



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

# **Financial Statements Audit Report**

## **Lake Stevens Sewer District**

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

**Published December 31, 2018**

**Report No. 1022850**





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

December 31, 2018

Board of Commissioners  
Lake Stevens Sewer District  
Lake Stevens, Washington

**Report on Financial Statements**

Please find attached our report on the Lake Stevens Sewer District's financial statements.

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

Sincerely,

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

Pat McCarthy  
State Auditor  
Olympia, WA

## TABLE OF CONTENTS

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.....	4
Independent Auditor's Report on Financial Statements.....	6
Financial Section.....	9
About the State Auditor's Office.....	35

**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**

**Lake Stevens Sewer District  
January 1, 2017 through December 31, 2017**

Board of Commissioners  
Lake Stevens Sewer District  
Lake Stevens, 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 Lake Stevens Sewer District, as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated December 13, 2018.

**INTERNAL CONTROL OVER FINANCIAL REPORTING**

In planning and performing our audit 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 opinion 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

December 13, 2018

# INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

## Lake Stevens Sewer District January 1, 2017 through December 31, 2017

Board of Commissioners  
Lake Stevens Sewer District  
Lake Stevens, Washington

### REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the Lake Stevens Sewer District, as of and for the year ended December 31, 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 an opinion on these financial statements based on our audit. We conducted our audit 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 opinion.

## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Lake Stevens Sewer District, as of December 31, 2017, and the changes in financial position and cash flows thereof for the year 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 December 13, 2018 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 cursive script that reads "Pat McCarthy".

Pat McCarthy  
State Auditor  
Olympia, WA

December 13, 2018

## **FINANCIAL SECTION**

### **Lake Stevens Sewer District January 1, 2017 through December 31, 2017**

#### **REQUIRED SUPPLEMENTARY INFORMATION**

Management's Discussion and Analysis – 2017

#### **BASIC FINANCIAL STATEMENTS**

Statement of Net Position – 2017

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

Statement of Cash Flows – 2017

Notes to Financial Statements – 2017

#### **REQUIRED SUPPLEMENTARY INFORMATION**

Schedule of Proportionate Share of Net Pension Liability – PERS 1 – 2017

Schedule of Proportionate Share of Net Pension Liability – PERS 2/3 – 2017

Schedule of Employer Contributions – PERS 1 – 2017

Schedule of Employer Contributions – PERS 2/3 – 2017

# **Lake Stevens Sewer District Management's Discussion and Analysis For the Year Ended December 31, 2017**

The following discussion and analysis of the financial performance of the Lake Stevens Sewer District (the District) provides an overall review of the District's financial activities for the year ended December 31, 2017. This discussion is designed to be read in conjunction with the financial statements and notes to financial statements, which follow this section.

## **OVERVIEW**

The District was incorporated in 1957 and operates under the laws of the State of Washington. All financial reporting is based on twelve months of operations.

In 2017, the District had a positive operating income and met all debt obligations. As of December 31, 2017, the District had a total net position of \$88,880,717.

It is our honor to present the 2017 Lake Stevens Sewer District Annual Financial Statement. The employees who work for the Lake Stevens Sewer District provide excellent service to the community in which we service. We are quite proud of their hard work and commitment to keep the service virtually problem free and achieving the high results of clean effluent on a consistent basis.

The information we provide in this report will show our commitment to what we do well, and the talent that lies within our highly skilled staff of employees who are faced with all sorts of weather conditions and those that are manmade, in example, acts of vandalism. We are proud of what we have achieved this past year, and historically as well; we look forward to the future as we continue to develop our talented employees.

In 2017 we grew by 158 sewer connections, compared to 384 in 2016. We believe the change was due to developer's groundwork necessary for construction, as well as changes in city planning and development for future infrastructure.

In mid-September 2017, our General Manager accepted another position outside of the District and the two managerial employees have stepped in to fill the vacancy of his departure, building a team of employees that support the positive changes that those two are working on as we proceed with one of them as the interim General Manager. The Treatment Plant continues to do well with two Senior Operators who have taken over the responsibility of running the treatment plant, insuring all permits are done in a timely fashion, cross-training employees and continue to strive for excellence. Our Collection Team has also accomplished many achievements with the maintenance of approximately 115 miles of pipe, and twenty-nine (29) lift stations some of which is older infrastructure; while the inspections of new construction continue at a high demand.

Overall, the Lake Stevens Sewer District is meeting and exceeding all the demands of the needs in our community. We achieve this with through detailed planning that happens with our highly skilled and talented Administration Team while working with our three-person Board of Commissioners.

In July of 2017 our Board of Commissioners signed Resolution #930 stating they would like an investigation of possibly accelerating a merger with the City of Lake Stevens, as the City has requested a date other than the original date established by the 2005 Interlocal Agreement of merging in 2032. Once the evaluation is completed by July 2018, the Board of Commissioners will determine if it is financially a feasible and viable plan and decide with City of Lake Stevens Council to move forward or not.

We are prepared for the robust year of 2018 as we have successfully planned for the growth and development with careful planning of expenditures, capital improvements, known development and needs for capacity. At year end our maintenance and operations cash available were \$2.3 million dollars, that is all due to the leadership of all twenty-six (26) employees and the Board of Commissioners as we serve Lake Stevens Community.

## **FINANCIAL STATEMENTS**

This section of the management's discussion and analysis explains the purpose of the District's basic financial statements and the notes to these financial statements.

### **Basic Financial Statements**

The financial statements of the District are designed to provide readers with a broad overview of the District's finances similar to a private-sector business. They have been prepared using the accrual basis of accounting in accordance with generally accepted accounting principles. Under this basis of accounting, revenues are recognized in the period they are earned and expenses are recognized when incurred, regardless of the timing of related cash flows. These statements offer short and long-term financial information about the District's activities.

The Statement of Net Position presents the District's assets, deferred outflows, liabilities and deferred inflows, with the difference between the two reported as Net Position. The Statement of Net Position provides information about the nature and amount of investments in resources (assets), and deferred outflows, and the obligations to creditors (liabilities) and deferred inflows. Net Position increases when revenues exceed expenses. The Statement of Revenues, Expenses, and Changes in Net Position reports the revenues and expenses during the periods indicated. The Statement of Cash Flows provides information about the District's cash receipts and payments for operations, as well as funds provided and used in investing and capital & financing activities.

### **Notes to the Financial Statements**

The notes to the financial statements provide additional information that is essential to gain a full understanding of the figures provided in the financial statements.

## **FINANCIAL ANALYSIS**

### **Condensed Financial Information for Years Ending**

	<b>Dec. 31, 2017</b>	<b>Dec. 31, 2016</b>
		<b><u>Restated</u></b>
Current Assets	\$ 28,289,540	\$ 27,833,643
Net Capital Assets	161,449,271	163,442,598
Deferred Outflow of Resources	<u>260,092</u>	<u>315,523</u>
Total Assets & Deferred Outflows of Resources	189,998,903	191,591,764
Current Liabilities	6,384,677	6,384,419
Non-Current Liabilities	94,465,495	100,136,725
Deferred Inflows of Resources	<u>268,014</u>	<u>75,759</u>
Total Liabilities & Deferred Inflows of Resources	101,118,186	106,596,903
Net Investment in Capital Assets	63,928,910	60,824,357
Restricted for Debt Service & Construction	15,567,982	15,805,150
Unrestricted	<u>9,383,825</u>	<u>8,365,354</u>
Total Net Position	\$ <u>88,880,717</u>	\$ <u>84,994,861</u>
Utility Operating Revenue	\$ 13,411,491	\$ 12,731,317
Non-operating Revenue	<u>412,812</u>	<u>202,903</u>
Total Revenue	13,824,303	12,934,220
Operating Expenses	11,434,583	11,060,741
Non-operating Expenses	<u>2,761,765</u>	<u>3,987,733</u>
Total Expenses	<u>14,196,348</u>	<u>15,048,474</u>
Excess (Deficiency)	(372,045)	(2,114,254)
Capital Contributions	<u>4,257,900</u>	<u>4,060,926</u>
Change in Net Position	3,885,856	1,946,672
Net Position – Beg of Year	84,994,861	82,852,941
Prior Period Adjustment	<u>0</u>	<u>195,248</u>
Net Position – End of Year	\$ <u><u>88,880,717</u></u>	\$ <u><u>84,994,861</u></u>

## Overview

For the twelve months ending December 31, 2017, the total assets and deferred outflows of the District decreased by approximately \$1.6 million or approximately 0.8%, and total liabilities and deferred inflows decreased by approximately \$5.5 million or approximately 5.1%. Net Position increased approximately \$3.9 million or approximately 4.6%. The District's overall financial position improved. The decreases in total assets are primarily due to the increased depreciation costs and the decreases in total liabilities are primarily due to the repayment of debt.

Operating Revenues increased approximately 5.3% as expected due to an increase in District customers during 2017 and the \$3.00 per month, per Equivalent Residential Unit (ERU) rate increase that took effect January 1, 2017. Operating Revenues are expected to increase in 2018 due to an increase in District customers.

Operating Expenses increased 3.4% mainly due to the addition of two new Maintenance & Operation staff. The

District has restrictions on the use of Restricted for Debt Service & Construction funds which are listed on the previous page.

## Capital Assets

The District had a total net Capital Asset Value of \$161,449,271 as of December 31, 2017. This was a decrease of approximately \$2.0 million and is due to the increased STP#2 depreciation expense. Capital Assets consisted of \$1,160,154 in assets not being depreciated including land, and construction in process; \$211,618,340 in depreciable assets with a total accumulated depreciation of \$51,329,223 for a net value of depreciable assets of \$160,289,117.

Please refer to Note 3 and 4 to the Financial Statements for more information.

## Long-Term Debts

During the year, the District decreased its long-term debt by \$5,366,077, leaving a balance of \$97,520,361, including current portion of long-term debt.

Please refer to Note 5 to the Financial Statements for more information.

## **REQUESTS FOR INFORMATION**

The District's financial statements, notes and management discussion and analysis are designed to provide a general overview of the District's finances. Questions concerning any of the information presented in this report should be directed to the District at:

Lake Stevens Sewer District  
1106 Vernon Rd #A  
Lake Stevens, WA 98258  
(425) 334-8588

**MGAG No. 2176**  
**LAKE STEVENS SEWER DISTRICT**  
**STATEMENT OF NET POSITION**  
**DECEMBER 31, 2017**

**Assets**

Current Assets:

Cash and Cash Equivalents	\$ 12,098,365
Restricted Cash and Cash Equivalents	15,567,982
Receivables, net	414,840
Assessments Receivable	40,943
Prepayments	<u>167,410</u>
Total Current Assets	28,289,540

Noncurrent Assets:

Capital Assets Not Being Depreciated	
Land	1,052,474
Construction Works in Progress	107,680
Capital Assets Being Depreciated	
Plant and Buildings	183,115,033
Machinery, Equipment and Furniture	<u>28,503,307</u>
	212,778,494
Less accumulated depreciation	<u>(51,329,223)</u>
Total Noncurrent Assets	161,449,271

Total Assets	189,738,811
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Deferred Outflows of Resources

Deferred Outflows of Resources Related to Bond Refunding	6,814
Deferred Outflows of Resources Related to Pension	<u>253,278</u>
Total Deferred Outflows of Resources	<u>260,092</u>

Total Assets and Deferred Outflows	<u>\$ 189,998,903</u>
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**Liabilities**

Current Liabilities:

Accounts Payable	\$ 202,763
Compensated Absences	147,837
Developer Extension Deposits	126,600
Interest Accrued	400,465
Current Portion of Bonds, Notes and Loans Payable	<u>5,507,012</u>
Total Current Liabilities	6,384,677

Noncurrent Liabilities:

Bonds, Notes and Loans Payable, net of current portion	92,013,349
Accrued STP #1 Remediation Costs	1,013,062
Net Pension Liability	<u>1,439,084</u>
Total Noncurrent Liabilities	94,465,495

Total Liabilities	100,850,172
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Deferred Inflows of Resources

Deferred Inflows of Resources Related to Bond Refunding	4,218
Deferred Inflows of Resources Related to Pension	<u>263,796</u>
Total Deferred Inflows of Resources	268,014

Total Liabilities and Deferred Inflows	101,118,186
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**Net Position**

Net Investment in Capital Assets	63,928,910
Restricted for Debt Service & Construction	15,567,982
Unrestricted	<u>9,383,825</u>
Total Net Position	<u>88,880,717</u>
Total Liabilities and Net Position	<u>\$ 189,998,903</u>

The notes to the financial statements are an integral part of this statement

**MGAG No. 2176**  
**LAKE STEVENS SEWER DISTRICT**  
**STATEMENT OF REVENUE, EXPENSES & CHANGES IN**  
**NET POSITION**  
**FOR YEAR ENDED DECEMBER 31, 2017**

<b>Operating Revenue</b>	
Utility Revenue	\$ 13,411,491
<b>Operating Expenses:</b>	
General Operations	4,208,494
Maintenance Expense	645,274
Depreciation Expense	6,121,719
Taxes	459,096
Total Operating Expenses	<u>11,434,583</u>
<b>Operating Income (Loss)</b>	<u>1,976,908</u>
<b>Nonoperating Revenues (Expenses):</b>	
Interest Revenue	288,673
Interest on Long-Term Debt	(2,761,765)
Grant Revenue	45,000
Gain (Loss) on Insurance Claim	57,835
Gain (Loss) on Capital Asset Disposition	900
Net Rental Income	20,405
Total Nonoperating Revenues (Expenses)	<u>(2,348,952)</u>
<b>Income (Loss) Before Capital Contributions</b>	<u>(372,044)</u>
<b>Capital Contributions:</b>	
Developer Donated Facility	3,044,406
Connection Fees	1,069,944
SWI Phase II Basin Fee	143,550
Total Capital Contributions	<u>4,257,900</u>
<b>Change in Net Position</b>	3,885,856
<b>Total Net Position, January 1, 2017</b>	84,622,900
<b>Prior Period Adjustments</b>	<u>371,961</u>
<b>Total Net Position, December 31, 2017</b>	<u><u>\$ 88,880,717</u></u>

The notes to the financial statements are an integral part of this statement

**MGAG No. 2176**  
**LAKE STEVENS SEWER DISTRICT**  
**STATEMENT OF CASH FLOWS**  
**FOR YEAR ENDED DECEMBER 31, 2017**

**Cash Flows from Operating Activities:**

Receipts from customers	\$ 13,492,744
Payments to suppliers	(3,168,845)
Payments to employees	(2,099,361)
Net Cash Provided by Operating Activities	<u>8,224,538</u>

**Cash Flows from Capital and Related Financing Activities:**

Capital contributions - Connection fees	1,069,944
Capital contributions - SWI Ph II Basin Charge	143,550
Cash purchase of capital assets	(1,498,269)
Proceeds from long-term debt	268,197
Principal paid on long-term debt	(5,366,077)
Interest paid on long-term debt	(2,770,595)
Payments on accrued STP#1 Remediation cost	(14,739)
Principal received on ULID assessments	7,445
Interest received on ULID assessments	1,801
Gain (Loss) on Capital Asset Disposition	900
Net Cash Provided (Used) for Capital Financing Activities	<u>(8,157,843)</u>

**Cash Flows from Investing Activities:**

Interest Revenue	286,870
Net rental income	20,405
Net Cash Provided (Used) by Investing Activities	<u>307,275</u>

**Net Increase (Decrease) in Cash and Cash Equivalents** 373,970

**Cash and Cash Equivalents at January 1, 2017** 27,292,377

**Cash and Cash Equivalents at December 31, 2017** \$ 27,666,347

**Reconciliation of Operating Income to Net Cash provided by Operating Activities:**

Operating Income (Loss)	\$ 1,976,908
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	6,121,719
Non-Cash Actuarial Pension Adjustment	(50,200)
Changes in assets and liabilities:	
Decrease (Increase) in accounts receivable	1,461
Decrease (Increase) in prepayments	(33,000)
Increase (Decrease) in operating accounts payable	175,223
Increase (Decrease) in compensated absences	4,027
Increase (Decrease) in developer deposits	28,400
<b>Net Cash Provided by Operating Activities</b>	<u><u>\$ 8,224,538</u></u>

**Noncash Investing, Capital, and Financing Activities:**

Developer donated facility	\$ 3,044,406
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The notes to the financial statements are an integral part of this statement

**LAKE STEVENS SEWER DISTRICT  
NOTES TO FINANCIAL STATEMENTS FOR  
THE YEAR ENDING DECEMBER 31, 2017**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies of Lake Stevens Sewer District conform to generally accepted accounting principles (GAAP) as applicable to proprietary funds of governments. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the most significant policies:

**a. Reporting Entity / Nature of Business**

The Lake Stevens Sewer District is a municipal corporation governed by a three-member board elected by the voters located in the service area of the Lake Stevens Sewer District. The District provides a sewage system for collection, transportation and treatment of sanitary sewage for the unincorporated area around Lake Stevens, WA and for the City of Lake Stevens. As required by generally accepted accounting principles, management has considered all potential component units in defining the reporting entity. The Lake Stevens Sewer District has no component units.

**b. Basis of Accounting and Presentation**

The accounting records of the District are maintained in accordance with methods prescribed by the State Auditor under the authority of Chapter 43.09 RCW.

The District uses the full accrual basis of accounting where revenues are recognized when earned and expenses are recognized when incurred. Capital asset purchases are capitalized, and long-term liabilities are accounted for in the appropriate funds. All activities of the District are accounted for within a single proprietary fund.

The District distinguishes between operating revenues and expenses from non-operating ones. Operating revenues and expenses result from providing services, producing and delivering goods in connection with the District's principal ongoing operations. The principal operating revenues of the district are charges to customers for wastewater treatment. Operating expenses for the District include the cost of maintenance and operations, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

All utility services are billed monthly and recorded as revenues.

**c. 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 held at Washington State Department of Retirement Systems are reported at fair value.

**d. Cash and Cash Equivalents**

For purposes of the Statement of Cash Flows, the District considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

**LAKE STEVENS SEWER DISTRICT  
NOTES TO FINANCIAL STATEMENTS FOR  
THE YEAR ENDING DECEMBER 31, 2017**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

e. Utility Plant and Depreciation

Utility plant in service and other capital assets are recorded at cost. Donations by developers and customers are recorded at actual construction cost plus engineer estimated allied cost; and depreciated over the appropriate life of the assets.

The original cost of operating property retired, sold, or otherwise disposed of is removed from the utility plant accounts, accumulated depreciation is charged with the accumulated depreciation related to the property sold, and the net gain or loss on disposition is credited or charged to income.

Depreciation is computed on the straight-line method with useful lives of five to fifty years.

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

Please see Note 4.

f. Restricted Cash

In accordance with bond resolutions, (and certain related agreements) separate restricted cash accounts are required to be established. The assets held in these accounts are restricted for specific uses, including construction, debt service, and other special reserve requirements. Restricted accounts at December 31, 2017 include the following:

Bond and Loan Revenue Debt Reserve Funds	\$ 5,857,455
Debt Service Funds	<u>9,710,527</u>
	<u>\$ 15,567,982</u>

g. Receivables

Uncollectible accounts are written off to expense; however, few accounts are uncollectible because of the lien and foreclosure rights provided by the Revised Codes of Washington (RCW). Chapters 56.16.100/110 provide that the payment of delinquent charges for service may be enforced by establishing a lien against the property for which the charge is delinquent. If a lien is established against the property in question, such lien would be superior to all other liens except those established for the payment of general taxes and special assessments. Foreclosure rights are by civil action in the Snohomish County Superior Court.

h. Investments

All investments of the District are in the form of time certificates of deposit, U.S. Government Securities, State Treasurer's Investment Pool, and County Treasurer's Investment Pool pursuant to the requirements of Chapter 39.58 RCW. Investments are stated at cost. Interest income is accrued at year-end. As a general policy, investments are held until maturity.

**LAKE STEVENS SEWER DISTRICT  
NOTES TO FINANCIAL STATEMENTS FOR  
THE YEAR ENDING DECEMBER 31, 2017**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**i. Compensated Absences**

Compensated absences are absences for which employees will be paid, such as vacation pay, holiday pay, comp time, and sick leave. The District accrues unpaid compensated absences as an expense and liability when incurred. The Lake Stevens Sewer District policy states that upon termination, 100% of the employee's accrued sick leave is paid out to their Voluntary Employee Beneficiary Association (VEBA) account. Vacation pay, which may be accumulated up to 240 hours; comp time, which may be accumulated up to 40 hours; and holiday pay, which may be accumulated up to 8 hours; are payable upon termination, resignation, retirement or death. The Districts treats all accrued compensated absences as current liabilities. The total liability for compensated absences at December 31, 2017 was \$147,837.

**j. Accumulated Amortization Debt Discount and Expense**

The District implemented GASB 65, Items Previously Reported as Assets and Liabilities. This standard states in part, "Debt issuance costs, except any portion related to prepaid insurance costs, should be recognized as an expense in the period incurred."

**k. Deferred Inflows and Outflows**

The December 31, 2017 deferred outflows are as follows:

Debt Discount & Expense	\$ 21,733
Amortized Debt Discount & Expense	(14,919)
Deferred Outflows of Resources Related to Pension	253,278
	\$ 269,092

The December 31, 2017 deferred inflows are as follows:

Debt Premium	\$ 180,517
Amortized Debt Premium	(176,299)
Deferred Inflows of Resources Related to Pension	263,796
	\$ 268,014

**l. Construction Contract and Financing**

In 2014, the District applied for and was approved for a Department of Ecology, State Revolving Fund Loan, in the amount of \$4,025,000, to decommission former LSSD WWTP Site: Phase 2A, Biosolids Removal. The loan agreement was signed by Department of Ecology on 3/13/2015. The District went out to bid for the project in June of 2015, and awarded the project to Merrell Bros, Inc. Work on the project started in March of 2016 and was completed in January 2017.

	Maximum Loan Amount	Advances through 12/31/2017	Available Funds at 12/31/2017
State of Washington Revolving Fund	\$ <u>4,025,000</u>	<u>4,025,000</u>	<u>0</u>

**LAKE STEVENS SEWER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDING DECEMBER 31, 2017**

**NOTE 2: DEPOSITS AND INVESTMENTS**

The District's deposits and certificates of deposits 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). The District's cash funds and investments are processed or maintained by the Snohomish County Treasurer's Department in the name of the District. Snohomish County has all District deposits and investments in local banks short-term certificates of deposit, the County Treasurer's Investment Pool, or in the State of Washington Treasurer's Investment pool. As of December 31, 2017, the credit rating for the District's investment in the State Pool and County Pool were not available.

As of December 31, 2017, the District had the following deposits and investments:

Checking and Cash Accounts	\$ 808,698
County Treasury Investment Pool	18,047,943
State Treasury Investment Pool	<u>8,809,706</u>
	<u>\$ 27,666,347</u>

Deposits and investments are stated at cost, which approximates fair value, on the statement of net position.

**NOTE 3: CONSTRUCTION IN PROGRESS**

Construction in progress is composed of the following at December 31, 2017:

				Required
<u>Project Name</u>	<u>Project Authorization</u>	<u>Expended 12/31/2017</u>	<u>Committed</u>	<u>Future Financing</u>
Other Capital Projects	\$ 125,510	\$ 0	\$ 125,510	None
LS 17 Upgrade Design	68,484	68,459	25	None
SE Regional LS Feasibility	13,900	7,771	6,129	None
Vactor Decant Facility	14,580	2,449	12,131	None
Mixing Study	9,920	2,228	7,692	None
Downtown Regional Lift Station	<u>40,000</u>	<u>26,773</u>	<u>13,227</u>	<u>None</u>
	<u>\$ 272,394</u>	<u>\$ 107,680</u>	<u>\$ 164,714</u>	\$ None

**LAKE STEVENS SEWER DISTRICT  
NOTES TO FINANCIAL STATEMENTS FOR  
THE YEAR ENDING DECEMBER 31, 2017**

**NOTE 4: CAPITAL ASSETS**

Capital assets are defined by the District as assets with initial individual cost of more than \$5,000 and an estimated useful life of five years or more.

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.

Utility plant in service and other capital assets are recorded at cost. Donations by developers and customers are recorded at actual construction cost plus engineer estimated allied cost; and depreciated over the appropriate life of the assets.

Utility plant activity for the year ended December 31, 2017 was as follows:

	<u>Balance 1/1/2017</u>		<u>Increase</u>		<u>Decrease</u>		<u>Balance 12/31/2017</u>
Utility plant not being depreciated							
Land	\$ 1,052,474	\$	0	\$	0	\$	1,052,474
Construction in progress	<u>68,462</u>		<u>1,083,986</u>		<u>(1,044,768)</u>		<u>107,680</u>
Total plant not being depreciated	1,120,936		1,083,986		(1,044,768)		1,160,154
Utility plant being depreciated							
Plant in service	178,768,589		3,587,519		(9,737)		182,346,371
Buildings	768,662		0		0		768,662
Machinery, equipment & furniture	<u>28,271,011</u>		<u>501,655</u>		<u>(269,359)</u>		<u>28,503,307</u>
Total plant being depreciated	207,808,262		4,089,174		(279,096)		211,618,340
Plant in service	(36,467,478)		9,738		(4,203,364)		(40,661,104)
Buildings	(239,236)		0		(19,217)		(258,453)
Machinery, equipment & furniture	<u>(8,779,886)</u>		<u>269,358</u>		<u>(1,899,138)</u>		<u>(10,409,666)</u>
Total accumulated depreciation	<u>(45,486,600)</u>		<u>279,096</u>		<u>(6,121,719)</u>		<u>(51,329,223)</u>
Total plant being depreciated, net	<u>162,321,662</u>		<u>4,368,270</u>		<u>(6,400,815)</u>		<u>160,289,117</u>
Total utility plant, net	<u>\$ 163,442,598</u>	\$	<u>5,452,256</u>	\$	<u>(7,445,583)</u>	\$	<u>161,449,271</u>

Capital assets are depreciated over the straight-line method over the following estimated lives:

<u>Assets</u>	<u>Years</u>
Buildings	20-50
Building Improvements	20-50
Vehicles	5-7
Equipment	5-20
Utility Plant	5-50

**LAKE STEVENS SEWER DISTRICT  
NOTES TO FINANCIAL STATEMENTS FOR  
THE YEAR ENDING DECEMBER 31, 2017**

**NOTE 5: LONG-TERM DEBT**

As security for Sewer Revenue Bonds and Debt, the District is required to maintain a reserve account and pledge gross revenue less operation and maintenance expenses for payment of these debts. The bond and loan revenue debt reserve at December 31, 2017 was \$5,857,455.

Construction loan (PWTF & SRF) agreements require that borrowed funds be used for the construction of designated construction projects.

The VBC / Office Building mortgage is secured by the administrative building used by the District.

There are a number of other limitations and restrictions contained in the various debt indentures. The District is in compliance with all significant limitations and restrictions.

General obligation debt currently outstanding are as follows:

Description / Purpose	Maturity Range	Interest Rate	Original Amount	12/31/2017 Balance	Current Portion
2008 City GO Bonds	2008-2022	3% - 4%	\$ 1,508,553	\$ 610,000	\$ 115,000
VBC / Office Bldg	2002-2021	4.50%	<u>700,000</u>	<u>138,708</u>	<u>56,789</u>
			<u>\$ 2,208,553</u>	<u>\$ 748,708</u>	<u>\$ 171,789</u>

Revenue debt currently outstanding are as follows:

Description	Maturity Range	Interest Rate	Original Amount	12/31/2017 Balance	Current Portion
		4.2 % -			
2010A Bonds / STP2	2017-2039	7.0%	\$ 30,595,000	\$ 29,745,000	\$ 875,000
PWTF Loan / STP1 Design	1999-2018	1.00%	236,250	17,067	17,067
PWTF Loan / STP1 Const	2001-2020	1.00%	3,288,600	480,182	160,061
PWTF Loan / City 2002 Cap Imp	2003-2022	0.50%	1,608,255	428,456	85,691
PWTF Loan / Lundeen Bypass	2003-2022	0.50%	4,083,400	1,084,653	216,931
PWTF Loan / STP2 Design	2006-2025	0.50%	1,000,000	421,053	52,632
PWTF Loan / City STP2 Design	2006-2025	0.50%	1,000,000	421,053	52,632
PWTF Loan / STP2 Design	2006-2025	2.00%	1,000,000	426,901	53,362
PWTF Loan / STP2 Design	2009-2028	0.50%	1,000,000	578,947	52,632
PWTF Loan / STP2 Const	2007-2026	0.50%	7,000,000	3,950,052	395,005
PWTF Loan / City STP2 Const	2008-2027	0.50%	7,000,000	3,685,855	409,539
PWTF Loan / City STP2 Const	2009-2028	0.50%	10,000,000	6,336,423	301,734
PWTF Loan / STP2 Const	2009-2028	0.50%	10,000,000	6,336,423	301,734
SRF Loan / STP2 Const	2017-2029	2.80%	4,025,000	3,993,031	163,082
SRF Loan / STP2 Const	2013-2032	3.10%	13,969,445	12,480,348	692,590
SRF Loan / STP2 Const	2013-2032	2.70%	25,970,567	22,098,418	1,262,354
SRF Loan / STP2 Const	2013-2032	2.80%	<u>5,262,417</u>	<u>4,287,791</u>	<u>243,177</u>
			<u>\$ 127,038,934</u>	<u>\$ 96,771,653</u>	<u>\$ 5,335,223</u>
			<u>\$ 129,247,487</u>	<u>\$ 97,520,361</u>	<u>\$ 5,507,012</u>

**LAKE STEVENS SEWER DISTRICT  
NOTES TO FINANCIAL STATEMENTS FOR  
THE YEAR ENDING DECEMBER 31, 2017**

**NOTE 5: LONG-TERM DEBT (continued)**

Year Ending December 31,	General Obligation Debt		Revenue Debt		Total Debt	
	Principle	Interest	Principle	Interest	Principle	Interest
2018	\$ 171,789	\$ 29,687	\$ 5,335,223	\$ 3,272,415	\$ 5,507,012	\$ 3,302,102
2019	174,398	22,478	5,410,798	3,154,182	5,585,196	3,176,660
2020	142,521	16,711	5,510,386	3,029,026	5,652,907	3,045,737
2021	130,000	10,400	5,451,914	2,899,021	5,581,914	2,909,421
2022	130,000	5,200	5,560,563	2,756,500	5,690,563	2,761,700
2023-2027	0	0	27,378,997	11,497,609	27,378,997	11,497,609
2028-2032	0	0	24,904,544	7,195,260	24,904,544	7,195,260
2033-2037	0	0	12,615,759	3,361,803	12,615,759	3,361,803
2038-2042	<u>0</u>	<u>0</u>	<u>4,603,469</u>	<u>423,991</u>	<u>4,603,469</u>	<u>423,991</u>
	\$ 748,708	\$ 84,476	\$ 96,771,653	\$ 37,589,807	\$ 97,520,361	\$ 37,674,283

**NOTE 6: CHANGES IN NON-CURRENT LIABILITIES**

During the year ended December 31, 2017, the following changes occurred in non-current liabilities:

	Balance 1/1/2017	Additions	Reductions	Balance 12/31/2017	Due Within One Year
Build America Bonds	\$ 30,595,000	\$ 0	\$ 850,000	\$ 29,745,000	\$ 875,000
City 2008 GO Bonds	715,409	0	105,409	610,000	115,000
State Revolving Fund	44,848,535	268,197	2,257,144	42,859,588	2,361,203
City Public Works Trust	11,721,384	0	849,597	10,871,787	849,597
Public Works Trust	14,544,699	0	1,249,421	13,295,278	1,249,423
Vernon Business Center	193,214	0	54,506	138,708	56,789
Net Pension Liability	1,736,116	0	297,032	1,439,084	0
Accrued STP1 Cost	<u>1,027,801</u>	<u>0</u>	<u>14,739</u>	<u>1,013,062</u>	<u>0</u>
	\$ 105,382,158	\$ 268,197	\$ 5,677,848	\$ 99,972,507	5,507,012

**NOTE 7: PENSION PLAN**

On October 9, 2003, the District's Board of Commissioners passed a resolution authorizing and approving participation in the Washington Public Employees Retirement System (PERS). Membership in PERS commenced on January 1, 2004.

Substantially all Lake Stevens Sewer District 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 retirement plans. 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 98504-8380; or it may be downloaded from the DRS website at [www.drs.wa.gov](http://www.drs.wa.gov).

**LAKE STEVENS SEWER DISTRICT  
NOTES TO FINANCIAL STATEMENTS FOR  
THE YEAR ENDING DECEMBER 31, 2017**

NOTE 7: PENSION PLAN (continued)

The following table represents the aggregate pension amounts for all plans subject to the requirements of the [GASB Statement 68, Accounting and Financial Reporting for Pensions](#) for the year 2017:

<b>Aggregate Pension Amounts – All Plans</b>	
Pension liabilities	\$ 1,439,083
Pension assets	
Deferred outflows of resources	\$ 253,278
Deferred inflows of resources	\$ (263,796)
Pension expense	\$ 189,516

**State Sponsored Pension Plans**

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

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

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

Or the DRS CAFR may be downloaded from the DRS website at [www.drs.wa.gov](http://www.drs.wa.gov).

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

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

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

**LAKE STEVENS SEWER DISTRICT  
NOTES TO FINANCIAL STATEMENTS FOR  
THE YEAR ENDING DECEMBER 31, 2017**

NOTE 7: PENSION PLAN (continued)

Contributions

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

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

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

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

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

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

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

**LAKE STEVENS SEWER DISTRICT  
NOTES TO FINANCIAL STATEMENTS FOR  
THE YEAR ENDING DECEMBER 31, 2017**

NOTE 7: PENSION PLAN (continued)

Contributions

The **PERS Plan 2/3** employer and employee contribution rates are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. The Plan 2/3 employer rates include a component to address the PERS Plan 1 UAAL and an administrative expense that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 2 employer and employee contribution rates and Plan 3 contribution rates. The PERS Plan 2/3 required contribution rates (expressed as a percentage of covered payroll) for 2017 were as follows:

<b>PERS Plan 2/3</b>		
<b>Actual Contribution Rates</b>	<b>Employer 2/3</b>	<b>Employee 2*</b>
January – June 2017:		
PERS Plan 2/3	6.23%	6.12%
PERS Plan 1 UAAL	4.77%	
Administrative Fee	0.18%	
Employee PERS Plan 3		varies
<b>Total</b>	<b>11.18%</b>	<b>6.12%</b>
July – December 2017:		
PERS Plan 2/3	7.49%	7.38%
PERS Plan 1 UAAL	5.03%	
Administrative Fee	0.18%	
Employee PERS Plan 3		Varies
<b>Total</b>	<b>12.70%</b>	<b>7.38%</b>

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

The District's actual PERS plan contributions were \$99,963 to PERS Plan 1 and \$139,754 to PERS Plan 2/3 for the year ended December 31, 2017.

**Actuarial Assumptions**

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

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

- **Inflation:** 3.0% total economic inflation; 3.75% salary inflation
- **Salary increases:** In addition to the base 3.75% salary inflation assumption, salaries are also expected to grow by promotions and longevity.
- **Investment rate of return:** 7.5%

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

**LAKE STEVENS SEWER DISTRICT  
NOTES TO FINANCIAL STATEMENTS FOR  
THE YEAR ENDING DECEMBER 31, 2017**

**NOTE 7: PENSION PLAN (continued)**

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

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

**Discount Rate**

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

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

**Long-Term Expected Rate of Return**

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

**Estimated Rates of Return by Asset Class**

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

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

**LAKE STEVENS SEWER DISTRICT  
NOTES TO FINANCIAL STATEMENTS FOR  
THE YEAR ENDING DECEMBER 31, 2017**

NOTE 7: PENSION PLAN (continued)

**Sensitivity of the Net Pension Liability/(Asset)**

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

	<b>1% Decrease (6.5%)</b>	<b>Current Discount Rate (7.5%)</b>	<b>1% Increase (8.5%)</b>
PERS 1	\$ 902,785	\$ 741,086	\$ 601,021
PERS 2/3	\$ 1,880,476	\$ 697,997	\$ (270,870)

**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, 2017, the District reported a total pension liability of \$1,350,768 for its proportionate share of the net pension liabilities as follows:

	<b>Liability (or Asset)</b>
PERS 1	\$741,086
PERS 2/3	\$697,997

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

	<b>Proportionate Share 6/30/16</b>	<b>Proportionate Share 6/30/17</b>	<b>Change in Proportion</b>
PERS 1	0.014697%	0.015618%	-0.000921%
PERS 2/3	0.018805%	0.020089%	-0.001284%

Employer contribution transmittals received and processed by the DRS for the fiscal year ended June 30 are used as the basis for determining each employer's proportionate share of the collective pension amounts reported by the DRS in the *Schedules of Employer and Nonemployer Allocations* for all plans except LEOFF 1.

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

**Pension Expense**

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

	<b>Pension Expense</b>
PERS 1	\$ 94,369
PERS 2/3	\$ 95,148

**LAKE STEVENS SEWER DISTRICT  
NOTES TO FINANCIAL STATEMENTS FOR  
THE YEAR ENDING DECEMBER 31, 2017**

NOTE 7: PENSION PLAN (continued)

**Deferred Outflows of Resources and Deferred Inflows of Resources**

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

<b>PERS Plan 1</b>	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience		
Net difference between projected and actual investment earnings on pension plan investments		\$ (27,655)
Changes of assumptions		
Changes in proportion and differences between contributions and proportionate share of contributions		
Contributions subsequent to the measurement date	\$ 50,840	
<b>TOTAL</b>	<b>\$ 50,840</b>	<b>\$ (27,655)</b>

<b>PERS Plan 2/3</b>	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$ 70,724	\$ (22,954)
Net difference between projected and actual investment earnings on pension plan investments		\$ (186,069)
Changes of assumptions	\$ 7,414	
Changes in proportion and differences between contributions and proportionate share of contributions	\$ 50,267	\$ (27,118)
Contributions subsequent to the measurement date	\$ 74,033	
<b>TOTAL</b>	<b>\$ 202,438</b>	<b>\$ (236,141)</b>

<b>Grand Total PERS 1 and PERS 2/3</b>	<b>\$ 253,278</b>	<b>\$ (263,796)</b>
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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 ended December 31, 2018. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<b>Year ended December 31:</b>	<b>PERS Plan 1</b>	<b>PERS Plan 2/3</b>
2018	\$ (18,693)	\$ (76,815)
2019	\$ 5,902	\$ 15,837
2020	\$ ( 1,370)	\$ (11,142)
2021	\$ (13,493)	\$ (67,337)
2022	\$ 0	\$ 13,789
Thereafter	\$ 0	\$ 17,930
<b>TOTAL</b>	<b>\$ (27,655)</b>	<b>\$ (107,738)</b>

**LAKE STEVENS SEWER DISTRICT  
NOTES TO FINANCIAL STATEMENTS FOR  
THE YEAR ENDING DECEMBER 31, 2017**

**NOTE 8: RISK MANAGEMENT**

The Lake Stevens Sewer District uses Travelers Insurance Company for its insurance coverage. Travelers Insurance is the market leader in public entity property and liability insurance. Since 1991, Travelers Insurance Public Sector Services business group has been dedicated exclusively to addressing the needs of local governments.

The Travelers Insurance policy provides liability coverage of \$1,000,000, per occurrence, \$2,000,000 aggregate limit. The Property coverage is written on a blanket basis using current Statement of Values with a \$1,000 deductible.

Insurance coverage exceeded settlements paid in the years ended December 31, 2017, 2016 and 2015.

**NOTE 9: PRIOR PERIOD ADJUSTMENT**

The District started collecting a basin charge for the Southwest Interceptor Phase II (SWI) with the original intention of this money being paid to the developer who constructed the SWI Phase II sewer line. The collection of this fee was coded to a liability account. The SWI Phase II construction was paid for by the District, not a developer. Therefore, the money that was collected was moved from a liability account to a revenue account. The 2016 prior period adjustment of \$195,248 was the SWI Phase II Basin Fee collected in 2015. This change in accounting increased our revenue and decreased our liability, thus increasing our 2015 Net Position by \$195,248. The District now records all SWI Phase II Basin Fees as revenue.

**NOTE 10: CITY OF LAKE STEVENS AGREEMENT**

The City of Lake Stevens and the Lake Stevens Sewer District entered into a Unified Sewer Services and Annexation Agreement on the 23<sup>rd</sup> day of May 2005 that was subsequently implemented January 1, 2006. This agreement called for a transfer of the City System to the District after which the District shall own, operate and maintain the entire wastewater collection conveyance, treatment and discharge system in the UGA (the Urban Growth Area). The agreement also provides for the ultimate transfer of the Unified Sewer System from the District to the City.

As part of this agreement, the District agreed to transfer to the City all funds necessary for the Public Work Trust Fund Loan No. PW-02-691-029 and the City Sewer utility's share of the 1997 General Obligation Bonds. The City has refunded these bonds with the City 2008 GO Bonds.

The agreement also calls for certain payments from the District for a Franchise Fee and a Utility Agreement Fee for the City liabilities or costs associated with the implementation and maintenance of the Agreement. As of the preparation of these financial statements, the District has not yet been charged a Franchise Fee, and the Utility Agreement Fee amounted to \$35,000.04 for the year ended December 31, 2017.

The effect of the transfer of assets and obligations are as follows:

City - Utility Plant in Service	\$	12,192,905
City - Sewer Equipment		139,000
Less Accumulated Depreciation		(2,885,908)
Cash from City Sewer Reserve Funds		808,218
Assumption of City 2002 Cap Imp Debt		(1,456,750)
Assumption of City 1997 GO Bonds		<u>(1,545,000)</u>
	\$	<u>7,252,465</u>

Lake Stevens Sewer District  
Schedule of Proportionate Share of the Net Pension Liability  
PERS 1  
As of June 30  
Last 10 Fiscal Years\*

	2017	2016	2015	20XX	20XX	20XX	20XX	20XX	20XX	20XX
Employer's proportion of the net pension liability (asset) _____ %	0.015618	0.014697	0.015527							
Employer's proportionate share of the net pension liability _____ \$	741,086	789,299	812,207							
Employer's covered payroll _____ \$	1,969,540	1,900,131	1,709,572							
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll _____ %	37.63%	41.54%	47.51%							
Plan fiduciary net position as a percentage of the total pension liability _____ %	61.24%	57.03%	59.10%							

Lake Stevens Sewer District  
Schedule of Proportionate Share of the Net Pension Liability  
PERS 2/3  
As of June 30  
Last 10 Fiscal Years\*

	2017	2016	2015	20XX	20XX	20XX	20XX	20XX	20XX
Employer's proportion of the net pension liability (asset) _____ %	0.020089	0.018805	0.020055						
Employer's proportionate share of the net pension liability _____ \$	697,997	946,817	716,577						
Employer's covered payroll _____ \$	1,969,540	1,900,131	1,709,572						
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll _____ %	35.44%	49.83%	41.92%						
Plan fiduciary net position as a percentage of the total pension liability _____ %	90.97%	85.82%	89.20%						

Lake Stevens Sewer District  
Schedule of Employer Contributions  
PERS 1  
As of December 31, 2017  
Last 10 Fiscal Years\*

	2017	2016	2015	2014	2013	20XX	20XX	20XX	20XX	20XX
<u>Statutorily or contractually required contributions</u> \$	99,963	90,631	74,823	72,116	56,032					
Contributions in relation to the statutorily or contractually required contributions	(99,963)	(90,631)	(74,823)	(72,116)	(56,032)					
Contribution deficiency (excess)	\$ 0	0	0	0	0					
Covered employer payroll	\$ 2,041,202	1,900,131	1,709,572	1,788,182	1,778,324					
Contributions as a percentage of covered employee payroll	4.90%	4.77%	4.38%	4.03%	3.15%					

Lake Stevens Sewer District  
Schedule of Employer Contributions  
PERS 2/3  
As of December 31, 2017  
Last 10 Fiscal Years\*

	2017	2016	2015	2014	2013	20XX	20XX	20XX	20XX	20XX
<u>Statutorily or contractually required contributions</u> \$	139,754	121,795	99,105	92,548	88,633					
Contributions in relation to the statutorily or contractually required contributions	(139,754)	(121,795)	(99,105)	(92,548)	(88,633)					
Contribution deficiency (excess)	\$ 0	0	0	0	0					
Covered employer payroll	\$ 2,041,202	1,900,131	1,709,572	1,788,182	1,778,324					
Contributions as a percentage of covered employee payroll	6.85%	6.41%	5.80%	5.18%	4.98%					

## ABOUT THE STATE AUDITOR'S OFFICE

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

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

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

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

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

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

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

Contact information for the State Auditor's Office	
Public Records requests	<a href="mailto:PublicRecords@sao.wa.gov">PublicRecords@sao.wa.gov</a>
Main telephone	(360) 902-0370
Toll-free Citizen Hotline	(866) 902-3900
Website	<a href="http://www.sao.wa.gov">www.sao.wa.gov</a>