



Office of the Washington State Auditor
Pat McCarthy

Financial Statements Audit Report

Valley View Sewer District

For the period January 1, 2018 through December 31, 2019

Published June 14, 2021

Report No. 1028498



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

June 14, 2021

Board of Commissioners
Valley View Sewer District
Seattle, Washington

Report on Financial Statements

Please find attached our report on the Valley View 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

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*

Valley View Sewer District January 1, 2018 through December 31, 2019

Board of Commissioners
Valley View Sewer District
Seattle, 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 Valley View Sewer District, as of and for the years ended December 31, 2019 and 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated June 2, 2021.

As discussed in Note 14 to the financial statements, the full extent of the COVID-19 pandemic's direct or indirect financial impact on the District is unknown.

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

June 2, 2021

INDEPENDENT AUDITOR'S REPORT

Report on the Financial Statements

Valley View Sewer District January 1, 2018 through December 31, 2019

Board of Commissioners
Valley View Sewer District
Seattle, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the Valley View Sewer District, as of and for the years ended December 31, 2019 and 2018, 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 the Valley View Sewer District, as of December 31, 2019 and 2018, 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.

Matter of Emphasis

As discussed in Note 14 to the 2019 financial Statements, the full extent of the COVID-19 pandemic's direct or indirect financial impact on the District is unknown. 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 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 June 2, 2021 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

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

Pat McCarthy
State Auditor
Olympia, WA

June 2, 2021

FINANCIAL SECTION

Valley View Sewer District January 1, 2018 through December 31, 2019

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2019 and 2018

BASIC FINANCIAL STATEMENTS

Statement of Net Position – 2019 and 2018

Statement of Revenues, Expenses and Changes in Net Position – 2019 and 2018

Statement of Cash Flows – 2019 and 2018

Notes to Financial Statements – 2019 and 2018

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Proportionate Share of Net Pension Liability – PERS 1, PERS 2/3 – 2019
and 2018

Schedule of Employer Contributions – PERS 1, PERS2/3 – 2019 and 2018

**VALLEY VIEW SEWER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2019 AND 2018**

INTRODUCTION

Valley View Sewer District (the District) was organized in 1946 to provide sewer services to customers residing within the District boundaries. Our mission is to provide our ratepayers with excellent customer service by offering safe, reliable, and efficient sewer service and to provide our employees a working environment that protects their health and safety and encourages professional development. The District is dedicated to working toward a better environment.

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, 2019 and 2018 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 statements of net position, statements of revenues, expenses, and changes in fund net position, statements of cash flows and notes to the financial statements.

The statements of net position present 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. These statements provide 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). They provide 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 statements of revenues, expenses, and changes in fund net position present 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 statements of cash flows report cash receipts, cash payments, and net changes in cash resulting from operating, financing, and investing activities over the course of the year. They present 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.

**VALLEY VIEW SEWER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2019 AND 2018**

CONDENSED STATEMENTS OF NET POSITION AT DECEMBER 31

	2019	2018	2017
Capital Assets	\$ 41,637,729	\$ 40,548,843	\$ 37,648,258
Other Assets	11,481,760	9,130,423	8,069,557
Total Assets	<u>53,119,489</u>	<u>49,679,266</u>	<u>45,717,815</u>
Deferred Outflows of Resources	140,614	143,382	179,629
Long-Term Liabilities	6,027,387	6,336,033	8,208,096
Other Liabilities	1,396,666	1,343,640	1,600,282
Total Liabilities	<u>7,424,053</u>	<u>7,679,673</u>	<u>9,808,378</u>
Deferred Inflows of Resources	<u>308,928</u>	<u>275,766</u>	<u>160,714</u>
Net Investment in Capital Assets	35,022,684	33,944,058	29,156,687
Restricted Net Position	748,280	817,495	938,802
Unrestricted Net Position	<u>9,756,158</u>	<u>7,105,656</u>	<u>5,832,863</u>
Total Net Position	<u><u>\$ 45,527,122</u></u>	<u><u>\$ 41,867,209</u></u>	<u><u>\$ 35,928,352</u></u>

**VALLEY VIEW SEWER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2019 AND 2018**

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

	2019	2018	2017
Sewer Service Charges	\$ 13,704,890	\$ 12,922,239	\$ 12,310,098
Other Operating Revenue	839,989	537,447	567,996
Total Operating Revenues	<u>14,544,879</u>	<u>13,459,686</u>	<u>12,878,094</u>
Operating Costs	10,169,311	9,629,896	9,165,891
General and Administrative Expenses	2,035,465	1,716,955	1,754,583
Depreciation and Amortization	1,264,890	1,220,211	1,190,248
Total Operating Expenses	<u>13,469,666</u>	<u>12,567,062</u>	<u>12,110,722</u>
Operating Income	1,075,213	892,624	767,372
Nonoperating Revenue (Expense):			
Investment and Interest Income	279,945	194,783	145,152
Net Gain (Loss) on Disposal and Abandonment of Assets	-	500	-
Private Property Improvements	(398,491)	(176,628)	(195,250)
Interest and Amortization on Long-Term Debt - Net of Amount Capitalized	<u>(98,906)</u>	<u>(93,328)</u>	<u>(101,309)</u>
Income Before Capital Contributions	857,761	817,951	615,965
Capital Contributions	<u>2,802,152</u>	<u>5,120,906</u>	<u>2,103,955</u>
Increase in Net Position	3,659,913	5,938,857	2,719,920
Net Position, January 1	<u>41,867,209</u>	<u>35,928,352</u>	<u>33,208,432</u>
Net Position, December 31	<u><u>\$ 45,527,122</u></u>	<u><u>\$ 41,867,209</u></u>	<u><u>\$ 35,928,352</u></u>

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.

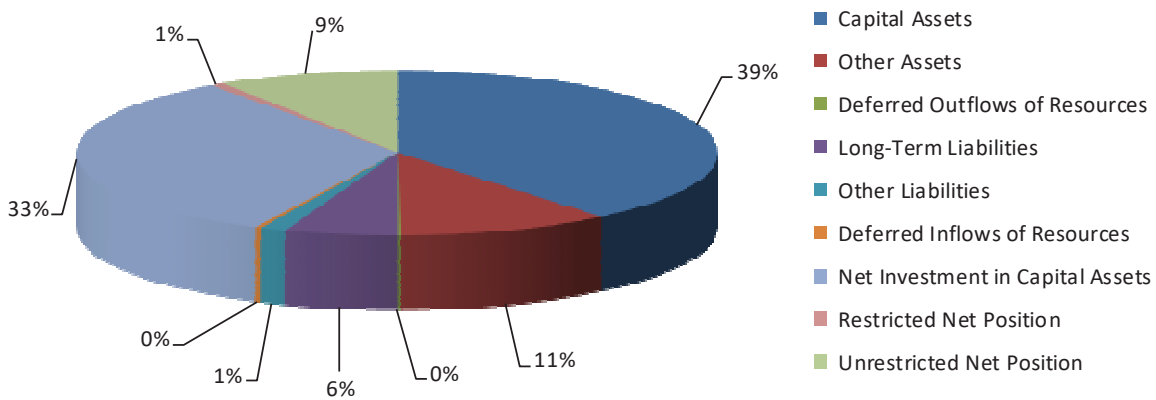
VALLEY VIEW SEWER DISTRICT MANAGEMENT'S DISCUSSION AND ANALYSIS DECEMBER 31, 2019 AND 2018

FINANCIAL POSITION

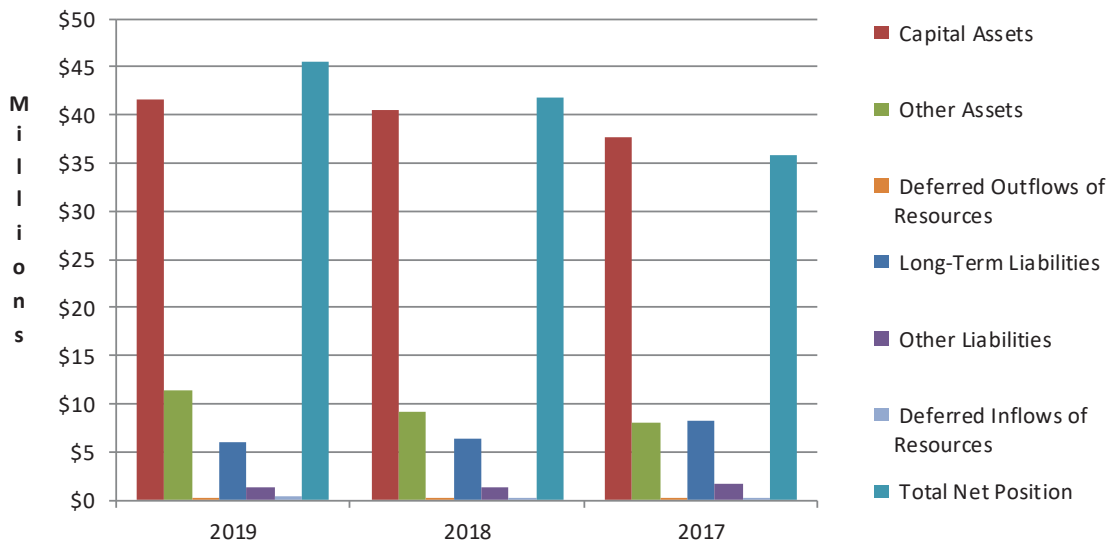
The District's overall financial position continues to be strong. The District is financed primarily by equity. Sufficient liquid assets are available to fund liabilities and construction. Capital assets increased in 2019 and 2018 due to growth in the customer base and construction activity to upgrade the system.

The following charts indicate the components of financial position.

2019 STATEMENT OF NET POSITION



COMPARATIVE STATEMENT OF NET POSITION

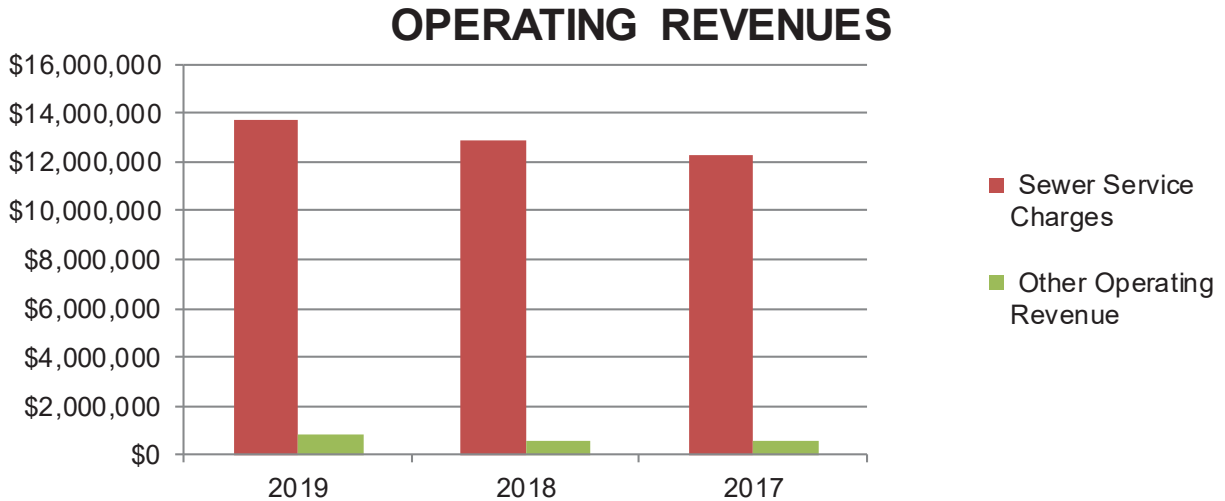


**VALLEY VIEW SEWER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2019 AND 2018**

RESULTS OF OPERATIONS

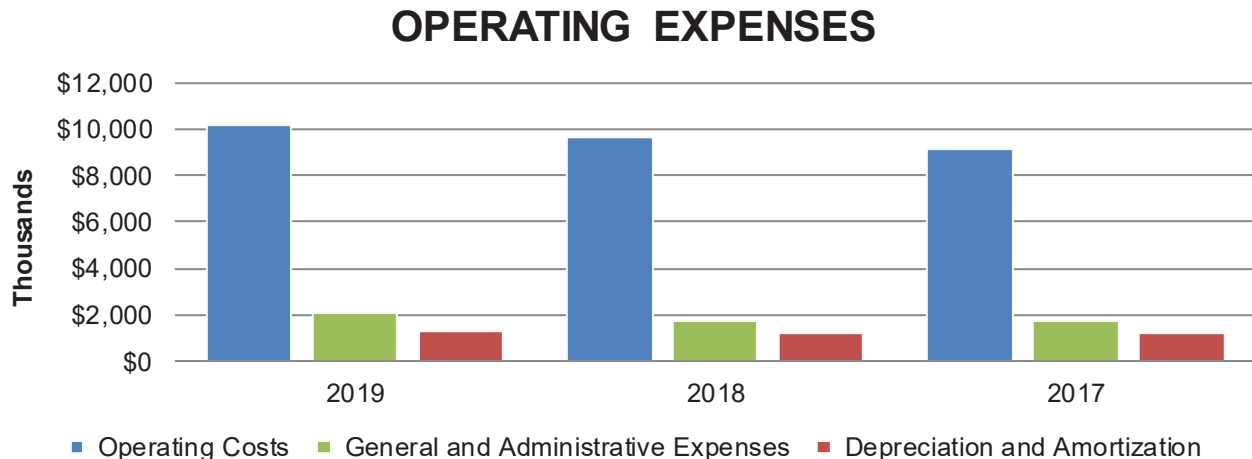
Operating revenues are received primarily from sewer service charges.

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



Operating revenues increased in 2019 and 2018 due to variances in consumption and rates increases. The variances in consumption are caused primarily by changes in the amount of rainfall and related storm water runoff during the winter months.

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



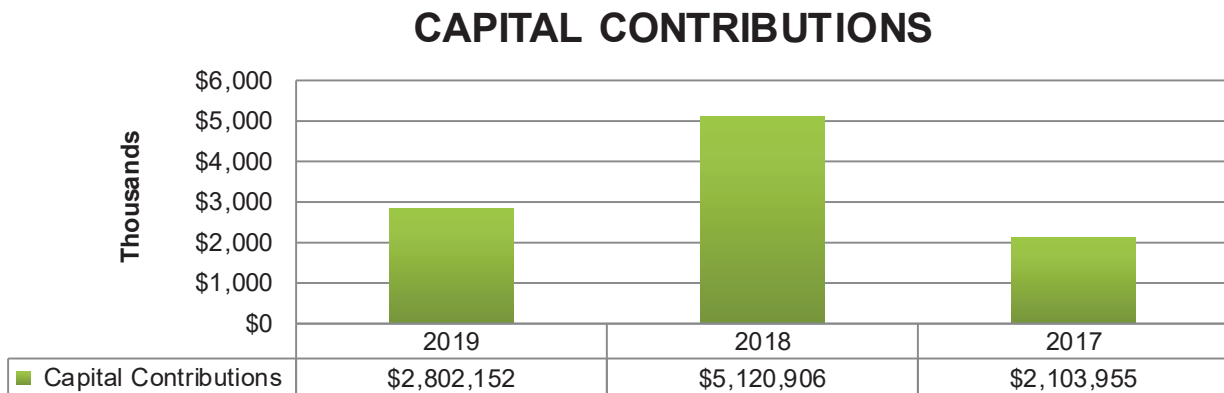
**VALLEY VIEW SEWER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2019 AND 2018**

RESULTS OF OPERATIONS (CONTINUED)

The increase in operating costs in 2019 was primarily due to increases in treatment costs and additional maintenance activities. The increase in general and administrative expenses in 2018 was primarily due to increased personnel costs and increased maintenance activities. The increase in operating costs in 2019 was primarily due to increases in treatment costs as a result of consumption variances. The decrease in general and administrative expenses in 2018 was due to the change in proportionate share of the pension liability and changes in personnel. The District's philosophy generally is not to provide for all depreciation through rates based on the principle that connection charges and other fees also contribute to the cost of the sewer system. Operating results are augmented by earnings on investments and other nonoperating revenues and capital contributions.

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 past three years.



The contributions are indicative of the growth of the District and include donated systems totaling \$99,200, \$-0-, and \$702,532 for the years ended December 31, 2019, 2018, and 2017, respectively, and grants (including forgiven loans) totaling \$1,532,485, \$3,619,162, and \$579,279 for the years ended December 31, 2019, 2018, and 2017, respectively.

**VALLEY VIEW SEWER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2019 AND 2018**

CAPITAL ASSETS AND LONG-TERM LIABILITIES

Capital assets increased in 2019 and 2018 due to growth in the customer base and construction activity to upgrade the system.

Significant capital asset additions during the years included the following:

2019		2018	
The Loop	\$ 1,615,180	The Loop	\$ 3,830,863
40/42 Wastewater Bypass	400,763	LARC at Burien Offsite	212,158
S 127th St Sewer Extension	121,703	40/42 Wastewater Bypass	36,802
Donated Systems	99,200	S 127th St Sewer Extension	11,498

The decrease in long-term liabilities in 2019 and 2018 was mainly due to decreases in the net pension liability and principal payments on outstanding debt.

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

ADDITIONAL COMMENTS

The District is dependent on King County Wastewater Treatment Division (KCWTD/METRO) for the treatment of sewage collected by the District. The cost for this service charged to the District continues to increase. The District intends to adjust rates to compensate for increases in its direct treatment cost.

**VALLEY VIEW SEWER DISTRICT
STATEMENTS OF NET POSITION
DECEMBER 31, 2019 AND 2018**

ASSETS	<u>2019</u>	<u>2018</u>
CURRENT ASSETS		
Unrestricted:		
Cash and Cash Equivalents	\$ 6,851,931	\$ 2,795,514
Accounts Receivable - Users	719,076	702,633
Accounts Receivable - Other	111,994	148,782
Unbilled Utility Service Receivable	672,011	549,531
Interest Receivable	121,525	82,690
Prepaid Expenses	121,174	118,284
Contracts Receivable - Current Portion	193,797	165,469
Grant Receivable	971,338	2,669,421
Total Unrestricted	<u>9,762,846</u>	<u>7,232,324</u>
Restricted:		
Cash and Cash Equivalents	349,223	312,782
Interest Receivable	387	507
Assessments Receivable - Current Portion	100,859	117,908
Total Restricted	<u>450,469</u>	<u>431,197</u>
Total Current Assets	10,213,315	7,663,521
Noncurrent Assets:		
Unrestricted:		
Contracts Receivable, Less Current Portion	917,968	1,025,696
Preliminary Surveys and Investigations	50,044	50,044
Total Unrestricted	<u>968,012</u>	<u>1,075,740</u>
Restricted:		
Assessments Receivable, Less Current Portion	300,433	391,162
Capital Assets Not Being Depreciated:		
Land, Land Rights, and Other	628,310	628,310
Construction in Progress	455,149	4,821,929
Capital Assets Being Depreciated:		
Plant in Service	67,165,827	60,445,270
Less: Accumulated Depreciation	<u>(26,611,557)</u>	<u>(25,346,666)</u>
Net Capital Assets	<u>41,637,729</u>	<u>40,548,843</u>
Total Noncurrent Assets	<u>42,906,174</u>	<u>42,015,745</u>
Total Assets	53,119,489	49,679,266
DEFERRED OUTFLOWS OF RESOURCES		
Deferred Loss on Refunding of Debt	1,885	4,269
Deferred Outflows Related to Pensions	138,729	139,113
Total Deferred Outflows of Resources	<u>140,614</u>	<u>143,382</u>
Total Assets and Deferred Outflows or Resources	<u><u>\$ 53,260,103</u></u>	<u><u>\$ 49,822,648</u></u>

See accompanying Notes to Financial Statements.

**VALLEY VIEW SEWER DISTRICT
STATEMENTS OF NET POSITION (CONTINUED)
DECEMBER 31, 2019 AND 2018**

	<u>2019</u>	<u>2018</u>
LIABILITIES		
CURRENT LIABILITIES		
Payable from Unrestricted Assets:		
Accounts Payable	\$ 203,871	\$ 110,879
Side Sewer Deposits Payable	6,957	42,515
Compensated Absences	135,300	147,700
Retainage Payable	30,238	33,412
Accrued Interest	33,142	17,410
Long-Term Debt - Current Maturities	691,027	617,823
Total Payable from Unrestricted Assets	<u>1,100,535</u>	<u>969,739</u>
Payable from Restricted Assets:		
Accrued Interest	2,622	4,864
Long-Term Debt - Current Maturities	293,509	369,037
Total Payable from Restricted Assets	<u>296,131</u>	<u>373,901</u>
Total Current Liabilities	1,396,666	1,343,640
NONCURRENT LIABILITIES		
Long-Term Debt Payable from Unrestricted Assets,		
Net of Current Maturities	4,882,545	4,144,801
Long-Term Debt Payable from Restricted Assets,		
Net of Current Maturities	611,900	1,437,171
Compensated Absences	36,648	83,879
Net Pension Liability	496,294	670,182
Total Noncurrent Liabilities	<u>6,027,387</u>	<u>6,336,033</u>
Total Liabilities	7,424,053	7,679,673
DEFERRED INFLOWS OF RESOURCES		
Deferred Inflows Related to Pensions	<u>308,928</u>	<u>275,766</u>
Total Liabilities and Deferred Inflows of Resources	7,732,981	7,955,439
NET POSITION		
Net Investment in Capital Assets	35,022,684	33,944,058
Restricted for Debt Service	743,508	811,210
Restricted for Impaired Investments	4,772	6,285
Unrestricted	9,756,158	7,105,656
Total Net Position	<u>45,527,122</u>	<u>41,867,209</u>
Total Liabilities and Deferred Inflows of Resources and Net Position	<u>\$ 53,260,103</u>	<u>\$ 49,822,648</u>

See accompanying Notes to Financial Statements.

VALLEY VIEW SEWER DISTRICT
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
YEARS ENDED DECEMBER 31, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
OPERATING REVENUES		
Service Charges:		
Commercial	\$ 8,294,840	\$ 7,827,405
Residential	5,410,050	5,094,834
Total Service Charges	<u>13,704,890</u>	<u>12,922,239</u>
Late Charges	137,394	131,811
Permit Fees	18,289	29,251
Rental of Flush Truck	420	600
Miscellaneous	683,886	375,785
Total Operating Revenues	<u>14,544,879</u>	<u>13,459,686</u>
OPERATING EXPENSES		
Collection and Transmission	9,856,423	9,403,670
Pumping	312,888	226,226
General and Administrative	2,035,465	1,716,955
Depreciation and Amortization	1,264,890	1,220,211
Total Operating Expenses	<u>13,469,666</u>	<u>12,567,062</u>
OPERATING INCOME	1,075,213	892,624
NONOPERATING REVENUE (EXPENSE)		
Investment Income	170,306	87,442
Interest on Assessments	21,064	31,268
Interest on Contracts	88,532	76,073
Other Interest	43	-
Private Property Improvements	(398,491)	(176,628)
Net Gain on Disposal of Assets	-	500
Interest and Amortization on Long-Term Debt	(98,906)	(93,328)
Total Nonoperating Revenue (Expense)	<u>(217,452)</u>	<u>(74,673)</u>
INCOME BEFORE CAPITAL CONTRIBUTIONS	857,761	817,951
Capital Contributions	<u>2,802,152</u>	<u>5,120,906</u>
CHANGE IN NET POSITION	3,659,913	5,938,857
Net Position - Beginning of Year	<u>41,867,209</u>	<u>35,928,352</u>
NET POSITION - END OF YEAR	<u><u>\$ 45,527,122</u></u>	<u><u>\$ 41,867,209</u></u>

See accompanying Notes to Financial Statements.

**VALLEY VIEW SEWER DISTRICT
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2019 AND 2018**

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received from Customers	\$ 14,442,744	\$ 13,372,629
Cash Paid to Vendors	(10,389,600)	(9,673,055)
Cash Paid to and for Employees and Commissioners	(2,025,948)	(1,828,673)
Cash Paid for Private Property Improvements	(398,491)	(176,628)
Issuance of Side Sewer Contracts Receivable	(145,447)	(69,208)
Collections on Side Sewer Contracts Receivable	69,729	56,840
Interest Received	14,633	14,241
Net Cash Provided by Operating Activities	1,567,620	1,696,146
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital Contributions	3,139,022	1,850,220
Collections on ULID Assessments Receivable	107,778	121,490
Collections on Contracts Receivable	332,073	232,588
Interest Received on Contracts and Assessments	64,113	83,993
Expenditures for Plant in Service and Construction	(2,156,849)	(4,431,259)
Proceeds from Sale of Assets	-	500
Proceeds from Issuance of Long-Term Debt	2,484,828	14,692
Payment on Long-Term Debt	(1,525,179)	(1,006,149)
Interest Paid on Long-Term Debt	(83,032)	(90,086)
Net Cash Provided (Used) by Capital and Related Financing Activities	2,362,754	(3,224,011)
CASH FLOWS FROM INVESTING ACTIVITIES		
Collections on Contract with City of Tukwila	-	26,051
Interest Received on Investments	162,484	87,564
Net Cash Provided by Investing Activities	162,484	113,615
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	4,092,858	(1,414,250)
Cash and Cash Equivalents - Beginning of Year	3,108,296	4,522,546
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 7,201,154</u>	<u>\$ 3,108,296</u>
Cash and Cash Equivalents Balance is Comprised of the Following at December 31:		
Cash and Cash Equivalents - Unrestricted	\$ 6,851,931	\$ 2,795,514
Cash and Cash Equivalents - Restricted	349,223	312,782
Total	<u>\$ 7,201,154</u>	<u>\$ 3,108,296</u>

See accompanying Notes to Financial Statements.

**VALLEY VIEW SEWER DISTRICT
STATEMENTS OF CASH FLOWS (CONTINUED)
YEARS ENDED DECEMBER 31, 2019 AND 2018**

	<u>2019</u>	<u>2018</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating Income	\$ 1,075,213	\$ 892,624
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:		
Depreciation and Amortization	1,264,890	1,220,211
(Increase) Decrease in Assets and Deferred Outflows of Resources:		
Accounts Receivable	(102,135)	(87,057)
Prepaid Expenses	(2,890)	(21,986)
Side Sewer Contracts	(40,160)	(54,883)
Deferred Outflows Related to Pensions	384	32,761
Increase (Decrease) in Liabilities and Deferred Inflows of Resources:		
Accounts Payable	(7,909)	15,330
Side Sewer Deposits Payable	(35,558)	42,515
Compensated Absences	(59,631)	1,937
Net Pension Liability	(173,888)	(297,971)
Deferred Inflows Related to Pensions	33,162	115,052
Private Property Improvements	(398,491)	(176,628)
Other Income	14,633	14,241
Net Cash Provided by Operating Activities	<u>\$ 1,567,620</u>	<u>\$ 1,696,146</u>
SUPPLEMENTAL SCHEDULE OF SIGNIFICANT NONCASH FINANCING AND INVESTING ACTIVITIES		
Contract Assessments	<u>\$ 212,513</u>	<u>\$ 438,444</u>
Utility Plant Donations Received	<u>\$ 99,200</u>	<u>\$ -</u>
Forgiven Loans	<u>\$ 1,049,500</u>	<u>\$ 597,461</u>

**VALLEY VIEW SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

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

Description of Business, Nature of Operations, and Reporting Entity

Valley View 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 a sewer system within its boundaries, which encompass a portion of the cities of SeaTac, Burien, and Tukwila, Washington, and surrounding unincorporated areas. 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.

Cash and Cash Equivalents

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

Accounts Receivable

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

Capital Assets

Capital assets are stated at cost and include the capitalized portion of District employees' wages and related overhead costs. For sewer systems installed by developers or customers and conveyed to the District by bill of sale, the District records the cost of the system at acquisition value, which is estimated using the contributing party's cost. Major expenses for capital assets, including capital leases and major repairs that increase useful lives, are capitalized. Maintenance, repairs, and minor renewals are accounted for as expenses when incurred. When capital assets are retired or otherwise disposed of, the cost and accumulated depreciation 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:

	<u>Estimated Useful Lives</u>
Sewer Mains and Extensions	50 Years
Sewer Structures and Intangibles	5 to 50 Years
Equipment	3 to 10 Years
Office Building	5 to 40 Years

**VALLEY VIEW SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

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

Pensions

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

Deferred Outflows/Inflows of Resources

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 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 of resources related to pensions are amortized over the average expected service lives of all employees provided with pensions through each plan.

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

**VALLEY VIEW SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

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

Compensated Absences

Employees earn vacation and sick leave based upon date of hire and years of service. Unused vacation and sick leave at retirement or normal termination is considered vested and payable to the employee at 100% of vacation (up to 576 hours) and 50% of accrued sick leave for retirement or 25% of accrued sick leave for normal termination. Vacation and the vested portion of sick leave, 50% based on historical turnover, which is earned but not used at December 31 each year is accrued as a liability of the District.

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.

**VALLEY VIEW SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

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

Revenues and Expenses

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

Capital Contributions

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

Use of Estimates in Financial Statement Preparation

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

NOTE 2 DEPOSITS AND INVESTMENTS

Deposits

Cash on hand at December 31, 2019 and 2018 was \$1,200 and \$1,200, respectively. The District's bank balances as of December 31, 2019 and 2018 were \$88,218 and \$53,604, respectively.

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

Investments

In accordance with state law, the District's governing body has entered into a formal interlocal agreement with the District's ex officio treasurer, King County, to have all its funds not required for immediate expenditure to be invested in the King County Investment Pool (Pool). Investments in the Pool are stated at the fair value of the Pool's underlying assets. The stated value per share is \$1. The King County Executive Finance Committee provides oversight of the Pool.

**VALLEY VIEW SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

NOTE 2 DEPOSITS AND INVESTMENTS (CONTINUED)

Investments (Continued)

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

<u>Investment Type</u>	<u>Fair Value</u>	<u>Average Effective Duration</u>
<u>2019</u>		
King County Investment Pool:		
Main Pool	\$ 7,106,964	0.92 Years
Impaired Pool	4,772	
<u>2018</u>		
King County Investment Pool:		
Main Pool	\$ 3,047,207	0.94 Years
Impaired Pool	6,285	

Impaired Investments

As of December 31, 2019 and 2018, all impaired commercial paper investments had completed enforcement events. The King County Impaired Investment Pool (Impaired Pool) held one commercial paper asset where the Impaired Pool accepted an exchange offer and is receiving the cash flows from the investment's underlying securities. The Impaired Pool also held the residual investments in one (two at December 31, 2018) commercial paper assets that were part of completed enforcement events, where the Impaired Pool accepted the cash-out option. The District's share of the impaired investment pool principal was \$7,090 and \$8,870 at December 31, 2019 and 2018, respectively. The District's unrealized loss for these investments is \$2,318 and \$2,585 at December 31, 2019 and 2018, respectively.

Interest Rate Risk

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

Credit Risk

As of December 31, 2019 and 2018, the District's investment in the Pool was not rated by a nationally recognized statistical rating organization (NRSRO). In compliance with state statutes, Pool policies authorize investments in U.S. treasury securities, U.S. agency securities and mortgage-backed securities, corporate notes (rated at least "A" by one NRSRO), municipal securities (rated at least "A" by two NRSROs), commercial paper (rated at least the equivalent of "A-1" by one NRSRO), certificates of deposits issued by qualified public depositories, repurchase agreements, and the Local Government Investment Pool managed by the Washington State Treasurer's office.

**VALLEY VIEW SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

NOTE 3 RESTRICTED ASSETS

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

	Cash and Cash Equivalents	Interest Receivable	Current Assessments Receivable	Long-Term Assessments Receivable
<u>December 31, 2019</u>				
Current Restricted Assets:				
Impaired Investment Pool	\$ 4,772	\$ -	\$ -	\$ -
Revenue Bond Reserve Account	153,224	-	-	-
Revenue Bond Fund Debt				
Service Account	191,227	387	100,859	300,433
Total	<u>\$ 349,223</u>	<u>\$ 387</u>	<u>\$ 100,859</u>	<u>\$ 300,433</u>
	Cash and Cash Equivalents	Interest Receivable	Current Assessments Receivable	Long-Term Assessments Receivable
<u>December 31, 2018</u>				
Current Restricted Assets:				
Impaired Investment Pool	\$ 6,285	\$ -	\$ -	\$ -
Revenue Bond Reserve Account	279,388	-	-	-
Revenue Bond Fund Debt				
Service Account	27,109	507	117,908	391,162
Total	<u>\$ 312,782</u>	<u>\$ 507</u>	<u>\$ 117,908</u>	<u>\$ 391,162</u>

Terms of the revenue bond issues require the District to establish and maintain a reserve account. The reserve account is to provide security for bondholders. The amount to be reserved is the lesser of the maximum annual debt service, 125% of average annual debt service, or 10% of the proceeds of the bonds. As of December 31, 2019 and 2018, the required reserve is \$153,224 and \$279,388, respectively. As of December 31, 2019 and 2018, the reserve account was fully funded.

**VALLEY VIEW SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

NOTE 4 CAPITAL ASSETS

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

	Balance - Beginning of Year	Increase	Decrease	Balance - End of Year
<u>2019</u>				
Capital Assets Not Being Depreciated:				
Land, Land Rights, and Other	\$ 628,310	\$ -	\$ -	\$ 628,310
Construction in Progress	4,821,929	2,230,759	(6,597,539)	455,149
Total	5,450,239	2,230,759	(6,597,539)	1,083,459
Capital Assets Being Depreciated:				
Sewer Mains and Extensions	50,874,729	6,707,889	-	57,582,618
Sewer Structures and Intangibles	3,614,754	-	-	3,614,754
Equipment	1,556,943	5,813	-	1,562,756
Office Building	4,398,844	6,855	-	4,405,699
Total	60,445,270	6,720,557	-	67,165,827
Accumulated Depreciation:				
Sewer Mains and Extensions	(19,883,845)	(1,062,305)	-	(20,946,150)
Sewer Structures and Intangibles	(2,503,509)	(57,809)	-	(2,561,318)
Equipment	(1,460,969)	(35,434)	-	(1,496,403)
Office Building	(1,498,343)	(109,343)	-	(1,607,686)
Total	(25,346,666)	(1,264,891)	-	(26,611,557)
Net Capital Assets	<u>\$ 40,548,843</u>	<u>\$ 7,686,425</u>	<u>\$ (6,597,539)</u>	<u>\$ 41,637,729</u>

**VALLEY VIEW SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

NOTE 4 CAPITAL ASSETS (CONTINUED)

	Balance - Beginning of Year	Increase	Decrease	Balance - End of Year
<u>2018</u>				
Capital Assets Not Being Depreciated:				
Land, Land Rights, and Other	\$ 628,310	\$ -	\$ -	\$ 628,310
Construction in Progress	1,207,179	4,143,812	(529,062)	4,821,929
Total	1,835,489	4,143,812	(529,062)	5,450,239
Capital Assets Being Depreciated:				
Sewer Mains and Extensions	50,405,317	469,412	-	50,874,729
Sewer Structures and Intangibles	3,611,151	3,603	-	3,614,754
Equipment	1,527,804	31,945	(2,806)	1,556,943
Office Building	4,397,758	1,086	-	4,398,844
Total	59,942,030	506,046	(2,806)	60,445,270
Accumulated Depreciation:				
Sewer Mains and Extensions	(18,894,476)	(989,369)	-	(19,883,845)
Sewer Structures and Intangibles	(2,439,686)	(63,823)	-	(2,503,509)
Equipment	(1,411,027)	(52,748)	2,806	(1,460,969)
Office Building	(1,384,072)	(114,271)	-	(1,498,343)
Total	(24,129,261)	(1,220,211)	2,806	(25,346,666)
Net Capital Assets	<u>\$ 37,648,258</u>	<u>\$ 3,429,647</u>	<u>\$ (529,062)</u>	<u>\$ 40,548,843</u>

NOTE 5 LONG-TERM DEBT PAYABLE FROM UNRESTRICTED ASSETS

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

<u>Description</u>	<u>2019</u>	<u>2018</u>
Public Works Trust Fund Loans:		
2001 \$1,394,170 loan: Payable \$73,581 annually through the year 2021, plus interest at 0.50 annual percentage rate.	\$ 147,162	\$ 220,744
2002 \$1,908,250 loan: Payable \$101,025 annually through the year 2022, plus interest at 0.50 annual percentage rate.	303,075	404,100

**VALLEY VIEW SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

NOTE 5 LONG-TERM DEBT PAYABLE FROM UNRESTRICTED ASSETS (CONTINUED)

<u>Description</u>	<u>2019</u>	<u>2018</u>
2003 \$1,280,058 loan: Payable \$68,755 annually through the year 2023, plus interest at 0.50 annual percentage rate.	\$ 275,019	\$ 343,774
2004 \$88,230 loan: Payable \$4,780 annually through the year 2023, plus interest at 0.50 annual percentage rate.	19,121	23,901
2004 \$1,609,050 loan: Payable \$85,185 annually through the year 2024, plus interest at 0.50 annual percentage rate.	425,925	511,110
2006 \$3,320,632 loan: Payable \$185,219 annually through the year 2026, plus interest at 0.50 annual percentage rate.	1,296,536	1,481,755
2012 \$1,950,000 loan: Payable \$100,685 annually through the year 2031, plus interest at 0.25 annual percentage rate.	1,208,225	1,308,911
Clean Water State Revolving Fund Loans:		
2017 \$171,412 loan: Payable \$5,285 semi-annually through the year 2038, plus interest at 2.0 annual percentage rate.	166,263	162,332
2017 Loan: \$1,875,130 authorized, \$1,732,246 drawn to December 31, 2019. Based on draws to December 31, 2019, payable \$54,147 semi-annually through the 2039, plus interest at 2.0 annual percentage rate.	1,732,246	151,566
2017\$1,078,419 loan 100% of loan forgiven effective November 30, 2020.	-	154,431
Subtotal	5,573,572	4,762,624
Less: Current Maturities	691,027	617,823
Total	<u>\$ 4,882,545</u>	<u>\$ 4,144,801</u>

**VALLEY VIEW SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

NOTE 5 LONG-TERM DEBT PAYABLE FROM UNRESTRICTED ASSETS (CONTINUED)

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

<u>Year Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$ 691,027	\$ 62,423	\$ 753,450
2021	701,960	48,646	750,606
2022	630,042	44,138	674,180
2023	530,714	39,964	570,678
2024	458,910	36,262	495,172
2025-2029	1,340,175	137,084	1,477,259
2030-2034	716,486	79,963	796,449
2035-2039	504,258	25,347	529,605
Total	<u>\$ 5,573,572</u>	<u>\$ 473,827</u>	<u>\$ 6,047,399</u>

NOTE 6 LONG-TERM DEBT PAYABLE FROM RESTRICTED ASSETS

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

<u>Description</u>	<u>2019</u>	<u>2018</u>
Revenue Bonds:		
\$1,835,000 issued September 18, 2008 for utility construction, due serially through the year 2023, with interest payable semi-annually at 4.30 annual percentage rate.	\$ 595,000	\$ 730,000
\$981,000 issued May 1, 2012 for utility construction, due annually through the year 2027, with interest payable semi-annually at 3.00 annual percentage rate. Paid in full December 31, 2019.	-	598,232
\$1,013,087 issued March 3, 2016 for refunding, due serially through the year 2022, with interest payable semi-annually at 1.89 annual percentage rate.	<u>310,409</u>	<u>477,976</u>
Subtotal	905,409	1,806,208
Less: Current Maturities	<u>293,509</u>	<u>369,037</u>
Total	<u>\$ 611,900</u>	<u>\$ 1,437,171</u>

**VALLEY VIEW SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

NOTE 6 LONG-TERM DEBT PAYABLE FROM RESTRICTED ASSETS (CONTINUED)

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

<u>Year Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$ 293,509	\$ 31,452	\$ 324,961
2021	229,610	22,530	252,140
2022	227,290	14,576	241,866
2023	155,000	6,665	161,665
Total	<u>\$ 905,409</u>	<u>\$ 75,223</u>	<u>\$ 980,632</u>

NOTE 7 CHANGES IN LONG-TERM LIABILITIES

Changes in long-term liabilities were as follows:

	<u>Balance - Beginning of Year</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance - End of Year</u>	<u>Amounts Due Within One Year</u>
<u>2019</u>					
Public Works Trust					
Fund Loans	\$ 4,294,295	\$ -	\$ (619,232)	\$ 3,675,063	\$ 619,231
Clean Water State Revolving					
Loans	468,329	2,484,829	(1,054,649)	1,898,509	71,796
Revenue Bonds	1,806,208	-	(900,799)	905,409	293,509
Compensated Absences	231,579	157,110	(216,741)	171,948	135,300
Net Pension Liability	670,182	-	(173,888)	496,294	-
Total	<u>\$ 7,470,593</u>	<u>\$ 2,641,939</u>	<u>\$ (2,965,309)</u>	<u>\$ 7,147,223</u>	<u>\$ 1,119,836</u>
<u>2018</u>					
Public Works Trust					
Fund Loans	\$ 4,927,308	\$ -	\$ (633,013)	\$ 4,294,295	\$ 619,231
Clean Water State Revolving					
Loans	1,051,097	14,693	(597,461)	468,329	(1,408)
Revenue Bonds	2,179,345	-	(373,137)	1,806,208	369,037
Compensated Absences	229,642	149,687	(147,750)	231,579	147,700
Net Pension Liability	968,153	-	(297,971)	670,182	-
Total	<u>\$ 9,355,545</u>	<u>\$ 164,380</u>	<u>\$ (2,049,332)</u>	<u>\$ 7,470,593</u>	<u>\$ 1,134,560</u>

**VALLEY VIEW SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

NOTE 8 PENSION PLAN

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

Aggregate Pension Amounts - All Plans		
	2019	2018
Net Pension Liabilities	\$ 496,294	\$ 670,182
Deferred Outflows of Resources	138,729	139,113
Deferred Inflows of Resources	308,928	275,766
Pension Expense	33,923	22,734

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

**VALLEY VIEW SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

NOTE 8 PENSION PLAN (CONTINUED)

Public Employees Retirement System (PERS)

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

PERS Plan 1 – provides retirement, disability, and death benefits. Retirement benefits are determined as 2% of the member's average final compensation (AFC) times the member's years of service. The AFC is the average of the member's 24 highest consecutive service months. Members are eligible for retirement from active status at any age with at least 30 years of service, at age 55 with at least 25 years of service, or at age 60 with at least 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 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 5 years of eligible service. The plan was closed to new entrants on September 30, 1977.

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

**VALLEY VIEW SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

NOTE 8 PENSION PLAN (CONTINUED)

Public Employees Retirement System (PERS) (Continued)

Contributions (Continued)

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

<u>PERS Plan 1 Actual Contribution Rates</u>	<u>Employer</u>	<u>Employee</u>
<u>2019</u>		
January through June		
PERS Plan 1	7.52 %	6.00 %
PERS Plan 1 UAAL	5.13	
Administrative Fee	0.18	
Total	<u>12.83 %</u>	<u>6.00 %</u>
July through December		
PERS Plan 1	7.92 %	6.00 %
PERS Plan 1 UAAL	4.76	
Administrative Fee	0.18	
Total	<u>12.86 %</u>	<u>6.00 %</u>
<u>2018</u>		
January through August		
PERS Plan 1	7.49 %	6.00 %
PERS Plan 1 UAAL	5.03	
Administrative Fee	0.18	
Total	<u>12.70 %</u>	<u>6.00 %</u>
September through December		
PERS Plan 1	7.52 %	6.00 %
PERS Plan 1 UAAL	5.13	
Administrative Fee	0.18	
Total	<u>12.83 %</u>	<u>6.00 %</u>

The District's actual contributions to the plan were \$67,085 and \$68,693 for the years ended December 31, 2019 and 2018, respectively.

**VALLEY VIEW SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

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 5 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 5 years of eligible service. Plan 3 members are vested in the defined benefit portion of their plan after 10 years of service; or after 5 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 6 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.

**VALLEY VIEW SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

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:

<u>PERS Plan 2/3 Actual Contribution Rates</u>	<u>Employer 2/3</u>	<u>Employee 2</u>	<u>Employee 3</u>
<u>2019</u>			
January through June			
PERS Plan 2/3	7.52 %	7.41 %	Varies
PERS Plan 1 UAAL	5.13		
Administrative Fee	0.18		
Total	<u>12.83 %</u>	<u>7.41 %</u>	Varies
July through December			
PERS Plan 2/3	7.92 %	7.90 %	Varies
PERS Plan 1 UAAL	4.76		
Administrative Fee	0.18		
Total	<u>12.86 %</u>	<u>7.90 %</u>	Varies
<u>2018</u>			
January through August			
PERS Plan 2/3	7.49 %	7.38 %	Varies
PERS Plan 1 UAAL	5.03		
Administrative Fee	0.18		
Total	<u>12.70 %</u>	<u>7.38 %</u>	Varies
September through December			
PERS Plan 2/3	7.52 %	7.41 %	Varies
PERS Plan 1 UAAL	5.13		
Administrative Fee	0.18		
Total	<u>12.83 %</u>	<u>7.41 %</u>	Varies

The District's actual contributions to the plan were \$104,741 and \$101,757 for the years ended December 31, 2019 and 2018, respectively.

Actuarial Assumptions

The 2019 total pension liability (TPL) for each of the DRS plans was determined using the most recent actuarial valuation completed in 2019 with a valuation date of June 30, 2018. 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 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*.

**VALLEY VIEW SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

NOTE 8 PENSION PLAN (CONTINUED)

Actuarial Assumptions (Continued)

Additional 2019 assumptions for subsequent events and law changes are current as of the 2018 actuarial valuation report. Additional 2018 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, 2019 and June 30, 2018. 2019 Plan liabilities were rolled forward from June 30, 2018, to June 30, 2019, and 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.

There were changes in methods and assumptions between the 2019 and 2018 valuations.

- OSA updated modeling to reflect providing benefit payments to the date of the initial retirement eligibility for terminated vested members who delay application for retirement benefits.
- OSA updated COLA programming to reflect legislation signed during the 2018 legislative session that provides PERS Plan 1 annuitants who are not receiving a basic minimum, alternate minimum, or temporary disability benefit with a one-time permanent 1.5% increase to their monthly retirement benefit, not to exceed a maximum of \$62.50 per month.

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.

**VALLEY VIEW SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

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.

**VALLEY VIEW SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

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, 2019 and 2018:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Percent Long-Term Expected Real Rate of Return Arithmetic</u>
<u>2019</u>		
Fixed Income	20 %	2.20 %
Tangible Assets	7	5.10
Real Estate	18	5.80
Global Equity	32	6.30
Private Equity	23	9.30
Total	<u>100 %</u>	
<u>2018</u>		
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	<u>100 %</u>	

**VALLEY VIEW SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

NOTE 8 PENSION PLAN (CONTINUED)

Sensitivity of Net Pension Liability (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%)
<u>2019</u>			
PERS 1	\$ 468,722	\$ 374,284	\$ 292,346
PERS 2/3	935,767	122,010	(545,732)
	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
<u>2018</u>			
PERS 1	\$ 551,592	\$ 448,837	\$ 359,829
PERS 2/3	1,012,439	221,345	(427,263)

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, 2019 and 2018, the District reported a total pension liability (asset) for its proportionate share of the net pension liabilities as follows (measured as of June 30, 2019 and 2018):

	2019	2018
PERS 1	\$ 374,284	\$ 448,837
PERS 2/3	122,010	221,345
Total	<u>\$ 496,294</u>	<u>\$ 670,182</u>

**VALLEY VIEW SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

NOTE 8 PENSION PLAN (CONTINUED)

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

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

	<u>Proportionate Share 6/30/18</u>	<u>Proportionate Share 6/30/19</u>	<u>Change in Proportion</u>
PERS 1	0.010050%	0.009733%	-0.000317%
PERS 2/3	0.012964%	0.012561%	-0.000403%
	<u>Proportionate Share 6/30/17</u>	<u>Proportionate Share 6/30/18</u>	<u>Change in Proportion</u>
PERS 1	0.010507%	0.010050%	-0.000457%
PERS 2/3	0.013515%	0.012964%	-0.000551%

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 2019 and 2018 collective net pension liability (asset) was measured as of June 30, 2019 and 2018, respectively, and the actuarial valuation date on which the total pension liability (asset) is based was as of June 30, 2018 and 2017, respectively, with update procedures used to roll forward the total pension liability to the measurement date.

Pension Expense

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

	<u>2019</u>	<u>2018</u>
PERS 1	\$ 2,408	\$ 16,674
PERS 2/3	29,074	3,619
Expenses and Other	2,441	2,441
Total	<u>\$ 33,923</u>	<u>\$ 22,734</u>

**VALLEY VIEW SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

NOTE 8 PENSION PLAN (CONTINUED)

Deferred Outflows of Resources and Deferred Inflows of Resources

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

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
<u>2019</u>		
PERS 1:		
Differences Between Expected and Actual Experience	\$ -	\$ -
Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments	-	25,005
Changes of Assumptions	-	-
Changes in Proportion and Differences Between Contributions and Proportionate Share of Contributions	-	-
Contributions Subsequent to the Measurement Date	32,334	-
Total	<u>\$ 32,334</u>	<u>\$ 25,005</u>
PERS 2/3:		
Differences Between Expected and Actual Experience	\$ 34,956	\$ 26,231
Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments	-	177,597
Changes of Assumptions	3,124	51,191
Changes in Proportion and Differences Between Contributions and Proportionate Share of Contributions	14,515	28,904
Contributions Subsequent to the Measurement Date	53,800	-
Total	<u>\$ 106,395</u>	<u>\$ 283,923</u>
Total All Plans	<u>\$ 138,729</u>	<u>\$ 308,928</u>

**VALLEY VIEW SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

NOTE 8 PENSION PLAN (CONTINUED)

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

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
2018		
PERS 1:		
Differences Between Expected and Actual Experience	\$ -	\$ -
Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments	-	17,836
Changes of Assumptions	-	-
Changes in Proportion and Differences Between Contributions and Proportionate Share of Contributions	-	-
Contributions Subsequent to the Measurement Date	35,041	-
Total	<u>\$ 35,041</u>	<u>\$ 17,836</u>
PERS 2/3:		
Differences Between Expected and Actual Experience	\$ 27,131	\$ 38,753
Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments	-	135,828
Changes of Assumptions	2,590	62,993
Changes in Proportion and Differences Between Contributions and Proportionate Share of Contributions	22,702	20,356
Contributions Subsequent to the Measurement Date	51,649	-
Total	<u>\$ 104,072</u>	<u>\$ 257,930</u>
Total All Plans	<u>\$ 139,113</u>	<u>\$ 275,766</u>

**VALLEY VIEW SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

NOTE 8 PENSION PLAN (CONTINUED)

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

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

<u>Year Ending December 31.</u>	<u>PERS 1</u>	<u>PERS 2/3</u>
2020	\$ (5,520)	\$ (56,085)
2021	(13,075)	(93,078)
2022	(4,666)	(42,353)
2023	(1,744)	(23,564)
2024	-	(14,281)
Thereafter	-	(1,967)
Total	<u>\$ (25,005)</u>	<u>\$ (231,328)</u>

NOTE 9 DEFERRED COMPENSATION PLAN

The District offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. This plan is with Aetna Life Insurance and Annuity Company and the state of Washington. The plan, available to all eligible employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to the employees until termination, retirement, death, or unforeseeable emergency. The District made no contributions to the plan in 2019 or 2018.

NOTE 10 RISK MANAGEMENT

Valley View Sewer District is a member of Enduris. Chapter 48.62 RCW provides the exclusive source of local government entity authority to individually or jointly self-insure risks, jointly purchase insurance, or reinsurance, and to contract for risk management, claims, and administrative services. Enduris was formed July 10, 1987 pursuant to the provisions of Chapter 48.62 RCW, Chapter 200-100 WAC, and Chapter 39.34 RCW. Two counties and two cities in the state of Washington joined together by signing an interlocal governmental agreement to fund their self-insured losses and jointly purchase insurance and administrative services. As of August 31, 2019, there are 547 Enduris members representing a broad array of special purpose districts throughout the state. Enduris provides property and liability coverage as well as risk management services and other related administrative services.

**VALLEY VIEW SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

NOTE 10 RISK MANAGEMENT (CONTINUED)

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

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

\$250,000 self-insured retention on property loss – the member is responsible for the first \$1,000 of the amount of each claim, while Enduris is responsible for the remaining \$249,000 on a property loss. For property losses related to boiler and machinery Enduris is responsible for the first \$4,000 of the claim.

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

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

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

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

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

In the past three years (2019, 2018, and 2017), there have been no claim settlements, per occurrence or in aggregate, that have exceeded the coverage provided by excess/reinsurance contracts.

**VALLEY VIEW SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

NOTE 11 HEALTH AND WELFARE

The Valley View Sewer District is a member of the Association of Washington Cities Employee Benefit Trust Health Care Program (AWC Trust HCP). Chapter 48.62 RCW provides that two or more local government entities may, by Interlocal agreement under Chapter 39.34 RCW, form together or join a pool or organization for the joint purchasing of insurance, and/or joint self-insurance, to the same extent that they may individually purchase insurance or self-insure.

An agreement to form a pooling arrangement was made pursuant to the provisions of Chapter 39.34 RCW, the Interlocal Cooperation Act. The AWC Trust HCP was formed on January 1, 2014 when participating cities, towns, and non-city entities of the AWC Employee Benefit Trust in the state of Washington joined together by signing an Interlocal Governmental Agreement to jointly self-insure certain health benefit plans and programs for participating employees, their covered dependents and other beneficiaries through a designated account within the Trust.

As of December 31, 2019, 261 cities/towns/non-city entities participate in the AWC Trust HCP.

The AWC Trust HCP allows members to establish a program of joint insurance and provides health and welfare services to all participating members. The AWC Trust HCP pools claims without regard to individual member experience. The pool is actuarially rated each year with the assumption of projected claims run-out for all current members. The AWC Trust HCP includes medical, dental and vision insurance through the following carriers: Kaiser Foundation Health Plan of Washington, Kaiser Foundation Health Plan of Washington Options, Inc., Regence BlueShield, Asuris Northwest Health, Delta Dental of Washington, and Vision Service Plan. Eligible members are cities and towns within the state of Washington. Non-City Entities (public agency, public corporation, intergovernmental agency, or political subdivision within the state of Washington) are eligible to apply for coverage into the AWC Trust HCP, submitting application to the board of trustees for review as required in the Trust Agreement.

Participating employers pay monthly premiums to the AWC Trust HCP. The AWC Trust HCP is responsible for payment of all covered claims. In 2019, the AWC Trust HCP purchased stop loss insurance for Regence/Asuris plans at an Individual Stop Loss (ISL) of \$1.5 million through Life Map, and Kaiser ISL at \$1 million with Companion Life through ASG Risk Management. The aggregate policy is for 200% of expected medical claims.

**VALLEY VIEW SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

NOTE 11 HEALTH AND WELFARE (CONTINUED)

Participating employers' contract to remain in the AWC HCP for a minimum of three years. Participating employers with over 250 employees must provide written notice of termination of all coverage a minimum of 12 months in advance of the termination date, and participating employers with under 250 employees must provide written notice of termination of all coverage a minimum of six months in advance of termination date. When all coverage is being terminated, termination will only occur on December 31. Participating employers terminating a group or line of coverage must notify the HCP a minimum of 60 days prior to termination. A participating employer's termination will not obligate that member to past debts, or further contributions to the HCP. Similarly, the terminating member forfeits all rights and interest to the HCP Account.

The operations of the Health Care Program are managed by the board of trustees or its delegates. The board of trustees is comprised of four regionally elected officials from Trust member cities or towns, the Employee Benefit Advisory Committee Chair and Vice Chair, and two appointed individuals from the AWC Board of Directors, who are from trust member cities or towns. The trustees or its appointed delegates review and analyze Health Care Program related matters and make operational decisions regarding premium contributions, reserves, plan options, and benefits in compliance with Chapter 48.62 RCW. The board of trustees has decision authority consistent with the Trust Agreement, Health Care Program policies, Chapter 48.62 RCW and Chapter 200-110-WAC.

The accounting records of the Trust HCP are maintained in accordance with methods prescribed by the State Auditor's office under the authority of Chapter 43.09 RCW. The Trust HCP also follows applicable accounting standards established by the Governmental Accounting Standards Board (GASB). In 2018, the retiree medical plan subsidy was eliminated, and is noted as such in the report for the fiscal year ending December 31, 2018. Year-end financial reporting is done on an accrual basis and submitted to the Office of the State Auditor as required by Chapter 200-110 WAC. The audit report for the AWC Trust HCP is available from the Washington State Auditor's office.

In the past three years (2019, 2018, and 2017), there have been no claim settlements, per occurrence or in aggregate, that have exceeded the coverage provided by stop loss contracts.

**VALLEY VIEW SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

NOTE 12 COMMITMENTS

Joint Administration Building

On August 14, 2005, the District entered into an agreement with Water District No. 125 of King County for the construction and operation of a joint administration building on property owned by Water District No. 125. The building was completed and occupied in 2007. The Districts are tenants in common, each having a 50% interest in the shared parcel and are operating under a condominium agreement. Details of the agreements are available in the District office.

As of December 31, 2019, the District is also committed under construction contracts totaling \$4,898,444 of which \$4,402,401 has been expended.

NOTE 13 MAJOR SUPPLIER

Sewage collected by the District is treated by other entities. King County Wastewater Treatment Division (KCWTD/METRO) provides approximately 97% of the District's sewage treatment.

NOTE 14 SUBSEQUENT EVENTS

In February 2020, the Governor of the state of Washington declared a state of emergency in response to the spread of a deadly new virus. In the weeks following the declaration, precautionary measures to slow the spread of the virus have been ordered. These measures include closing schools, colleges and universities, cancelling public events, prohibiting public and private gatherings, and requiring people to stay home unless they are leaving for an essential function.

Specific to the District, COVID 19 may impact various parts of its 2020 operations and financial results, including slower collections of receivables and reductions in operating revenues and capital contributions. Management believes the District is taking appropriate actions to mitigate the negative impact. However, the length of time these measures will be in place, and the full extent of the financial impact on the District is unknown at this time.

**VALLEY VIEW SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

NOTE 15 RESTATEMENT – CORRECTION OF AN ERROR

In 2019, the District determined that the effective date of forgiveness on one of the Clean Water State Revolving Fund Loans was November 30, 2018. Accordingly, the 2018 financial statements have been restated to reflect the amount of forgiveness occurring in 2018. The following are the line items that were restated, the adjustments and the restated balances:

	<u>As Previously Reported</u>	<u>Adjustments</u>	<u>As Adjusted</u>
Statement of Net Position:			
Long-Term Debt Payable from Unrestricted Assets, Net of Current Maturities	\$ 4,742,262	\$ (597,461)	\$ 4,144,801
Net Position, Net Investment in Capital Assets	33,346,597	597,461	33,944,058
Statement of Revenues, Expenses and Changes in Fund Net Position:			
Capital Contributions	4,523,445	597,461	5,120,906
Change in Net Position	5,341,396	597,461	5,938,857
Net Position - End of Year	41,269,748	597,461	41,867,209
Statement of Cash Flows:			
Supplemental Schedule of Significant Noncash Financing and Investing Activities			
Forgiven Loans	-	597,461	597,461

**VALLEY VIEW SEWER DISTRICT
SCHEDULES OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
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
2019	0.009733%	\$ 374,284	\$ 1,365,199	27.42%	67.12%
2018	0.010050%	448,837	1,335,520	33.61%	63.22%
2017	0.010507%	498,571	1,325,011	37.63%	61.24%
2016	0.010066%	540,574	1,196,693	45.17%	57.03%
2015	0.009874%	516,479	1,137,451	45.41%	59.10%
2014	0.009227%	464,815	1,060,628	43.82%	61.19%
2013	0.915600%	535,003	1,026,904	52.10%	

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
2019	0.012561%	\$ 122,010	\$ 1,365,199	8.94%	97.77%
2018	0.012964%	221,345	1,335,520	16.57%	95.77%
2017	0.013515%	469,582	1,325,011	35.44%	90.97%
2016	0.012914%	650,233	1,196,693	54.34%	85.82%
2015	0.012755%	455,746	1,137,451	40.07%	89.20%
2014	0.001188%	240,134	1,060,628	22.64%	93.29%
2013	0.001219%	520,648	1,026,924	50.70%	

Notes to Schedule:

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

**VALLEY VIEW SEWER DISTRICT
SCHEDULES OF EMPLOYER PENSION 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
2019	\$ 67,085	\$ (67,085)	\$ -	\$ 1,356,703	4.94%
2018	68,693	(68,693)	-	1,356,798	5.06%
2017	65,409	(65,409)	-	1,334,925	4.90%
2016	60,463	(60,463)	-	1,267,567	4.77%
2015	51,240	(51,240)	-	1,171,860	4.37%
2014	42,553	(42,553)	-	1,060,538	4.01%
2013	32,399	(32,399)	-	1,015,617	3.19%

Notes to Schedule:

* 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
2019	\$ 104,741	\$ (104,741)	\$ -	\$ 1,356,703	7.72%
2018	101,757	(101,757)	-	1,356,798	7.50%
2017	91,564	(91,564)	-	1,334,925	6.86%
2016	78,969	(78,969)	-	1,267,567	6.23%
2015	65,792	(65,792)	-	1,171,860	5.61%
2014	52,676	(52,676)	-	1,060,538	4.97%
2013	49,003	(49,003)	-	1,015,617	4.82%

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 Washington State Constitution and is part of the executive branch of state government. The State Auditor is elected by the people of Washington and serves four-year terms.

We work with state agencies, local governments and the public to achieve our vision of increasing trust in government by helping governments work better and deliver higher value.

In fulfilling our mission to provide citizens with independent and transparent examinations of how state and local governments use public funds, we hold ourselves to those same standards by continually improving our audit quality and operational efficiency, and by developing highly engaged and committed employees.

As an agency, the State Auditor's Office has the independence necessary to objectively perform audits, attestation engagements and investigations. Our work is designed to comply with professional standards as well as to satisfy the requirements of federal, state and local laws. The Office also has an extensive quality control program and undergoes regular external peer review to ensure our work meets the highest possible standards of accuracy, objectivity and clarity.

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

The results of our work are available to everyone through the more than 2,000 reports we publish each year on our website, www.sao.wa.gov. Additionally, we share regular news and other information via an email subscription service and social media channels.

We take our role as partners in accountability seriously. The Office provides training and technical assistance to governments both directly and through partnerships with other governmental support organizations.

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