



Office of the Washington State Auditor
Pat McCarthy

Financial Statements Audit Report
King County Water District No. 20

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

Published April 2, 2020

Report No. 1026005





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

April 2, 2020

Board of Commissioners
King County Water District No. 20
Burien, Washington

Report on Financial Statements

Please find attached our report on King County Water District No. 20's financial statements.

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

Sincerely,

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

Pat McCarthy
State Auditor
Olympia, WA

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

**King County Water District No. 20
January 1, 2017 through December 31, 2018**

Board of Commissioners
King County Water District No. 20
Burien, 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 King County Water District No. 20, as of and for the years ended December 31, 2018 and 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated March 26, 2020.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

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

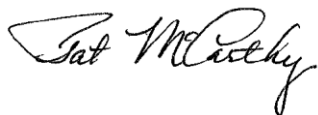
COMPLIANCE AND OTHER MATTERS

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

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

PURPOSE OF THIS REPORT

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



Pat McCarthy

State Auditor

Olympia, WA

March 26, 2020

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

King County Water District No. 20 January 1, 2017 through December 31, 2018

Board of Commissioners
King County Water District No. 20
Burien, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of King County Water District No. 20, as of and for the years ended December 31, 2018 and 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed on page 9.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of King County Water District No. 20, as of December 31, 2018 and 2017, and the changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated March 26, 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 26, 2020

FINANCIAL SECTION

King County Water District No. 20 January 1, 2017 through December 31, 2018

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2018 and 2017

BASIC FINANCIAL STATEMENTS

Statement of Net Position – 2018 and 2017

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

Statement of Cash Flows – 2018 and 2017

Notes to Financial Statements – 2018 and 2017

REQUIRED SUPPLEMENTARY INFORMATION

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

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

WATER DISTRICT NO. 20, KING COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2018

As management of Water District No. 20, King County ("the District"), we offer readers of the basic financial statements this narrative overview and analysis of the District's financial activities for the fiscal year ended December 31, 2018. We encourage readers to consider the information presented here in conjunction with the financial statements and notes to the financial statements, which immediately follow this discussion.

FINANCIAL STATEMENT OVERVIEW

The District's financial statements include two components: 1) the District's basic financial statements, and 2) the notes to the financial statements. This discussion and analysis are intended to serve as an introduction to the District's basic financial statements.

Condensed Financial Position Information

The statements of net position present information concerning the District's assets, liabilities, and net position. Net position is the difference between assets and liabilities. Increases or decreases in net position may indicate, over time, if the financial position of the District is either improving or deteriorating.

The following condensed financial information provides an overview of the District's financial position as of December 31, 2018, 2017, and 2016.

COMPARATIVE STATEMENTS OF NET POSITION

December 31, 2018, 2017, and 2016

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	2018	2017	2016
Current assets	\$ 8,471,815	\$ 8,445,516	\$ 7,719,544
Capital assets, net	20,131,462	19,135,896	18,909,902
Total assets	28,603,277	27,581,412	26,629,446
Deferred outflows of resources	100,868	124,706	162,465
Total assets and deferred outflows of resources	\$ 28,704,145	\$ 27,706,118	\$ 26,791,911
LIABILITIES AND DEFERRED INFLOWS OF RESOURCES			
Current liabilities	\$ 404,020	\$ 373,206	\$ 382,874
Long-term liabilities, less current portion	821,525	1,226,579	1,440,896
Total liabilities	1,225,545	1,599,785	1,823,770
Deferred inflows of resources	205,559	121,210	16,322
Total liabilities and deferred inflows of resources	1,431,104	1,720,995	1,840,092
NET POSITION			
Net investment in capital assets	19,870,533	18,809,735	18,518,509
Unrestricted	7,402,508	7,175,388	6,433,310
Total net position	\$ 27,273,041	\$ 25,985,123	\$ 24,951,819

Total assets increased \$1.0 million (or 3.6%) during 2018, due mainly to an increase in capital assets (\$1.0 million). Of the \$28.7 million in total assets, \$7.4 million (or 26%) is in cash and cash equivalents. This is comparable to December 31, 2017, when cash and cash equivalents were 27% of total assets. Net capital assets are equivalent to 70% and 69% of total assets at December 31, 2018 and 2017, respectively.

At December 31, 2018, the District had outstanding liabilities of \$1.2 million. This is a decrease of \$0.4 million compared to the \$1.6 million in total liabilities at December 31, 2017. The decrease is primarily due to the decrease in long-term liabilities related to a decrease in compensated absences as the District's long-time manager retired in 2018.

The assets and deferred outflows of resources of the District exceeded its liabilities and deferred inflows of resources at December 31, 2018, by \$27.3 million (*net position*). Total net position increased by \$1.3 million (or 4.9%) from the previous year. The District's investment in capital assets (land, utility plant, machinery and equipment, and construction in progress) less any related debt is 73% and 72% of total net position at December 31, 2018 and 2017, respectively.

At December 31, 2018 and 2017, the District reported unrestricted net position of \$7.4 million and \$7.2 million, respectively. Unrestricted net position represents 27% and 28% of the District's total net position at December 31, 2018 and 2017, respectively, and is not subject to external restrictions.

Summary of Operations and Changes in Net Position

The comparative statement of revenues, expenses, and changes in fund net position shows how the District's net position changed during the most recent fiscal year compared to the prior year. These changes are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, some revenues and expenses reported in this statement will only affect future period cash flows (e.g., uncollected receivables).

The following table summarizes the operations for fiscal years 2018, 2017, and 2016.

COMPARATIVE STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
For the Years Ended December 31, 2018, 2017, and 2016

	2018	2017	2016
Operating Revenue			
Water sales	\$ 6,361,159	\$ 5,940,877	\$ 5,731,028
Other operating revenue	154,124	134,442	180,959
Total operating revenue	6,515,283	6,075,319	5,911,987
Operating Expenses			
Purchased water	2,337,063	2,223,050	2,182,207
Administrative and general	1,285,413	1,175,400	1,114,395
Distribution and maintenance	652,200	699,647	683,121
Depreciation	783,668	758,309	735,684
Taxes other than income taxes	427,099	381,737	354,868
Other	489,042	466,287	397,325
Total operating expenses	5,974,485	5,704,430	5,467,600
Net operating income	540,798	370,889	444,387
Nonoperating Revenue (Expenses)			
Interest income	129,032	80,752	54,880
Gain on disposal of capital assets		3,000	15,691
Interest expense	(1,631)	(1,793)	(2,576)
Income before contributions	668,199	452,848	512,382
Contributions in Aid of Construction	619,719	580,456	271,515
Change in net position	1,287,918	1,033,304	783,897
Net Position, beginning of year	25,985,123	24,951,819	24,167,922
Net Position, end of year	\$ 27,273,041	\$ 25,985,123	\$ 24,951,819

Total 2018 operating revenues for the District were \$6.5 million, which increased from 2017 operating revenue of \$6.1 million. The increase in operating revenue was primarily due to the District increasing its rates during 2018. Operating expenses for the District increased \$0.3 million (or 4.7%) from 2017 operating expenses. The increase in operating expenses was due to an increase in purchased water and payroll and benefits expenses in 2018. Nonoperating revenue and expenses, and contributions in aid of construction were comparable in 2018 and 2017.

Notes to the Basic Financial Statements

The notes to the District's basic financial statements can be found on pages 11 through 25 of this report. These notes provide additional information that is essential to a full understanding of the basic financial statements.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The District's investment in capital assets as of December 31, 2018, amounted to \$20.1 million (net of accumulated depreciation of \$16.6 million). The District's investment in capital assets includes land, utility plant, machinery and equipment, and other assets. Investment in capital assets increased by \$1.0 million in 2018 compared to 2017 primarily due to additions of \$0.4 million in construction in progress and \$1.4 million in utility plant and machinery and equipment, primarily offset by a \$0.8 million increase in accumulated depreciation.

TOTAL CAPITAL ASSETS December 31, 2018 and 2017

	2018	2017	Change
Land	\$ 149,417	\$ 149,417	\$ -
Other	37,769	37,769	
Construction in progress	1,136,194	723,868	412,326
Capital assets not being depreciated	1,323,380	911,054	412,326
Utility plant and machinery and equipment	35,407,762	34,042,332	1,365,430
Accumulated depreciation	(16,599,680)	(15,817,490)	(782,190)
Capital assets being depreciated	18,808,082	18,224,842	583,240
Total capital assets	\$ 20,131,462	\$ 19,135,896	\$ 995,566

TOTAL CAPITAL ASSETS December 31, 2017 and 2016

	2017	2016	Change
Land	\$ 149,417	\$ 149,417	\$ -
Other	37,769	34,282	3,487
Construction in progress	723,868	1,119,919	(396,051)
Capital assets not being depreciated	911,054	1,303,618	(392,564)
Utility plant and machinery and equipment	34,042,332	32,977,042	1,065,290
Accumulated depreciation	(15,817,490)	(15,370,758)	(446,732)
Capital assets being depreciated	18,224,842	17,606,284	618,558
Total capital assets	\$ 19,135,896	\$ 18,909,902	\$ 225,994

Long-Term Debt

At December 31, 2018, the District had total Public Works Trust Fund Loans outstanding of \$0.3 million. Additionally, \$0.1 million is payable in long-term compensated absences. The total long-term debt of the District decreased by \$0.2 million in 2018 due to payments on existing loans and to payments on compensated absences.

Additional information on the District's capital assets and long-term debt can be found in Notes 4 and 5 in the notes to the comparative financial statements.

ECONOMIC OUTLOOK

The District currently has no scheduled projects that could impact its financial condition.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the District's finances for all those with an interest in its finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the General Manager, Water District No. 20, King County, 12606 First Avenue S, Seattle, WA 98168.

WATER DISTRICT NO. 20, KING COUNTY

COMPARATIVE STATEMENTS OF NET POSITION

December 31, 2018 and 2017

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	2018	2017
Current Assets		
Cash and cash equivalents	\$ 7,354,457	\$ 7,481,361
Accounts receivable	928,366	835,407
Materials and supplies	71,080	61,714
Prepayments and advances	58,357	18,276
Other current assets	59,555	48,758
Total current assets	8,471,815	8,445,516
Capital Assets not being Depreciated	1,323,380	911,054
Capital Assets being Depreciated	18,808,082	18,224,842
Total assets	28,603,277	27,581,412
DEFERRED OUTFLOWS OF RESOURCES		
Deferred Outflows Related to Pensions	100,868	124,706
Total assets and deferred outflows of resources	\$ 28,704,145	\$ 27,706,118
LIABILITIES AND DEFERRED INFLOWS OF RESOURCES		
Current Liabilities		
Accounts payable, Maintenance Fund	\$ 318,741	\$ 283,212
Accounts payable, Construction Fund	19,979	20,848
Current portion of long-term liabilities	65,300	65,300
Other current liabilities		3,846
Total current liabilities	404,020	373,206
Net Pension Liability	522,525	737,017
Long-Term Liabilities, less current portion	299,000	489,562
Total liabilities	1,225,545	1,599,785
DEFERRED INFLOWS OF RESOURCES		
Deferred Inflows Related to Pensions	205,559	121,210
Total liabilities and deferred inflows of resources	1,431,104	1,720,995
NET POSITION		
Net Investment in Capital Assets	19,870,533	18,809,735
Unrestricted	7,402,508	7,175,388
Total net position	\$ 27,273,041	\$ 25,985,123

See Notes to Comparative Financial Statements

WATER DISTRICT NO. 20, KING COUNTY

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

For the Years Ended December 31, 2018 and 2017

	2018	2017
Operating Revenue		
Water sales		
Water districts	\$ 159,709	\$ 163,942
Other customers	6,201,450	5,776,935
Penalties, fines, and miscellaneous	154,124	134,442
Total operating revenue	6,515,283	6,075,319
Operating Expenses		
Purchased water	2,337,063	2,223,050
Administrative and general	1,285,413	1,175,400
Distribution and maintenance	652,200	699,647
Depreciation	783,668	758,309
Taxes other than income taxes	427,099	381,737
Meter reading and collection	103,548	95,679
Purchased electricity (net of refund)	385,494	370,608
Total operating expenses	5,974,485	5,704,430
Net operating income	540,798	370,889
Nonoperating Revenue (Expenses)		
Interest income	129,032	80,752
Gain on disposal of capital assets		3,000
Interest expense	(1,631)	(1,793)
Income before contributions	668,199	452,848
Contributions in Aid of Construction		
Facilities charges	63,680	63,680
Meter installation	47,200	46,200
Developer extensions	508,839	470,576
Total contributions in aid of construction	619,719	580,456
Change in net position	\$ 1,287,918	\$ 1,033,304
Net Position, beginning of year	\$ 25,985,123	\$ 24,951,819
Net Position, end of year	\$ 27,273,041	\$ 25,985,123

See Notes to Comparative Financial Statements

WATER DISTRICT NO. 20, KING COUNTY

COMPARATIVE STATEMENTS OF CASH FLOWS

For the Years Ended December 31, 2018 and 2017

	2018	2017
Cash Flows from Operating Activities		
Cash received from customers	\$ 6,422,324	\$ 6,008,815
Cash paid to suppliers	(4,137,978)	(3,903,269)
Cash paid to employees	(1,280,396)	(1,157,559)
Net cash flows from operating activities	1,003,950	947,987
Cash Flows from Capital and Related Financing Activities		
Cash received in aid of construction - water meter installations and facilities charges	206,400	580,456
Acquisition and construction of capital assets	(1,399,423)	(867,431)
Payment on loans payable	(65,232)	(65,232)
Interest paid on loans payable	(1,631)	(1,793)
Net cash flows from capital and related financing activities	(1,259,886)	(354,000)
Cash Flows from Investing Activity		
Interest received on investments	129,032	80,752
Net change in cash and cash equivalents	(126,904)	674,739
Cash and Cash Equivalents, beginning of year	7,481,361	6,806,622
Cash and Cash Equivalents, end of year	<u>\$ 7,354,457</u>	<u>\$ 7,481,361</u>
Cash Flows from Operating Activities		
Net operating income	\$ 540,798	\$ 370,889
Adjustments to reconcile net operating income to net cash flows from operating activities		
Depreciation	783,668	758,309
Changes in operating assets and liabilities		
Receivables	(92,959)	(40,944)
Materials and supplies	(9,366)	272
Prepayments, advances, and other	(50,878)	(10,561)
Deferred outflows	23,838	37,759
Deferred inflows	84,349	104,888
Net pension liability	(214,492)	(168,467)
Accounts payable, accrued compensated absences, and other liabilities	(61,008)	(104,158)
Net cash flows from operating activities	<u>\$ 1,003,950</u>	<u>\$ 947,987</u>

See Notes to Comparative Financial Statements

NOTES TO COMPARATIVE FINANCIAL STATEMENTS

Note 1. Organization and Summary of Significant Accounting Policies

Organization

Water District No. 20, King County ("the District") provides water service to residents and commercial users in its service area, which includes portions of Burien, SeaTac, Tukwila, and unincorporated King County, Washington. The District also operates a reservoir that is shared with two other districts. Water sold by the District is purchased from the City of Seattle. As a governmental entity, the District is not subject to federal income tax.

Reporting Entity

The District is a municipal corporation governed by an elected three-member board. As required by accounting principles generally accepted in the United States, management has considered all potential component units in defining the reporting entity. The District has no component units.

Basis of Accounting and Presentation

The accounting records of the District are maintained in accordance with methods prescribed by the Washington State Auditor under the authority of Chapter 43.09 of the Revised Code of Washington ("RCW"). The District uses the Uniform System of Accounts for Class A & B Water and Sewer Utilities as prescribed by the National Association of Regulatory Utility Commissioners, which does not differ materially from accounting principles generally accepted in the United States. The District uses the accrual basis of accounting where revenues are recognized when earned and expenses are recognized when incurred.

The District distinguishes operating revenues and expenses from nonoperating activities. Operating revenues and expenses generally result from providing water services. The District's principal operating revenues are charges to customers for water. Operating expenses for the District include the cost of water purchased, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Accounts Receivable

Accounts receivable are due from water customers and are reported at their principal amounts less any allowance for accounts that may be uncollectible. Management reviews receivable balances regularly to determine if an allowance is necessary. No allowance was considered necessary at December 31, 2018 or 2017. If an account receivable were written off, it would be written off against the allowance. Accounts receivable are considered past due when payments are not made within 30 days after billing.

Capital Assets

Capital assets are defined by the District as assets with initial individual cost of more than \$1,000 and an estimated useful life in excess of three years.

Utility plant in service and other fixed assets are recorded at cost. Donations of capital assets by developers and customers ("donated – contributions in aid of construction") are recorded at the donor's cost.

Depreciation is computed using the straight-line method. Transmission and distribution mains, the reservoir, and hydrants are depreciated at 2% per year, and service and meter installations at 3 $\frac{1}{3}$ % per year. All other assets are depreciated over the estimated useful life of the respective asset. City meters and land are not depreciated.

Materials and Supplies

Materials and supplies are stated at the lower of cost (using the specific identification method) or market.

Compensated Absences

Compensated absences are absences for which employees will be paid, such as vacation and sick leave. The District records unpaid leave for compensated absences as an expense and liability when earned. Vacation pay may be accumulated to a maximum of 20 to 50 days depending on the length of service. Sick leave vests over the period of employment (100% vesting after 20 years) and may accumulate to a maximum of 120 days. Unused vacation and vested sick leave is payable upon resignation, retirement, or death.

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, 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.

Use of Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

Note 2. Statements of Cash Flows

Cash and cash equivalents in the statements of cash flows include the following:

	2018	2017
Advance travel fund and main checking account (held in checking account)	\$ 8,000	\$ 8,000
Revolving and change funds	7,433	26,307
Maintenance fund invested in the Pool (see Note 3)	2,330,160	2,520,082
Construction fund invested in the Pool (see Note 3)	5,006,909	4,926,514
Maintenance and construction funds invested in the Impaired Pool (see Note 3)	1,955	458
Total cash and cash equivalents	<u>\$ 7,354,457</u>	<u>\$ 7,481,361</u>

For purposes of the statements of cash flows, the District considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

The checking account balances are insured by the Federal Deposit Insurance Corporation.

Note 3. Investments in King County Finance Division Pool

The District has entered into an investment pool ("the Pool") agreement with the King County Finance Division. Under this agreement, the District advances funds to the King County Finance Division. These funds are pooled with other funds and are commonly invested. The District accounts for its investment in the Pool at amortized cost, which usually approximates fair value. Investment income is allocated to the District in proportion to its average balance in the Pool on a quarterly basis. There are no limitations or restrictions on withdrawals. District deposits are covered by the Federal Deposit Insurance Corporation or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission.

As of December 31, 2018, the District had the following invested in the Pool:

Investment Type	Amortized Cost (as adjusted)	Fair Value	Effective Duration
Maintenance Fund	\$ 2,330,160	\$ 2,321,771	0.94 years
Construction Fund	5,006,909	4,988,884	0.94 years
	7,337,069	7,310,655	0.94 years

As of December 31, 2017, the District had the following invested in the Pool:

Investment Type	Amortized Cost (as adjusted)	Fair Value	Effective Duration
Maintenance Fund	\$ 2,520,082	\$ 2,507,734	1.02 years
Construction Fund	4,926,514	4,902,374	1.02 years
	7,446,596	7,410,108	1.02 years

Impaired Investments

As of September 1, 2008, impaired commercial paper assets were removed from the primary King County Investment Pool and placed into an impaired investment pool ("the Impaired Pool"). As of December 31, 2018, all impaired commercial paper investments have completed enforcement events. The Impaired Pool holds residual investments in two commercial paper assets that were part of completed enforcement events where the Impaired Pool accepted the cash out options. The District's share of the Impaired Pool (which is included in cash balances at fair value) is as follows as of December 31:

	2018	2017
Principal (maximum risk of loss)	\$ 2,759	\$ 679
Unrealized loss	(804)	(221)
Fair value	<u>\$ 1,955</u>	<u>\$ 458</u>

Interest Rate Risk

As of December 31, 2018 and 2017, the Pool's average duration was 0.94 and 1.02 years, respectively. As a means of limiting its exposure to rising interest rates, securities purchased in the Pool must have a final maturity or weighted-average life no longer than five years. While the Pool's market value is calculated on a monthly basis, unrealized gains and losses are not distributed to participants. The Pool distributes earnings monthly using an amortized cost methodology.

Credit Risk

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

All amounts administered by the King County Finance Division are restricted for payment of maintenance and other operating costs and/or construction costs.

Note 4. Capital Assets

Capital asset activity for the year ended December 31, 2018, was as follows:

	2017	Increase	Decrease	Transfers	2018
Utility Plant not being Depreciated					
Land	\$ 149,417	\$ -	\$ -	\$ -	\$ 149,417
City meters	37,234				37,234
Franchise	535				535
Construction in progress	<u>723,868</u>	<u>1,320,011</u>		<u>(907,685)</u>	<u>1,136,194</u>
Total utility plant not being depreciated	911,054	1,320,011		(907,685)	1,323,380
Utility Plant and Machinery and Equipment being Depreciated					
Water main replacement	3,031,767				3,031,767
Reservoir and facilities	2,863,147				2,863,147
Transmission and distribution mains	22,003,886	420,399		907,685	23,331,970
Services	2,694,345	8,588			2,702,933
Meter installations	561,331	6,385			567,716
Hydrants	1,481,227				1,481,227
General office building and improvements	648,676	6,551	(1,478)		653,749
Office equipment and furniture	31,095	17,300			48,395
Machinery and equipment	214,202				214,202
Transportation equipment	<u>512,656</u>				<u>512,656</u>
Total utility plant and machinery and equipment being depreciated	34,042,332	459,223	(1,478)	907,685	35,407,762
Less Accumulated Depreciation for:					
Water main replacement	1,241,021	60,635			1,301,656
Reservoir and facilities	1,722,470	55,775			1,778,245
Transmission and distribution mains	8,689,491	466,639			9,156,130
Services	2,188,000	90,008			2,278,008
Meter installations	355,839	18,905			374,744
Hydrants	782,297	29,625			811,922
General office building and improvements	408,070	24,097	(1,478)		430,689
Office equipment and furniture	20,631	3,188			23,819
Machinery and equipment	132,324	15,934			148,258
Transportation equipment	<u>277,347</u>	<u>18,862</u>			<u>296,209</u>
Total accumulated depreciation	<u>15,817,490</u>	<u>783,668</u>	<u>(1,478)</u>		<u>16,599,680</u>
Total utility plant and machinery and equipment being depreciated, net	<u>18,224,842</u>	<u>(324,445)</u>		<u>907,685</u>	<u>18,808,082</u>
Total capital assets	<u>\$ 19,135,896</u>	<u>\$ 995,566</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 20,131,462</u>

Capital asset activity for the year ended December 31, 2017, was as follows:

	2016	Increase	Decrease	Transfers	2017
Utility Plant not being Depreciated					
Land	\$ 149,417	\$ -	\$ -	\$ -	\$ 149,417
City meters	33,747	3,487			37,234
Franchise	535				535
Construction in progress	<u>1,119,919</u>	<u>825,071</u>		<u>(1,221,122)</u>	<u>723,868</u>
Total utility plant not being depreciated	1,303,618	828,558		(1,221,122)	911,054
Utility Plant and Machinery and Equipment being Depreciated					
Water main replacement	3,031,767				3,031,767
Reservoir and facilities	2,863,147				2,863,147
Transmission and distribution mains	20,782,764			1,221,122	22,003,886
Services	2,680,250	14,095			2,694,345
Meter installations	548,295	13,036			561,331
Hydrants	1,481,227				1,481,227
General office building and improvements	665,917	36,186	(53,427)		648,676
Office equipment and furniture	188,730	10,351	(167,986)		31,095
Machinery and equipment	236,147	36,725	(58,670)		214,202
Transportation equipment	<u>498,798</u>	<u>45,352</u>	<u>(31,494)</u>		<u>512,656</u>
Total utility plant and machinery and equipment being depreciated	32,977,042	155,745	(311,577)	1,221,122	34,042,332
Less Accumulated Depreciation for:					
Water main replacement	1,180,386	60,635			1,241,021
Reservoir and facilities	1,666,695	55,775			1,722,470
Transmission and distribution mains	8,249,413	440,078			8,689,491
Services	2,098,278	89,722			2,188,000
Meter installations	337,147	18,692			355,839
Hydrants	752,672	29,625			782,297
General office building and improvements	434,442	27,055	(53,427)		408,070
Office equipment and furniture	186,189	2,428	(167,986)		20,631
Machinery and equipment	177,156	13,838	(58,670)		132,324
Transportation equipment	<u>288,380</u>	<u>20,461</u>	<u>(31,494)</u>		<u>277,347</u>
Total accumulated depreciation	<u>15,370,758</u>	<u>758,309</u>	<u>(311,577)</u>		<u>15,817,490</u>
Total utility plant and machinery and equipment being depreciated, net	<u>17,606,284</u>	<u>(602,564)</u>		<u>1,221,122</u>	<u>18,224,842</u>
Total capital assets	<u>\$ 18,909,902</u>	<u>\$ 225,994</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 19,135,896</u>

Note 5. Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2018, was as follows:

	<u>2017</u>	<u>Additions</u>	<u>Reductions</u>	<u>2018</u>	<u>Amounts Due Within One Year</u>
Loan payable					
2002 Public Works Trust					
Fund Loan	\$ 326,161	\$ -	\$ 65,232	\$ 260,929	\$ 65,300
Compensated absences	<u>228,701</u>		<u>125,330</u>	<u>103,371</u>	
Long-term liabilities	<u>\$ 554,862</u>	<u>\$ -</u>	<u>\$ 190,562</u>	<u>\$ 364,300</u>	<u>\$ 65,300</u>

Long-term liability activity for the year ended December 31, 2017, was as follows:

	<u>2016</u>	<u>Additions</u>	<u>Reductions</u>	<u>2017</u>	<u>Amounts Due Within One Year</u>
Loan payable					
2002 Public Works Trust					
Fund Loan	\$ 391,393	\$ -	\$ 65,232	\$ 326,161	\$ 65,300
Compensated absences	<u>209,319</u>	<u>19,382</u>		<u>228,701</u>	
Long-term liabilities	<u>\$ 600,712</u>	<u>\$ 19,382</u>	<u>\$ 65,232</u>	<u>\$ 554,862</u>	<u>\$ 65,300</u>

The remaining loan payable is composed of a revenue obligation loan due in annual installments of \$65,300, plus interest at 0.5% through July 1, 2022.

The debt service annual requirements to amortize the loan payable outstanding are as follows for the years ending December 31:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 65,300	\$ 1,306	\$ 66,606
2020	65,300	980	66,280
2021	65,300	653	65,953
2022	<u>65,029</u>	<u>326</u>	<u>65,355</u>
	<u>\$ 260,929</u>	<u>\$ 3,265</u>	<u>\$ 264,194</u>

Note 6. Reservoir Sharing

The District jointly owns and operates a six million-gallon reservoir with two other water districts. This reservoir was constructed in 1976. Although other water districts contributed to the cost of the reservoir, the full cost is reported by the District, and depreciation is taken on that amount. The contributions from other water districts have been recorded as increases in net assets. By agreement, the operating costs of the reservoir are borne by the District and charged out to the members based upon the previous year's water consumption. Costs allocated to the other districts amounted to \$47,570 and \$42,246 in 2018 and 2017, respectively. In addition, the District capitalized upgrades to the reservoir in 2018 and 2017. Total upgrades charged to the other districts amounted to \$2,635 and \$1,225 in 2018 and 2017.

Note 7. Risk Management

The District is subject to various risks including, but not limited to, damage to personal and real property, general liability, automobile liability, employment liability, theft, public officials' errors and omissions, and natural disasters.

The District protects itself against these risks by the purchase of commercial insurance. The policies are subject to various limits and various deductibles. The policies involve various insurance companies and are obtained through Enduris Washington and MacIvennie Associates, Inc. during 2018 and 2017, respectively. Detailed information about coverages, premiums, and deductibles is available at the District's office.

Note 8. Pension Plans

The following table represents the aggregate pension amounts for all plans for the years ended December 31:

	2018	2017
Pension liabilities	\$ 522,525	\$ 737,017
Deferred outflows of resources	100,868	124,706
Deferred inflows of resources	205,559	121,210
Pension expense	23,729	96,658

State-Sponsored Pension Plans

Substantially all of the District's full-time and qualifying part-time employees participate in the following statewide retirement system 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

The DRS CAFR may also 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 5 years of service. Members retiring from active status prior to the age of 65 may receive actuarially reduced benefits. Retirement benefits are actuarially reduced to reflect the choice of a survivor benefit. Other benefits include duty and non-duty disability payments, an optional cost-of-living adjustment ("COLA"), and a one-time duty-related death benefit, if found eligible by the Department of Labor and Industries. PERS 1 members were vested after the completion of five years of eligible service. The plan was closed to new entrants on September 30, 1977.

Contributions

The **PERS Plan 1** member contribution rate is established by state statute at 6%. The employer contribution rate is developed by the Office of the State Actuary ("OSA") 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) for 2018 were as follows:

	Actual Contribution Rates	
	Employer	Employee
<u>January - August 2018</u>		
PERS Plan 1	7.49%	6.00%
PERS Plan 1 Unfunded Actuarial Accrued Liability ("UAAL")	5.03%	
Administrative fee	0.18%	
Total	12.70%	6.00%
<u>September - December 2018</u>		
PERS Plan 1	7.52%	6.00%
PERS Plan 1 UAAL	5.13%	
Administrative fee	0.18%	
Total	12.83%	6.00%

PERS Plan 2/3 provides retirement, disability and death benefits. Retirement benefits are determined as 2% of the member's 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 non-duty disability payments, a cost-of-living allowance (based on the CPI), capped at 3% annually and a one-time duty-related death benefit, if found eligible by the Department of Labor and Industries. PERS Plan 2 members are vested after completing five years of eligible service. PERS Plan 3 members are vested in the defined benefit portion of their plan after 10 years of service or after five years of service if 12 months of that service are earned after age 44.

PERS Plan 3 defined contribution benefits are totally dependent on employee contributions and investment earnings on those contributions. PERS Plan 3 members choose their contribution rate upon joining membership and have a chance to change rates upon changing employers. As established by statute, Plan 3 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 OSA to fully fund Plan 2 and the defined benefit portion of Plan 3. The Plan 2/3 employer rates include a component to address the PERS Plan 1 UAAL and an administrative expense that is currently set at 0.18%. Each biennium, the state Pension Funding Council adopts Plan 2 employer and employee contribution rates and Plan 3 contribution rates. The PERS Plan 2/3 required contribution rates (expressed as a percentage of covered payroll) for 2018 are as follows:

	Actual Contribution Rates	
	Employer 2/3	Employee 2
<u>January - August 2018</u>		
PERS Plan 2/3	7.49%	7.38%
PERS Plan 1 UAAL	5.03%	
Administrative fee	0.18%	
Employee PERS Plan 3		varies
Total	12.70%	7.38%
<u>September - December 2018</u>		
PERS Plan 2/3	7.52%	7.41%
PERS Plan 1 UAAL	5.13%	
Administrative fee	0.18%	
Employee PERS Plan 3		varies
Total	12.83%	7.41%

The District's actual PERS plan contributions were \$51,654 to PERS Plan 1 and \$76,533 to PERS Plan 2/3 for the year ended December 31, 2018.

Actuarial Assumptions

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

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

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

Mortality rates were based on the RP-2000 report's Combined Healthy Table and Combined Disabled Table, published by the Society of Actuaries. The OSA applied offsets to the base table and recognized future improvements in mortality by projecting the mortality rates using 100% 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.

The following were the changes in methods and assumptions since the last valuation:

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

Discount Rate

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

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. 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 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 ("the WSIB"). The WSIB uses the capital market assumptions and their target asset allocation to simulate future investment returns over various time horizons.

Estimated Rates of Return by Asset Class

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2018, are summarized in the table below. The inflation component used to create the table is 2.2% and represents the WSIB's most recent long-term estimate of broad economic inflation.

Asset Class	Target Allocation	% Long-Term Expected Real Rate of Return
Fixed income	20%	1.70%
Tangible assets	7%	4.90%
Real estate	18%	5.80%
Global equity	32%	6.30%
Private equity	23%	9.30%
	100%	

Sensitivity of NPL

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

	1% Decrease (6.4%)	Current Discount Rate (7.4%)	1% Increase (8.4%)
PERS 1	\$ 430,077	\$ 349,958	\$ 280,560
PERS 2/3	789,330	172,567	(333,108)
Total	<u>\$ 1,219,407</u>	<u>\$ 522,525</u>	<u>\$ (52,549)</u>

Pension Plan Fiduciary Net Position

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

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

At June 30, 2018 and 2017, the District reported a total pension liability of \$522,525 and \$737,017, respectively, for its proportionate share of the net pension liabilities is as follows:

	2018	2017
PERS 1	\$ 349,958	\$ 379,559
PERS 2/3	172,567	357,458
	<u>\$ 522,525</u>	<u>\$ 737,017</u>

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

	Proportionate Share, June 30, 2018	Proportionate Share, June 30, 2017	Change in Proportion
PERS 1	0.007836%	0.007999%	-0.000163%
PERS 2/3	0.010107%	0.010288%	-0.000181%
	<u>Proportionate Share, June 30, 2017</u>	<u>Proportionate Share, June 30, 2016</u>	<u>Change in Proportion</u>
PERS 1	0.007999%	0.007654%	0.000345%
PERS 2/3	0.010288%	0.009820%	0.000468%

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

Pension Expense

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

	2018	2017
PERS 1	\$ 22,523	\$ 41,130
PERS 2/3	1,206	55,528
Total	<u>\$ 23,729</u>	<u>\$ 96,658</u>

Deferred Outflows of Resources and Deferred Inflows of Resources

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
PERS 1		
Net difference between projected and actual investment earnings on pension plan investments	\$ -	\$ (13,907)
Contributions subsequent to the measurement date	<u>24,832</u>	
Total PERS 1	24,832	(13,907)
PERS 2/3		
Differences between expected and actual experience	21,152	(30,213)
Net difference between projected and actual investment earnings on pension plan investments		(105,896)
Changes in assumptions	2,020	(49,112)
Changes in proportion and differences between contributions and proportionate share of contributions	16,271	(6,431)
Contributions subsequent to the measurement date	<u>36,593</u>	
Total PERS 2/3	<u>76,036</u>	<u>(191,652)</u>
	<u>\$ 100,868</u>	<u>\$ (205,559)</u>

At December 31, 2017, 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
PERS 1		
Net difference between projected and actual investment earnings on pension plan investments	\$ -	\$ (14,164)
Contributions subsequent to the measurement date	25,558	
Total PERS 1	25,558	(14,164)
PERS 2/3		
Differences between expected and actual experience	36,219	(11,756)
Net difference between projected and actual investment earnings on pension plan investments		(95,290)
Changes in assumptions	3,799	
Changes in proportion and differences between contributions and proportionate share of contributions	21,087	
Contributions subsequent to the measurement date	38,043	
Total PERS 2/3	99,148	(107,046)
	<u>\$ 124,706</u>	<u>\$ (121,210)</u>

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

	PERS 1	PERS 2/3
2019	\$ 608	\$ (13,694)
2020	(3,040)	(33,101)
2021	(9,123)	(62,851)
2022	(2,352)	(22,036)
2023		(6,918)
Thereafter		(13,609)
	<u>\$ (13,907)</u>	<u>\$ (152,209)</u>

Note 9. Subsequent Events

Subsequent to year-end, the District completed a merger with King County, Water District No. 45. The merger will add approximately 1,000 water customer connections in North Highline near White Center, Washington to the District's current 9,500 water customer connections. King County, Water District No. 45 is also one of the districts with which the District shares a reservoir. The merger is expected to be more cost efficient than operating two separate districts.

WATER DISTRICT NO. 20, KING COUNTY

SCHEDULE OF PROPORTIONAL SHARE OF THE NET PENSION LIABILITY – PERS 1

For the Years Ended June 30, 2018, 2017, 2016, 2015, and 2014

	2018	2017	2016	2015	2014
Proportion of the net pension liability	0.007836%	0.007999%	0.007654%	0.007509%	0.007608%
Proportionate share of the net pension liability	\$ 349,958	\$ 379,559	\$ 411,056	\$ 392,791	\$ 383,257
Covered-employee payroll	1,166,004	1,151,871	1,077,041	1,009,238	929,281
Proportionate share of the net pension liability as a percentage of covered-employee payroll	30.01%	32.95%	38.17%	38.92%	41.24%
Plan fiduciary net position as a percentage of the total pension liability	63.22%	61.24%	57.03%	59.10%	61.19%

Until a full 10-year trend is compiled, the District will present information for the years for which information is available. There are no changes of benefit terms or changes of assumptions that are expected to significantly affect the amounts reported in the above schedule.

WATER DISTRICT NO. 20, KING COUNTY**SCHEDULE OF PROPORTIONAL SHARE OF THE NET PENSION LIABILITY – PERS 2/3**

For the Years Ended June 30, 2018, 2017, 2016, 2015, and 2014

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Proportion of the net pension liability	0.010107%	0.010288%	0.009820%	0.009700%	0.009795%
Proportionate share of the net pension liability	\$ 172,567	\$ 357,458	\$ 494,428	\$ 346,586	\$ 197,992
Covered-employee payroll	1,166,004	1,151,871	1,077,041	1,009,238	929,281
Proportionate share of the net pension liability as a percentage of covered-employee payroll	14.80%	31.03%	45.91%	34.34%	21.31%
Plan fiduciary net position as a percentage of the total pension liability	95.77%	90.97%	85.82%	89.20%	93.29%

Until a full 10-year trend is compiled, the District will present information for the years for which information is available. There are no changes of benefit terms or changes of assumptions that are expected to significantly affect the amounts reported in the above schedule.

WATER DISTRICT NO. 20, KING COUNTY

SCHEDULE OF EMPLOYER CONTRIBUTIONS – PERS 1

As of December 31, 2018, 2017, 2016, 2015, and 2014

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required contribution	\$ 51,654	\$ 50,157	\$ 45,994	\$ 38,384	\$ 34,208
Contributions in relation to the contractually required contribution	<u>(51,654)</u>	<u>(50,157)</u>	<u>(45,994)</u>	<u>(38,384)</u>	<u>(34,208)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered-employee payroll	\$ 1,155,066	\$ 1,176,941	\$ 1,126,800	\$ 1,027,281	\$ 991,193
Contributions as a percentage of covered-employee payroll	4.47%	4.26%	4.08%	3.74%	3.45%

Until a full 10-year trend is compiled, the District will present information for the years for which information is available. There are no changes of benefit terms or changes of assumptions that are expected to significantly affect the amounts reported in the above schedule.

WATER DISTRICT NO. 20, KING COUNTY

SCHEDULE OF EMPLOYER CONTRIBUTIONS – PERS 2/3

As of December 31, 2018, 2017, 2016, 2015, and 2014

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required contribution	\$ 76,533	\$ 70,171	\$ 60,072	\$ 49,282	\$ 42,334
Contributions in relation to the contractually required contribution	<u>(76,533)</u>	<u>(70,171)</u>	<u>(60,072)</u>	<u>(49,282)</u>	<u>(42,334)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered-employee payroll	\$ 1,155,066	\$ 1,176,941	\$ 1,126,800	\$ 1,027,281	\$ 991,193
Contributions as a percentage of covered-employee payroll	6.63%	5.96%	5.33%	4.80%	4.27%

Until a full 10-year trend is compiled, the District will present information for the years for which information is available. There are no changes of benefit terms or changes of assumptions that are expected to significantly affect the amounts reported in the above schedule.

ABOUT THE STATE AUDITOR'S OFFICE

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

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

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

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

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

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

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

Contact information for the State Auditor's Office	
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