipment and Other | (2,564,539) | (204,069) | 25,006 | (2,743,602) |
| | (53,630,090) | (3,286,370) | 25,386 | (56,891,074) |
| Net Capital Assets | $ 151,646,914 | $ 2,420,066 | $ (312,685) | $ 153,754,295 |

| | 2016 | | | |
|---|---|---|---|---|
| | Balance, Beginning of Year | Increases | Decreases | Balance, End of Year |
| Capital Assets not being Depreciated: | | | | |
| Land and Land Rights | $ 3,449,020 | $ - | $ - | $ 3,449,020 |
| Construction in Progress | 4,978,214 | 2,807,843 | (6,970,833) | 815,224 |
| | 8,427,234 | 2,807,843 | (6,970,833) | 4,264,244 |
| Capital Assets being Depreciated: | | | | |
| Water System | 77,368,467 | 2,597,430 | - | 79,965,897 |
| Sewer System | 96,136,998 | 6,671,316 | - | 102,808,314 |
| Office Building and Improvements | 14,881,325 | - | - | 14,881,325 |
| Equipment and Other | 3,232,216 | 125,008 | - | 3,357,224 |
| | 191,619,006 | 9,393,754 | - | 201,012,760 |
| Accumulated Depreciation: | | | | |
| Water System | (16,994,788) | (1,008,205) | - | (18,002,993) |
| Sewer System | (27,161,223) | (1,548,845) | - | (28,710,068) |
| Office Building and Improvements | (3,926,946) | (425,544) | - | (4,352,490) |
| Equipment and Other | (2,344,594) | (219,945) | - | (2,564,539) |
| | (50,427,551) | (3,202,539) | - | (53,630,090) |
| Net Capital Assets | $ 149,618,689 | $ 8,999,058 | $ (6,970,833) | $ 151,646,914 |

## NOTE 5 LONG-TERM DEBT PAYABLE FROM UNRESTRICTED ASSETS

Long-term debt outstanding, payable from unrestricted assets, consisted of the following Public Works Trust Fund loans secured by the revenue of the water and sewer systems issued for utility construction:

| | 2017 | 2016 |
|---|---|---|
| 1998 $101,144 loan, payable $5,324 annually through the year 2018, plus interest at 1.0 annual percentage rate. | $ 5,324 | $ 10,647 |
| 1999 $6,208,160 loan, payable $346,486 annually through the year 2019, plus interest at 1.0 annual percentage rate. | 692,972 | 1,039,458 |
| 2012 $1,859,000 loan, payable $97,842 annually through the year 2031, plus interest at .25 annual percentage rate. | 1,369,790 | 1,467,632 |
| 2013 loan: $7,810,000 authorized, $5,330,365 drawn to December 31, 2017. Based on draws to December 31, 2017, payable $302,567 annually through the year 2032, plus interest at .50 annual percentage rate. | 4,538,508 | 4,726,938 |
| | 6,606,594 | 7,244,675 |
| Less: Current Maturities | (752,219) | (745,085) |
| Total | $ 5,854,375 | $ 6,499,590 |

Long-term debt service requirements to maturity, payable by the District from unrestricted assets, are as follows (based on draws received through December 31, 2017):

| Year Ending December 31, | Principal | Interest | Total |
|---|---|---|---|
| 2018 | $ 752,219 | $ 33,051 | $ 785,270 |
| 2019 | 746,896 | 27,824 | 774,720 |
| 2020 | 400,409 | 22,602 | 423,011 |
| 2021 | 400,409 | 20,845 | 421,254 |
| 2022 | 400,409 | 19,087 | 419,496 |
| 2023-2027 | 2,002,047 | 69,075 | 2,071,122 |
| 2028-2032 | 1,904,205 | 25,139 | 1,929,344 |
| Total | $ 6,606,594 | $ 217,623 | $ 6,824,217 |

## NOTE 6 LONG-TERM DEBT PAYABLE FROM RESTRICTED ASSETS

Long-term debt outstanding, payable from restricted assets, consisted of the following:

| | 2017 | 2016 |
|---|---|---|
| Revenue Bonds: | | |
| $4,260,000 issued June 11, 2009 for refunding, due serially through the year 2018, with interest payable semi-annually at 4.00 annual percentage rate. | $ 520,000 | $ 1,020,000 |
| Less: Current Maturities | (520,000) | (500,000) |
| Unamortized Premiums (Discounts) | 2,881 | 8,794 |
| Total | $ 2,881 | $ 528,794 |

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

| Year Ending December 31, | Principal | Interest | Total |
|---|---|---|---|
| 2018 | $ 520,000 | $ 20,800 | $ 540,800 |

## NOTE 7 CHANGES IN LONG-TERM LIABILITIES

Changes in long-term liabilities were as follows:

| | Balance Beginning of Year | Additions | Reductions | Balance End of Year | Amounts Due Within One Year |
|---|---|---|---|---|---|
| 2017 | | | | | |
| Long-Term Debt Payable from Unrestricted Assets: | | | | | |
| 1998 Loan | $ 10,647 | $ - | $ (5,323) | $ 5,324 | $ 5,324 |
| 1999 Loan | 1,039,458 | - | (346,486) | 692,972 | 346,486 |
| 2012 Loan | 1,467,632 | - | (97,842) | 1,369,790 | 97,842 |
| 2013 Loan | 4,726,938 | 111,776 | (300,206) | 4,538,508 | 302,567 |
| | $ 7,244,675 | $ 111,776 | $ (749,857) | $ 6,606,594 | $ 752,219 |
| Long-Term Debt Payable from Restricted Assets: | | | | | |
| 2009 Revenue Bonds | $ 1,020,000 | $ - | $ (500,000) | $ 520,000 | $ 520,000 |
| Compensated Absences | $ 412,666 | $ 299,516 | $ (267,685) | $ 444,497 | $ 314,900 |
| Net Pension Liability | $ 2,171,919 | $ - | $ (450,604) | $ 1,721,315 | |

## NOTE 7 CHANGES IN LONG-TERM LIABILITIES (CONTINUED)

Changes in long-term liabilities were as follows:

| | Balance - Beginning of Year | Additions | Reductions | Balance - End of Year | Amounts Due Within One Year |
|---|---|---|---|---|---|
| 2016 | | | | | |
| Long-Term Debt Payable from Unrestricted Assets: | | | | | |
| 1998 Loan | $ 15,970 | $ - | $ (5,323) | $ 10,647 | $ 5,323 |
| 1999 Loan | 1,385,945 | - | (346,487) | 1,039,458 | 346,486 |
| 2012 Loan | 1,565,474 | - | (97,842) | 1,467,632 | 97,842 |
| 2013 Loan | 4,176,397 | 829,278 | (278,737) | 4,726,938 | 295,434 |
| | $ 7,143,786 | $ 829,278 | $ (728,389) | $ 7,244,675 | $ 745,085 |
| Long-Term Debt Payable from Restricted Assets: | | | | | |
| 2002 Revenue Bonds | $ 35,000 | $ - | $ (35,000) | $ - | $ - |
| 2009 Revenue Bonds | 1,495,000 | - | (475,000) | 1,020,000 | 500,000 |
| | $ 1,530,000 | $ - | $ (510,000) | $ 1,020,000 | $ 500,000 |
| Compensated Absences | $ 392,107 | $ 305,852 | $ (285,293) | $ 412,666 | $ 285,300 |
| Net Pension Liability | $ 1,708,344 | $ 463,575 | $ - | $ 2,171,919 | |

## NOTE 8 PENSION PLAN

The following table represents the aggregate pension amounts for all plans subject to the requirements of Governmental Accounting Standards Board Statement 68, *Accounting and Financial Reporting for Pensions* as of and for the years ended December 31, 2017 and 2016:

| Aggregate Pension Amounts - All Plans | 2017 | 2016 |
|---|---|---|
| Pension Liabilities | $ 1,721,315 | $ 2,171,919 |
| Deferred Outflows of Resources | 301,279 | 427,550 |
| Deferred Inflows of Resources | 277,655 | 37,664 |
| Pension Expense | 220,855 | 306,917 |

## NOTE 8 PENSION PLAN (CONTINUED)

**State Sponsored Pension Plans**

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

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

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

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

**Public Employees Retirement System (PERS)**

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

**PERS Plan 1** – provides retirement, disability, and death benefits. Retirement benefits are determined as 2% of the member's average final compensation (AFC) times the member's years of service. The AFC is the average of the member's 24 highest consecutive service months. Members are eligible for retirement from active status at any age with at least 30 years of service, at age 55 with at least 25 years of service, or at age 60 with at least five years of service. Members retiring from active status prior to the age of 65 may receive actuarially reduced benefits. Retirement benefits are actuarially reduced to reflect the choice of a survivor benefit. Other benefits include duty and nonduty disability payments, an optional cost-of-living adjustment (COLA), and a one-time duty-related death benefit, if found eligible by the Department of Labor and Industries. 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.

## NOTE 8 PENSION PLAN (CONTINUED)

### Public Employees Retirement System (PERS) (Continued)

**Contributions** – The PERS Plan 1 member contribution rate is established by state statute at 6%. The employer contribution rate is developed by the Office of the State Actuary and includes an administrative expense component that is currently set at 0.18%. Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates.

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

| PERS Plan 1 Actual Contribution Rates | Employer | Employee |
|---|---|---|
| 2017 | | |
| January through June | | |
| PERS Plan 1 | 6.23 % | 6.00 % |
| PERS Plan 1 UAAL | 4.77 | |
| Administrative Fee | 0.18 | |
| Total | 11.18 % | 6.00 % |
| July through December | | |
| PERS Plan 1 | 7.49 % | 6.00 % |
| PERS Plan 1 UAAL | 5.03 | |
| Administrative Fee | 0.18 | |
| Total | 12.70 % | 6.00 % |
| 2016 | | |
| January through December | | |
| PERS Plan 1 | 6.23 % | 6.00 % |
| PERS Plan 1 UAAL | 4.77 | |
| Administrative Fee | 0.18 | |
| Total | 11.18 % | 6.00 % |

The District's actual contributions to the plan were $138,249 and $114,404 for the years ended December 31, 2017 and 2016, respectively.

## NOTE 8 PENSION PLAN (CONTINUED)

**Public Employees Retirement System (PERS) (Continued)**

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

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

- With a benefit that is reduced by 3% for each year before age 65; or
- With a benefit that has a smaller (or no) reduction (depending on age) that imposes stricter return-to-work rules.

PERS Plan 2/3 members hired on or after May 1, 2013 have the option to retire early by accepting a reduction of 5% 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 nonduty disability payments, a cost-of-living allowance (based on the CPI), capped at 3% annually and a one-time duty related death benefit, if found eligible by the 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% and escalate to 15% with a choice of six options. Employers do not contribute to the defined contribution benefits. PERS Plan 3 members are immediately vested in the defined contribution portion of their plan.

**Contributions** – The PERS Plan 2/3 employer and employee contribution rates are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. The Plan 2/3 employer rates include a component to address the PERS Plan 1 unfunded actuarially accrued liability (UAAL) and an administrative expense that is currently set at 0.18%. Each biennium, the state Pension Funding Council adopts Plan 2 employer and employee contribution rates and Plan 3 contribution rates.

## NOTE 8 PENSION PLAN (CONTINUED)

### Public Employees Retirement System (PERS) (Continued)

The PERS Plan 2/3 required contribution rates (expressed as a percentage of covered payroll) were as follows:

| PERS Plan 2/3 Actual Contribution Rates | Employer 2/3 | Employee 2 | Employee 3 |
|---|---|---|---|
| 2017 | | | |
| January through June | | | |
| PERS Plan 1 | 6.23 % | 6.12 % | Varies |
| PERS Plan 1 UAAL | 4.77 | | |
| Administrative Fee | 0.18 | | |
| Total | 11.18 % | 6.12 % | Varies |
| July through December | | | |
| PERS Plan 1 | 7.49 % | 6.12 % | Varies |
| PERS Plan 1 UAAL | 5.03 | | |
| Administrative Fee | 0.18 | | |
| Total | 12.70 % | 6.12 % | Varies |
| 2016 | | | |
| January through December | | | |
| PERS Plan 1 | 6.23 % | 6.12 % | Varies |
| PERS Plan 1 UAAL | 4.77 | | |
| Administrative Fee | 0.18 | | |
| Total | 11.18 % | 6.12 % | Varies |

The District's actual contributions to the plan were $166,949 and $140,324 for the years ended December 31, 2017 and 2016, respectively.

### Actuarial Assumptions

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

## NOTE 8 PENSION PLAN (CONTINUED)

**Actuarial Assumptions (Continued)**

Additional 2017 assumptions for subsequent events and law changes are current as of the 2016 actuarial valuation report. Additional 2016 assumptions for subsequent events and law changes are current as of the 2015 actuarial valuation report. The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2017 and June 30, 2016. 2017 Plan liabilities were rolled forward from June 30, 2016, to June 30, 2017, and 2016 Plan liabilities were rolled forward from June 30, 2015, to June 30, 2016, reflecting each plan's normal cost (using the entry-age cost method), assumed interest, and actual benefit payments.

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

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

There were changes in methods and assumptions in 2017 since the 2016 valuation.

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

There were minor changes in methods and assumptions in 2016 since the 2015 valuation.

- The assumed valuation interest rate was lowered from 7.8% to 7.7%. Assumed administrative factors were updated.

## NOTE 8 PENSION PLAN (CONTINUED)

**Discount Rate**

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

To determine that rate, an asset sufficiency test included an assumed 7.7% long-term discount rate to determine funding liabilities for calculating future contribution rate requirements. Consistent with the long-term expected rate of return, a 7.5% future investment rate of return on invested assets was assumed for the test. Contributions from plan members and employers are assumed to continue being made at contractually required rates (including PERS 2/3 employers, whose rates include a component for the PERS 1 plan liabilities). Based on these assumptions, the pension plans' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return of 7.5% 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% was determined using a building-block-method. In selecting this assumption, the Office of the State Actuary (OSA) reviewed the historical experience date, considered the historical conditions that produced past annual investment returns, and considered capital market assumptions and simulated expected investment returns provided by the Washington State Investment Board (WSIB). The WSIB uses the capital market assumptions and their target asset allocation to simulate future investment returns at various future times.

## NOTE 8 PENSION PLAN (CONTINUED)

### 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, are summarized in the table below. The inflation component used to create the table is 2.2% and represents the WSIB's most recent long-term estimate of broad economic inflation.

As of June 30, 2017 and 2016:

| Asset Class | Target Allocation | Percent Long-Term Expected Real Rate of Return Arithmetic |
|---|---|---|
| 2017 | | |
| Fixed Income | 20 % | 1.70 % |
| Tangible Assets | 5 | 4.90 |
| Real Estate | 15 | 5.80 |
| Global Equity | 37 | 6.30 |
| Private Equity | 23 | 9.30 |
| Total | 100 % | |
| 2016 | | |
| Fixed Income | 20 % | 1.70 % |
| Tangible Assets | 5 | 4.40 |
| Real Estate | 15 | 5.80 |
| Global Equity | 37 | 6.60 |
| Private Equity | 23 | 9.60 |
| Total | 100 % | |

### Sensitivity of NPL

The table below presents the District's proportionate share of the net pension liability calculated using the discount rate of 7.5%, 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%) or 1-percentage point higher (8.5%) than the current rate.

| | 1% Decrease (6.5%) | Current Discount Rate (7.5%) | 1% Increase (8.5%) |
|---|---|---|---|
| 2017 | | | |
| PERS 1 | $ 1,105,133 | $ 907,192 | $ 735,732 |
| PERS 2/3 | 2,193,337 | 814,125 | (315,935) |
| 2016 | | | |
| PERS 1 | $ 1,243,267 | $ 1,030,986 | $ 848,307 |
| PERS 2/3 | 2,100,665 | 1,140,933 | (593,922) |

## NOTE 8 PENSION PLAN (CONTINUED)

### Pension Plan Fiduciary Net Position

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

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

At December 31, 2017 and 2016, the District reported a total pension liability (asset) for its proportionate share of the net pension liabilities as follows (measured as of June 30, 2017 and 2016):

| | Liability (Asset) | |
|---|---|---|
| | 2017 | 2016 |
| PERS 1 | $ 907,192 | $ 1,030,986 |
| PERS 2/3 | 814,125 | 1,140,933 |
| Total | $ 1,721,317 | $ 2,171,919 |

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

| | Proportionate Share 6/30/16 | Proportionate Share 6/30/17 | Change in Proportion |
|---|---|---|---|
| PERS 1 | 0.019197% | 0.019119% | -0.000078% |
| PERS 2/3 | 0.022660% | 0.023431% | 0.000771% |

| | Proportionate Share 6/30/15 | Proportionate Share 6/30/16 | Change in Proportion |
|---|---|---|---|
| PERS 1 | 0.018057% | 0.019197% | -0.001140% |
| PERS 2/3 | 0.021377% | 0.022660% | -0.001283% |

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

The 2017 and 2016 collective net pension liability (asset) was measured as of June 30, 2017 and 2016, respectively, and the actuarial valuation date on which the total pension liability (asset) is based was as of June 30, 2016 and 2015, respectively, with update procedures used to roll forward the total pension liability to the measurement date.

## NOTE 8 PENSION PLAN (CONTINUED)

### Pension Expense

For the years ended December 31, 2017 and 2016, the District recognized pension expense as follows:

| | 2017 | 2016 |
|---|---|---|
| PERS 1 | $ 72,898 | $ 117,677 |
| PERS 2/3 | 143,679 | 185,140 |
| Expenses and Other | 4,278 | 4,100 |
| Total | $ 220,855 | $ 306,917 |

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

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

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|---|
| 2017 | | |
| PERS 1 | | |
| Differences Between Expected and Actual Experience | $ - | $ - |
| Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments | - | 33,854 |
| Changes of Assumptions | - | - |
| Changes in Proportion and Differences Between Contributions and Proportionate Share of Contributions | - | - |
| Contributions Subsequent to the Measurement Date | 59,657 | - |
| Total | $ 59,657 | $ 33,854 |
| PERS 2/3 | | |
| Differences Between Expected and Actual Experience | $ 82,490 | $ 26,775 |
| Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments | - | 217,026 |
| Changes of Assumptions | 8,648 | - |
| Changes in Proportion and Differences Between Contributions and Proportionate Share of Contributions | 61,888 | - |
| Contributions Subsequent to the Measurement Date | 88,596 | - |
| Total | $ 241,622 | $ 243,801 |
| Total all Plans | $ 301,279 | $ 277,655 |

## NOTE 8 PENSION PLAN (CONTINUED)

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

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|---|
| 2016 | | |
| PERS 1 | | |
| Differences Between Expected and Actual Experience | $ - | $ - |
| Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments | 25,959 | - |
| Changes of Assumptions | - | - |
| Changes in Proportion and Differences Between Contributions and Proportionate Share of Contributions | - | - |
| Contributions Subsequent to the Measurement Date | 58,289 | - |
| Total | $ 84,248 | $ - |
| PERS 2/3 | | |
| Differences Between Expected and Actual Experience | $ 60,754 | $ 37,664 |
| Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments | 139,617 | - |
| Changes of Assumptions | 11,792 | - |
| Changes in Proportion and Differences Between Contributions and Proportionate Share of Contributions | 62,098 | - |
| Contributions Subsequent to the Measurement Date | 69,041 | - |
| Total | $ 343,302 | $ 37,664 |
| Total all Plans | $ 427,550 | $ 37,664 |

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

| Year Ending December 31, | PERS 1 | PERS 2/3 |
|---|---|---|
| 2018 | $ (22,883) | $ (62,231) |
| 2019 | 7,225 | 40,382 |
| 2020 | (1,677) | (12,190) |
| 2021 | (16,519) | (83,142) |
| 2022 | - | 11,481 |
| Thereafter | - | 14,925 |
| Total | $ (33,854) | $ (90,775) |

## NOTE 9 OTHER POSTEMPLOYMENT BENEFITS

Effective December 1, 2017, the District provides to its retirees employer subsidies for post-employment medical insurance benefits (OPEB) provided through the Public Employees Benefits Board (PEBB).

A liability for the accumulated unfunded actuarial required contribution has not been reported in the Statement of Net Position as of December 31, 2017 as it is not material. The actual medical costs are paid through annual fees and premiums to the PEBB.

**Plan Description**

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

Legally, the District does not have a contractual obligation or a policy to maintain and provide its employees with continued medical insurance coverage after termination or retirement. The OPEB relationship between PEBB employers and their employees and retirees is not formalized in a contract or plan document. Rather, the benefits are provided in accordance with a substantive plan. A substantive plan is one in which the plan terms are understood by the employers and plan members. This understanding is based on communications between the employers and plan members and the historical pattern of practice with regard to the sharing of benefit costs.

The Office of the State Actuary, a department within the primary government of the State of Washington, issues a publicly available Other Post-Employment Benefits Actuarial Valuation Report. The Other Post-Employment Benefits Actuarial Valuation Report may be obtained by writing to: Office of the State Actuary, PO Box 40914, Olympia, Washington 98504 or it may be downloaded from the Office of the State Actuary website at http://osa.leg.wa.gov.

The Public Employees Benefits Board (PEBB) plan offers a subsidized retirement coverage to its plan participants and the District can terminate medical insurance with no future obligation or liability to PEBB or its retirees.

The subsidies provided by PEBB to the District include the following:

- Explicit Medical Subsidy for Post 65 retirees
- Implicit Medical Subsidy for Pre 65 retirees

The explicit subsidies are monthly amounts per retiree. The implicit medical subsidy is the difference between the total cost of pre 65 medical benefits and the pre 65 contributions paid by retirees. Explicit subsidies are capped at $150 per month.

## NOTE 9 OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

### Funding Policy

The funding policy is based upon pay-as-you-go financing requirements.

### Annual OPEB Cost and Net OPEB Obligation

The District's annual OPEB cost is calculated based upon the Annual Required Contribution (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities over a period of 25 years. The following table shows the components of the District's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the District's net OPEB. The net OPEB obligation of $9,446 is not included as a noncurrent liability in the Statement of Net Position as it is not material.

| Determination of Annual Required Contribution | 2017 |
|---|---|
| Normal Cost at Year End | $ 5,613 |
| Amortization of Unfunded Actuarial Accrued Liability | 4,032 |
| Annual Required Contribution | $ 9,644 |

| Determination of Annual OPEB Cost | 2017 |
|---|---|
| Annual Required Contribution | $ 9,644 |
| Net OPEB Obligation Interest | - |
| Net OPEB Obligation Amortization | - |
| Annual OPEB Cost | $ 9,644 |

| Determination of Net OPEB Obligation | 2017 |
|---|---|
| Starting Net OPEB Obligation | $ - |
| Annual OPEB Cost | 9,644 |
| Contributions | (198) |
| Net OPEB Obligation | $ 9,446 |

The District's OPEB cost, the percentage of OPEB cost contributed to the plan, and the net OPEB obligation for 2017, which has not been recorded in the accompanying financial statements as it is not material, are as follows:

| Year Ended | Annual OPEB Cost | Contributions as a Percentage of OPEB Cost | Net OPEB Obligation |
|---|---|---|---|
| 2017 | $ 9,644 | 2.05% | $ 9,446 |

## NOTE 9 OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

**Funded Status and Funding Progress**

As of June 30, 2017, the most recent actuarial valuation date, the plan was 0% funded. As of December 31, 2017, the accrued liability for benefits was $836,596, and the actuarial value of assets was $0, resulting in an Unfunded Actuarial Accrued Liability (UAAL) of $836,596.

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the health care cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

**Actuarial Methods and Assumptions**

The District used the alternative measurement method permitted under GASB Statement No. 45. Data (e.g., age range, years of service, active age average, etc.) is compiled into the Office of State Actuary GASB No. 45 reporting tool for all active and inactive members to determine the Actuarial Accrued Liability (AAL) and normal cost.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation. The actuarial methods and assumptions used included techniques that are designed to reduce the effects of short term volatility in actuarial accrued liabilities, consistent with the long term perspective of the calculations.

All demographic assumptions, healthcare assumptions, and methods used match those disclosed in the 2017 OPEB Actuarial Valuation Report published by the Office of the State Actuary. Specifically, the Projected Unit Credit actuarial cost method was used. The actuarial assumption s include a 3.75% discount rate, which is based upon the long term investment yield on the investments that are expected to be used to finance the payment of benefits. The healthcare cost inflation trends, which vary by medical plan and age, start at approximately 7% in 2017 and gradually to 5% in 2102 and beyond. The inflation rate assumption sued in the calculation is 3%. The date used for this valuation was identified by department number from the date disclosed in the 2017 OPEB Actuarial Valuation Report. Please see http://leg.wa.gov/osa/Pages/default.aspx for more detail.

## NOTE 10 DEFERRED COMPENSATION

The District offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. This plan is with the state of Washington. The Plan, available to all employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. The District made no contributions to the plan in 2017 or 2016.

## NOTE 11 COMMITMENTS

The District is obligated to the City of Everett to pay for a portion of certain city projects. The District does not record a liability and related asset for city project billings until billing has been received. As of December 31, 2017, the District's share of the projects is estimated to be as follows:

| Year Ending December 31, | Amount |
|---|---|
| 2018 | $ 985,600 |
| 2019 | 704,000 |
| 2020 | 579,200 |
| 2021 | 1,120,000 |
| 2022 | 3,104,000 |
| 2023-2027 | 22,680,000 |
| Total | $ 29,172,800 |

## NOTE 12 RISK MANAGEMENT

The District is a member of the Washington Cities Insurance Authority (WCIA).

Utilizing Chapter 48.62 RCW (self-insurance regulation) and Chapter 39.34 RCW (Interlocal Cooperation Act), nine cities originally formed WCIA on January 1, 1981. WCIA was created for the purpose of providing a pooling mechanism for jointly purchasing insurance, jointly self-insuring, and/or jointly contracting for risk management services. WCIA has a total of 161 Members.

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

Liability coverage is written on an occurrence basis, without deductibles. Coverage includes general, automobile, police, errors or omissions, stop gap, employment practices and employee benefits liability. Limits are $4 million per occurrence in the self-insured layer, and $21 million in limits above the self-insured layer is provided by reinsurance. Total limits are $25 million per occurrence subject to aggregates and sublimits. The board of directors determines the limits and terms of coverage annually.

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

## NOTE 12 RISK MANAGEMENT (CONTINUED)

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

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

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

A board of directors governs WCIA, which is comprised of one designated representative from each member. The board elects an Executive Committee and appoints a Treasurer to provide general policy direction for the organization. The WCIA Executive Director reports to the Executive Committee and is responsible for conducting the day to day operations of WCIA.

In the past three years (2017, 2016, and 2015), there have been no claim settlements, per occurrence or in aggregate, that have exceeded the coverage provided by excess/ reinsurance contracts.

## NOTE 13 MAJOR SUPPLIERS

All sewage collected by the District is treated by the City of Everett and the Department of Natural Resources / King County, Washington.

Water purchased by the District is supplied by the City of Everett, the Clearview Water Supply Agency and Alderwood Water and Wastewater District. In 2004, the District negotiated a 50 year supply contract for water with the Clearview Water Supply Agency.

## NOTE 14 CLEARVIEW WATER SUPPLY AGENCY JOINT VENTURE

During 2004, the District negotiated a 50 year supply contract for water with the Clearview Water Supply Agency (CWSA). CWSA is a municipal corporation formed by Alderwood Water and Sewer District, Silver Lake Water and Sewer District and Cross Valley Water District. A three member board with each member district providing a representative governs CWSA. The purposes of CWSA is to provide water to the members and maintain and operate certain facilities. CWSA currently has no plant and equipment; the member districts jointly own the facilities. Alderwood Water and Sewer District has been contracted to maintain and operate the facilities as well as provide administrative support for CWSA.

## NOTE 14 CLEARVIEW WATER SUPPLY AGENCY JOINT VENTURE (CONTINUED)

CWSA purchases all of its water from Alderwood Water and Sewer District at the District's cost, which includes the wholesale cost of water from the City of Everett and the associated pumping costs. The members are responsible for all expenses based on metered water use and an agreed upon expense allocation formula. In order to ensure that revenues are sufficient to meet the expenses, monthly charges to the three members are equal to the monthly expenses. Annual financial statements are available by contacting the Clearview Water Supply Agency at 3626 – 156th St. SW, Lynnwood, WA 98087 or by calling (425) 743-4605.

District transactions with CWSA consisted of water purchase and reimbursement of construction costs expended by CWSA. Water purchases were $1,268,665 and $1,291,730 and reimbursable construction costs were $45 and $5,398 for the years ended December 31, 2017 and 2016, respectively. As of December 31, 2017 and 2016 accounts payable included $168,232 and $133,495, respectively, due to CWSA.

## NOTE 15 LEASES

The District leases space for cell towers on certain reservoirs under noncancelable provisions of operating leases. Future rental income due to the District under the noncancelable portion of the leases is as follows:

| Year Ending December 31, | Amount |
|---|---|
| 2018 | $ 111,161 |
| 2019 | 96,215 |
| 2020 | 100,776 |
| 2021 | 81,869 |
| 2022 | 23,216 |
| Total | $ 413,237 |

**SILVER LAKE WATER AND SEWER DISTRICT**
**SCHEDULE OF CHANGES IN TOTAL OPEB LIABILITY AND RELATED RATIOS**
**YEARS ENDED JUNE 30 (MEASUREMENT DATE)**
**LAST 10 FISCAL YEARS***

| | 2018 |
|---|---|
| **Total OPEB Liability - Beginning** | $ 1,001,598 |
| Service Cost | 70,464 |
| Interest | 38,315 |
| Changes in Benefit Terms | (66,274) |
| Changes in Experience and Data Assumptions | - |
| Benefit Payments | (3,644) |
| Other Changes | - |
| **Total OPEB Liability - Ending** | $ 1,040,459 |
| | |
| **Covered Payroll** | $ 2,469,473 |
| | |
| **Total OPEB Liability as a % of Covered Payroll** | 42.13% |

**Notes to Schedule:**
No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB 75.

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

## SILVER LAKE WATER AND SEWER DISTRICT
## OTHER POSTEMPLOYMENT BENEFITS
## SCHEDULE OF FUNDING PROGRESS
## LAST 10 FISCAL YEARS*

| Actuarial Valuation Date | Year Ended | Actuarial Value of Assets | Actuarial Accrued Liabilities | Unfunded Actuarial Accrued Liabilities (UAAL) | Funding Ratio | Covered Payroll | UAAL as Percentage of Covered Payroll |
|---|---|---|---|---|---|---|---|
| 6/30/2017 | 12/31/2017 | $ - | $ 836,596 | $ 836,596 | 0.00% | $ 200,244 | 417.79% |

# SILVER LAKE WATER AND SEWER DISTRICT
# SCHEDULES OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
# YEARS ENDED JUNE 30 (MEASUREMENT DATE)
# LAST 10 FISCAL YEARS*

## PERS 1

| Year | Employer's Proportion of the Net Pension Liability (Asset) | Employer's Proportionate Share of the Net Pension Liability (Asset) | Employer's Covered Payroll | Net Pension Liability (Asset) as a Percentage of Covered Payroll | Plan Fiduciary Net Position as a Percentage of the Total Pension Liability |
|---|---|---|---|---|---|
| 2018 | 0.018634% | $ 832,194 | $ 2,477,600 | 33.59% | 63.22% |
| 2017 | 0.019119% | 907,191 | 2,346,535 | 38.66% | 61.24% |
| 2016 | 0.019197% | 1,030,986 | 2,183,206 | 47.22% | 57.03% |
| 2015 | 0.018057% | 944,542 | 1,973,556 | 47.86% | 59.10% |
| 2014 | 0.018145% | 914,085 | 1,766,750 | 51.74% | 61.19% |
| 2013 | 0.016958% | 990,906 | 1,607,293 | 61.65% | |

**Notes to Schedule:**

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

## PERS 2/3

| Year | Employer's Proportion of the Net Pension Liability (Asset) | Employer's Proportionate Share of the Net Pension Liability (Asset) | Employer's Covered Payroll | Net Pension Liability (Asset) as a Percentage of Covered Payroll | Plan Fiduciary Net Position as a Percentage of the Total Pension Liability |
|---|---|---|---|---|---|
| 2018 | 0.024006% | $ 409,879 | $ 2,477,600 | 16.54% | 95.77% |
| 2017 | 0.023431% | 814,124 | 2,297,204 | 35.44% | 90.97% |
| 2016 | 0.022660% | 1,140,933 | 2,104,205 | 54.22% | 85.82% |
| 2015 | 0.021377% | 763,802 | 1,896,648 | 40.27% | 89.20% |
| 2014 | 0.021249% | 429,524 | 1,691,204 | 25.40% | 93.29% |
| 2013 | 0.019936% | 851,252 | 1,533,832 | 55.50% | |

**Notes to Schedule:**

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

# SILVER LAKE WATER AND SEWER DISTRICT
# SCHEDULES OF EMPLOYER CONTRIBUTIONS
# DECEMBER 31 (EMPLOYER REPORTING DATE)
# LAST 10 FISCAL YEARS*

**PERS 1**

| Year | Statutorily Required Contribution | Contributions in Relation to the Statutorily Required Contribution | Contribution Deficiency (Excess) | Employer's Covered Payroll | Contributions as a Percent of Covered Payroll |
|---|---|---|---|---|---|
| 2018 | $ 132,137 | $ (132,137) | $ - | $ 2,610,095 | 5.06% |
| 2017 | 138,249 | (138,249) | - | 2,376,391 | 5.82% |
| 2016 | 114,244 | (114,244) | - | 2,278,428 | 5.01% |
| 2015 | 96,339 | (96,339) | - | 2,098,914 | 4.59% |
| 2014 | 77,826 | (77,826) | - | 1,834,833 | 4.24% |
| 2013 | 59,441 | (59,441) | - | 1,744,386 | 3.41% |

**Notes to Schedule:**

1. Plan 1 contributions in 2017 include $21,878 for excess compensation.

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

**PERS 2/3**

| Year | Statutorily Required Contribution | Contributions in Relation to the Statutorily Required Contribution | Contribution Deficiency (Excess) | Employer's Covered Payroll | Contributions as a Percent of Covered Payroll |
|---|---|---|---|---|---|
| 2018 | $ 195,751 | $ (195,751) | $ - | $ 2,610,095 | 7.50% |
| 2017 | 162,671 | (162,671) | - | 2,376,391 | 6.85% |
| 2016 | 136,384 | (136,384) | - | 2,189,149 | 6.23% |
| 2015 | 113,652 | (113,652) | - | 2,020,837 | 5.62% |
| 2014 | 87,859 | (87,859) | - | 1,759,065 | 4.99% |
| 2013 | 80,741 | (80,741) | - | 1,669,683 | 4.84% |

**Notes to Schedule:**

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

# ABOUT THE STATE AUDITOR'S OFFICE

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

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

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

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

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

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

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

| Contact information for the State Auditor's Office | |
|---|---|
| **Public Records requests** | PublicRecords@sao.wa.gov |
| **Main telephone** | (564) 999-0950 |
| **Toll-free Citizen Hotline** | (866) 902-3900 |
| **Website** | www.sao.wa.gov |