



Office of the Washington State Auditor
Pat McCarthy

Financial Statements Audit Report

Lake Stevens Sewer District

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

Published December 24, 2020

Report No. 1027479





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

December 24, 2020

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 black ink that reads "Pat McCarthy".

Pat McCarthy
State Auditor
Olympia, WA

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

**Lake Stevens Sewer District
January 1, 2019 through December 31, 2019**

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, 2019, 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 17, 2020.

As discussed in Note 10 to the 2019 financial statements, in February 2020, a state of emergency was declared that could have a negative financial effect on the District.

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 17, 2020

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Lake Stevens Sewer District January 1, 2019 through December 31, 2019

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, 2019, 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, 2019, 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.

Matters of Emphasis

As discussed in Note 10 to the 2019 financial statements, in February 2020, a state of emergency was declared that could have a negative financial effect on the District. 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 December 17, 2020 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

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

Pat McCarthy
State Auditor
Olympia, WA

December 17, 2020

FINANCIAL SECTION

Lake Stevens Sewer District January 1, 2019 through December 31, 2019

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2019

BASIC FINANCIAL STATEMENTS

Statement of Net Position – 2019

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

Statement of Cash Flows – 2019

Notes to Financial Statements – 2019

REQUIRED SUPPLEMENTARY INFORMATION

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

Schedule of Employer Contributions – PERS 1, PERS 2/3 – 2019

Lake Stevens Sewer District Management's Discussion and Analysis For the Year Ended December 31, 2019

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, 2019. 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 2019, the District had a positive operating income and met all debt obligations. As of December 31, 2019, the District had a total net position of \$104,268,884.

It is our honor to present the 2019 Lake Stevens Sewer District Annual Financial Statement. The 27 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.

In 2019 we grew by 308 sewer connections, compared to 278 in 2018. We believe this is a steady pattern from 2017 when the change was due to developer's groundwork necessary for construction, as well as changes in city planning and development for future infrastructure. We are in hope of this pattern staying for a few more years.

On August 22, 2019, the Lake Stevens Sewer District approved resolution 969 to refund the 2010A Build America Bonds, originally used to for building the new Wastewater Treatment Plant, which was completed in 2013. A combination of lower municipal interest rates, combined with the Districts staff reducing anticipated operating expenses by nearly two million dollars over the past two years, has allowed the District to shorten the term by seven years, reduce the interest rate and reduce the principle of the new bonds, which will result in interest expense savings of approximately \$9 million dollars, for the Lake Stevens rate payers. Municipal interest rates were at 40-year lows, so moving quickly to capture the anticipated savings, was critical, and we closed the bonds on December 17, 2019 at an interest rate is 2.096%, including all fees.

Along with significant Bond refunded savings, the Lake Stevens Sewer District experienced a year of significant growth and changes in 2019. The economy was strong, we had a new management team that was very proactive in being community minded, more involved and actively educating the community through several areas of engagement, including the schools in three different districts and making a video on why we do not flush wipes and that video is being used in a National Teachers Science convention held in Seattle this past fall.

The District also finished their Comprehensive Plan amendment that modified financial responsibility, where we took on more capital projects. We will begin working on necessary updates for our Comprehensive Plan by year end 2020.

We finished the modification of Lift Station 17 that increased capacity by over 500 Equivalent Residential Units (ERU's) which will support the increased development in that area. This has been a long-time planned project and we are happy to have completed it in 2019.

Along with a newly modified Lift Station 17, we also went into design plan and bid for a Regional Lift Station that will also give us the additional capacity and ability to lift a moratorium off another lift station. There has been and continues to be planned, a fair amount of growth in residential, multifamily, and commercial development, in Lake Stevens, that these increased lift station modifications will need to be part of our annual budget planning.

After several years of working with Department of Ecology on the decommissioning of our former wastewater treatment plant, we have received the final sign-off from them and with the District managing the work that was done to meet the requirements set forth by the Dept of Ecology we saved approximately \$1.8 million dollars. I am very proud of the work we did to get it done, meet all the necessary requirements and to save so much money!

Along the same lines of saving money, we once again were recipients of Snohomish County PUD Energy Saving Program and we were awarded \$13,712 this past fall; in addition to the savings we received in 2018, we continue to strive to make the best use of programs that allow us to save money and be good stewards of ratepayer funds. We will continue to take advantage of these types of programs that save us energy and money!

After much discussion, the bargaining unit for the treatment plant and field operations and the District's management team have ratified their first union contract. The negotiations took a bit longer than normal due to management changes and having to work backwards a few times. Contract negotiations will start again in late summer and should go much faster and easier. The District's administrative team is not part of a bargaining unit at this time.

The City of Lake Stevens and the District continue to have discussions on the value of merging sooner rather than later. In order to get clarity of what each party understands of the Unification Agreement and certain paragraphs, they met with a jointly selected mediator in late fall and spent the day going over various sections of the agreement to ensure all parties agreed, and if they did not agree, then additional work would be done to ensure we were all on the same path of understanding which would streamline an earlier merger if all agreed. This process is still in the works today and there has not been a confirmed date to accelerate a merger of the two entities.

In early 2019 the Department of Ecology awarded us the 2018 Outstanding Performance Award for the exemplary work we did in 2018 with no spills reported or filed; again, a fine example of the quality work all of the employees here at the Lake Stevens Sewer District do to protect the public health and the environment.

The November election included two of our three Commissioners, Dan Lorentzen and Mariah Low, one for a long term and one a short term; both were re-elected to continue serving for the ratepayers of the District. Because we have strong leadership, we are in excellent health financially and are well prepared for the continued growth in our community. The demand for growth has allowed us to meet the needs without borrowing any funds, we have paid off and/or refunded for better terms some of our previous debt(s). Our strong suit is the strength in our Board when it comes to understanding financials, growth management, staffing and how to maintain our system to meet or exceed permit expectations which makes us one of the finest Districts in the nation.

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 along with deferred outflows, and liabilities along with deferred inflows, the difference between the two are 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 and 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

	Dec. 31, 2019	Dec. 31, 2018
Current Assets	\$ 28,146,347	\$ 32,069,468
Net Capital Assets	158,088,901	159,160,279
Deferred Outflow of Resources	<u>1,615,556</u>	<u>221,436</u>
Total Assets & Deferred Outflows of Resources	187,850,804	191,451,183
Current Liabilities	6,618,449	6,409,590
Non-Current Liabilities	73,144,586	88,439,181
Deferred Inflows of Resources	<u>3,818,885</u>	<u>422,041</u>
Total Liabilities & Deferred Inflows of Resources	83,581,920	95,270,812
Net Investment in Capital Assets	79,928,270	67,228,849
Restricted for Debt Service & Construction	9,976,294	15,941,672
Unrestricted	<u>14,364,320</u>	<u>13,009,850</u>
Total Net Position	\$ <u><u>104,268,884</u></u>	\$ <u><u>96,180,371</u></u>
Utility Operating Revenue	\$ 14,116,830	\$ 13,709,815
Non-operating Revenue	<u>1,633,896</u>	<u>560,704</u>
Total Revenue	15,750,726	14,270,519
Operating Expenses	12,099,223	11,554,970
Non-operating Expenses	<u>2,554,532</u>	<u>2,673,049</u>
Total Expenses	<u>14,653,755</u>	<u>14,228,019</u>
Excess (Deficiency)	1,096,971	42,500
Capital Contributions	<u>6,991,542</u>	<u>7,257,154</u>
Change in Net Position	8,088,513	7,299,654
Net Position – Beginning of Year	<u>96,180,371</u>	<u>88,880,717</u>
Net Position – End of Year	\$ <u><u>104,268,884</u></u>	\$ <u><u>96,180,371</u></u>

Overview

For the twelve months ending December 31, 2019, the total assets and deferred outflows of the District decreased by approximately \$3.6 million or approximately 1.9%, and total liabilities and deferred inflows decreased by approximately \$11.7 million or approximately 12.3%. Net Position increased approximately \$8.1 million or approximately 8.4%. The District's overall financial position improved. The decreases in total assets and the decreases in total liabilities are primarily due to depreciation expense and the refunding of the 2010A Build America Bonds. The District used \$6.56 million of its cash reserves to pay down the bonds during the refunding.

Operating Revenues increased approximately 3.0% as expected due to an increase in District customers during 2019. Operating Revenues are expected to increase in 2020 due to an increase in District customers and a possible rate increase.

Operating Expenses have increased 4.7% mainly due to salaries and benefits. In 2019 we hired two additional employees and step increases were reinstated. We also had issuance costs in 2019 related to the refunding of the 2010A Bonds.

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 \$158,088,901 as of December 31, 2019. This was a decrease of approximately \$1.0 million and is due to depreciation expense exceeding the purchase of capital assets. Capital Assets consisted of \$2,677,962 in assets not being depreciated including land, and construction in progress; \$219,234,224 in depreciable assets with a total accumulated depreciation of \$63,823,285 for a net value of depreciable assets of \$155,410,939.

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 \$13,770,798, leaving a balance of \$78,160,631, including current portion of long-term debt. In December 2019, the District refunded the 2010A Bonds.

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
FOR THE YEAR ENDED DECEMBER 31, 2019

Assets

Current Assets:

Cash and Cash Equivalents	\$ 17,474,352
Restricted Cash and Cash Equivalents	9,976,294
Receivables, net	509,662
Assessments Receivable	24,351
Prepayments	161,688
Total Current Assets	<u>28,146,347</u>

Noncurrent Assets:

Capital Assets Not Being Depreciated	
Land	1,052,474
Construction Works in Progress	1,625,488
Capital Assets Being Depreciated	
Plant and Buildings	189,776,477
Machinery, Equipment and Furniture	29,457,747
	<u>221,912,186</u>
Less accumulated depreciation	<u>(63,823,285)</u>
Total Noncurrent Assets	<u>158,088,901</u>
Total Assets	<u>186,235,248</u>

Deferred Outflows of Resources

Deferred Outflows of Resources Related to Bond Refunding	1,382,943
Deferred Outflows of Resources Related to Pension	232,613
Total Deferred Outflows of Resources	<u>1,615,556</u>

Total Assets and Deferred Outflows	<u>\$ 187,850,804</u>
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Liabilities

Current Liabilities:

Accounts Payable	\$ 276,024
Compensated Absences	173,945
Developer Extension Deposits	131,500
Interest Accrued	246,595
Current Portion of Bonds, Notes and Loans Payable	5,790,385
Total Current Liabilities	<u>6,618,449</u>

Noncurrent Liabilities:

Bonds, Notes and Loans Payable, net of current portion	72,370,246
Net Pension Liability	774,340
Total Noncurrent Liabilities	<u>73,144,586</u>

Total Liabilities	<u>79,763,035</u>
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Deferred Inflows of Resources

Deferred Inflows of Resources Related to Bond Refunding	3,364,501
Deferred Inflows of Resources Related to Pension	454,384
Total Deferred Inflows of Resources	<u>3,818,885</u>

Total Liabilities and Deferred Inflows	<u>83,581,920</u>
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Net Position

Net Investment in Capital Assets	79,928,270
Restricted for Debt Service & Construction	9,976,294
Unrestricted	14,364,320
Total Net Position	<u>104,268,884</u>

Total Liabilities and Net Position	<u>\$ 187,850,804</u>
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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 THE YEAR ENDED DECEMBER 31, 2019

Operating Revenue	
Utility Revenue	\$ 14,116,830
Total Operating Revenue	<u>14,116,830</u>
Operating Expenses:	
General Operations	4,560,891
Maintenance Expense	610,273
Depreciation Expense	6,343,934
Taxes	584,125
Total Operating Expenses	<u>12,099,223</u>
Operating Income (Loss)	<u>2,017,607</u>
Nonoperating Revenues (Expenses):	
Interest Revenue	724,614
Interest on Long-Term Debt	(2,548,460)
FOG Grant Expenditures	(6,072)
Reduction in STP #1 Remediation Costs Liability	881,429
Net Rental Income	27,853
Total Nonoperating Revenues (Expenses)	<u>(920,636)</u>
Income (Loss) Before Capital Contributions	<u>1,096,971</u>
Capital Contributions:	
Developer Donated Facility	3,232,597
Connection Fees	3,460,724
SWI Phase II Basin Fee	215,325
Other Capital Revenue	82,896
Total Capital Contributions	<u>6,991,542</u>
Change in Net Position	8,088,513
Total Net Position, January 1, 2019	<u>96,180,371</u>
Total Net Position, December 31, 2019	<u>\$ 104,268,884</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 THE YEAR ENDED DECEMBER 31, 2019

Cash Flows from Operating Activities:

Receipts from customers	\$ 14,112,896
Payments to suppliers	(3,442,124)
Payments to employees	(2,280,307)
Net Cash Provided by Operating Activities	<u>8,390,465</u>

Cash Flows from Capital and Related Financing Activities:

Capital contributions - Connection fees	3,460,724
Capital contributions - SWI Ph II Basin fee	215,325
Capital contributions - Other Capital Revenue	82,896
Cash purchase of capital assets	(2,228,441)
Proceeds from long-term debt	23,086,970
Principal paid on long-term debt	(33,495,798)
Interest paid on long-term debt	(2,684,734)
Payments for FOG Grant Expense	(6,074)
Payments on accrued STP#1 Remediation costs liability	(131,536)
Principal received on ULID assessments	6,510
Interest received on ULID assessments	1,168
Deferred Outflow of Bond Refunding	(1,379,526)
Net Cash Provided (Used) for Capital Financing Activities	<u>(13,072,516)</u>

Cash Flows from Investing Activities:

Interest received on investments	723,448
Net rental income	27,853
Net Cash Provided (Used) by Investing Activities	<u>751,301</u>

Net Increase (Decrease) in Cash and Cash Equivalents (3,930,750)

Cash and Cash Equivalents at January 1, 2019 31,381,396

Cash and Cash Equivalents at December 31, 2019 \$ 27,450,646

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

Operating Income (Loss)	\$ 2,017,607
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	6,343,934
Non-Cash Actuarial Pension Adjustment	(226,820)
Changes in assets and liabilities:	
Decrease (Increase) in accounts receivable	1,453
Decrease (Increase) in prepayments	(15,592)
Increase (Decrease) in operating accounts payable	257,689
Increase (Decrease) in compensated absences	17,581
Increase (Decrease) in developer deposits	(5,387)
Net Cash Provided by Operating Activities	<u><u>\$ 8,390,465</u></u>

Noncash Investing, Capital, and Financing Activities:

Developer donated facility	\$ 3,232,597
Reduction in STP #1 Remediation Costs Liability	881,429

The accompanying notes are an integral part of this financial statement

**LAKE STEVENS SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDING DECEMBER 31, 2019**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Lake Stevens Sewer District have been prepared in conformity with 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 formed in 1957 and 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 accounts. 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

It is the District's policy to invest all temporary cash surpluses in the State Pool.

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, 2019**

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. Facility and infrastructure 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. The District depreciates all asset for six months during the first year the asset was placed in service.

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, 2019 include the following:

Bond and Loan Revenue Debt Reserve Funds	\$	3,563,135
Debt Service Funds		<u>6,413,159</u>
	\$	<u><u>9,976,294</u></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, 2019**

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, 2019 was \$173,945.

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, 2019 deferred outflows are as follows:

Debt Discount & Expense	\$ 1,393,249
Amortized Debt Discount & Expense	(10,306)
Deferred Outflows of Resources Related to Pension	<u>232,613</u>
	<u>\$ 1,615,556</u>

The December 31, 2019 deferred inflows are as follows:

Debt Premium	\$ 3,374,624
Amortized Debt Premium	(10,123)
Deferred Inflows of Resources Related to Pension	<u>454,384</u>
	<u>\$ 3,818,885</u>

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. This portion of the project started in March of 2016 and was completed in January 2018. The final piece of the project went out for bid in March and was awarded to Northwest Liquid Transport. They completed the project in September of 2019 and the District received a letter from the Department of Ecology acknowledging the decommissioning and closure of the lagoon treatment plant complete. The remaining balance in Accrued Remediation Costs Liability was recorded as income of \$881,429 in the year 2019.

In June of 2019, the District went out to bid for a new regional lift station located at the south end of the lake and was awarded to Strider Construction for \$4.3 million dollars. Once this project is complete it will lift the Stitch Road and Lift Station 8 moratoriums.

**LAKE STEVENS SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDING DECEMBER 31, 2019**

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, 2019, the credit rating for the District's investment in the State Pool and County Pool were not available.

As of December 31, 2019, the District had the following deposits and investments:

Checking and Cash Accounts	\$ 819,007
County Treasury Investment Pool	11,753,623
State Treasury Investment Pool	<u>14,878,016</u>
	<u>\$ 27,450,646</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, 2019:

<u>Project Name</u>	<u>Project Authorization</u>	<u>Expended 12/31/2019</u>	<u>Committed</u>	<u>Required Future Financing</u>
LS 1C Electrical Update	\$ 38,310	\$ 0	\$ 38,310	None
Grace Lane Overlay	39,500	3,804	35,696	None
24th St & SR9 Sewer Crossing	59,380	8,276	51,104	None
88 th Dr SE Gravity Line	202,684	49,705	152,979	None
VBC Parking Lot	142,915	39,502	103,413	None
SE Regional Lift Station	4,475,584	1,317,334	3,158,250	None
Vactor/Decant Facility Plans	14,580	14,580	0	None
SR204 SR9 Intersection	56,518	1,443	55,075	None
Downtown Regional Lift Station	40,000	26,773	13,227	None
Comp Plan Amendment	99,401	66,163	33,238	None
GIS Maintenance Management	14,253	6,583	7,670	None
City Works	128,000	31,280	96,720	None
VBC Structural Repairs	<u>300,000</u>	<u>60,045</u>	<u>239,955</u>	<u>None</u>
	<u>\$ 5,611,125</u>	<u>\$ 1,625,488</u>	<u>\$ 3,985,637</u>	<u>None</u>

**LAKE STEVENS SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDING DECEMBER 31, 2019**

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, 2019 was as follows:

	Balance 1/1/2019	Increase	Decrease	Balance 12/31/2019
Utility plant not being depreciated				
Land	\$ 1,052,474	\$ 0	\$ 0	\$ 1,052,474
Construction in progress	104,600	2,210,611	(689,723)	1,625,488
Total plant not being depreciated	1,157,074	2,210,611	(689,723)	2,677,962
Utility plant being depreciated				
Plant in service	185,627,214	3,380,601	0	189,007,815
Buildings	768,662	0	0	768,662
Machinery, equipment & furniture	29,101,913	371,067	(15,233)	29,457,747
Total plant being depreciated	215,497,789	3,751,668	(15,233)	219,234,224
Accumulated Depreciation				
Plant in service	(44,868,291)	0	(4,330,136)	(49,198,427)
Buildings	(277,670)	0	(19,217)	(296,887)
Machinery, equipment & furniture	(12,348,623)	15,233	(1,994,581)	(14,327,971)
Total accumulated depreciation	(57,494,584)	15,233	(6,343,934)	(63,823,285)
Total plant being depreciated, net	158,003,205	3,766,901	(6,359,167)	155,410,939
Total utility plant, net	\$ 159,160,279	\$ 5,977,512	\$ (7,048,890)	\$ 158,088,901

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, 2019**

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, 2019 was \$3,563,135

In December 2019, the District refunded their Build America Bonds (BABs) with a principle balance of \$28,870,000. The District contributed cash of \$6,560,877, of which \$2,294,320 came from the BABs bond reserve fund, \$4,000,000 came from the Rate Stabilization Fund, and the remaining \$266,557 came from the Bond Debt Payment Fund. The 2019 Refunding Bonds principle balance is \$19,725,000, due to the cash contribution and \$3,361,970 in issue premiums. With this refunding the District shortened the term of the bonds from 2039 to 2032.

There is 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	12/31/2019 Balance	Current Portion
2008 City GO Bonds	2008-2022	3%-4%	\$ 1,508,553	\$ 380,000	\$ 120,000

Revenue debt currently outstanding are as follows:

Description	Maturity Range	Interest Rate	Original Amount	12/31/2019 Balance	Current Portion
2010A Bonds / STP2	2017-2039	4.2 %-7%	\$ 30,595,000	\$ 0	\$ 0
2019 Refunding Bonds	2020-2032	4%-5%	19,725,000	19,725,000	1,090,000
PWTF Loan / STP1 Const	2001-2020	1.00%	3,288,600	160,061	160,061
PWTF Loan / City 2002 Cap Imp	2003-2022	0.50%	1,608,255	257,074	85,691
PWTF Loan / Lundeen Bypass	2003-2022	0.50%	4,083,400	650,792	216,931
PWTF Loan / STP2 Design	2006-2025	0.50%	1,000,000	315,789	52,632
PWTF Loan / City STP2 Design	2006-2025	0.50%	1,000,000	315,789	52,632
PWTF Loan / STP2 Design	2006-2025	2.00%	1,000,000	320,175	53,362
PWTF Loan / STP2 Design	2009-2028	0.50%	1,000,000	473,684	52,632
PWTF Loan / STP2 Const	2007-2026	0.50%	7,000,000	3,160,041	395,005
PWTF Loan / City STP2 Const	2008-2027	0.50%	7,000,000	2,866,776	409,539
PWTF Loan / City STP2 Const	2009-2028	0.50%	10,000,000	5,732,955	301,734
PWTF Loan / STP2 Const	2009-2028	0.50%	10,000,000	5,732,955	301,734
SRF Loan / STP2 Const	2018-2029	2.80%	4,025,000	3,662,409	172,120
SRF Loan / STP2 Const	2013-2032	3.10%	13,969,445	11,073,390	736,831
SRF Loan / STP2 Const	2013-2032	2.70%	25,970,567	19,539,200	1,332,315
SRF Loan / STP2 Const	2013-2032	2.80%	5,262,417	3,794,541	257,166
			<u>\$ 146,527,684</u>	<u>\$ 77,780,631</u>	<u>\$ 5,670,385</u>
			<u>\$ 148,036,237</u>	<u>\$ 78,160,631</u>	<u>\$ 5,790,385</u>

**LAKE STEVENS SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDING DECEMBER 31, 2019**

NOTE 5: LONG-TERM DEBT (continued)

The annual debt service requirements for general obligation and revenue debts at 12/31/19, are as follows:

Year Ending December 31,	General Obligation Debt		Revenue Debt		Total Debt	
	Principle	Interest	Principle	Interest	Principle	Interest
2020	\$ 120,000	\$ 15,200	\$ 5,670,385	\$ 1,956,609	\$ 5,790,385	\$ 1,971,809
2021	130,000	10,400	5,671,914	1,944,631	5,801,914	1,955,031
2022	130,000	5,200	5,805,563	1,801,583	5,935,563	1,806,783
2023	0	0	5,643,709	1,653,416	5,643,709	1,653,416
2024	0	0	5,781,657	1,501,332	5,781,657	1,501,332
2025-2029	0	0	28,542,577	5,046,184	28,542,577	5,046,184
2030-2034	0	0	17,728,014	1,064,980	17,728,014	1,064,980
2035-2039	0	0	2,936,812	48,042	2,936,812	48,042
	<u>\$ 380,000</u>	<u>\$ 30,800</u>	<u>\$ 77,780,631</u>	<u>\$ 15,016,777</u>	<u>\$ 78,160,631</u>	<u>\$ 15,047,577</u>

NOTE 6: CHANGES IN NON-CURRENT LIABILITIES

During the year ended December 31, 2019, the following changes occurred in non-current liabilities:

	Balance 1/1/2019	Additions	Reductions	Balance 12/31/2019	Due Within One Year
-					
Build America Bonds	\$ 28,870,000	\$ 0	\$ 28,870,000	\$ 0	\$ 0
2019 Refunding Bonds	0	19,725,000	0	19,725,000	1,090,000
City 2008 GO Bonds	495,000	0	115,000	380,000	120,000
State Revolving Fund	40,498,385	0	2,428,845	38,069,540	2,498,432
City Public Works Trust	10,022,190	0	849,596	9,172,594	849,597
Public Works Trust	12,045,854	0	1,232,357	10,813,497	1,232,356
Net Pension Liability	1,020,584	0	246,244	774,340	0
Accrued STP1 Remediation	1,012,966	0	1,012,966	0	0
	<u>\$ 93,964,979</u>	<u>\$ 19,725,000</u>	<u>\$ 34,755,008</u>	<u>\$ 78,934,971</u>	<u>\$ 5,790,385</u>

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.

**LAKE STEVENS SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDING DECEMBER 31, 2019**

NOTE 7: PENSION PLAN (continued)

The following table represents the aggregate pension amounts for all plans for the year 2019:

Aggregate Pension Amounts – All Plans	
Pension liabilities	\$ (774,340)
Pension assets	\$
Deferred outflows of resources	\$ 232,613
Deferred inflows of resources	\$ (454,384)
Pension expense/expenditures	\$ 51,823

State Sponsored Pension Plans

Substantially all 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 and defined contribution retirement plans. The state Legislature establishes, and amends, laws pertaining to the creation and administration of all public retirement systems.

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

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

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

Public Employees' Retirement System (PERS)

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

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

**LAKE STEVENS SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDING DECEMBER 31, 2019**

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 2019 were as follows:

PERS Plan 1		
Actual Contribution Rates	Employer	Employee
January – June 2019		
PERS Plan 1	7.52%	6.00%
PERS Plan 1 UAAL	5.13%	
Administrative Fee	0.18%	
Total	12.83%	6.00%
July – December 2019		
PERS Plan 1	7.92%	6.00%
PERS Plan 1 UAAL	4.76%	
Administrative Fee	0.18%	
Total	12.86%	6.00%

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, 2019**

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 2019 were as follows:

PERS Plan 2/3		
Actual Contribution Rates	Employer 2/3	Employee 2*
January – June 2019		
PERS Plan 2/3	7.52%	7.41%
PERS Plan 1 UAAL	5.13%	
Administrative Fee	0.18%	
Employee PERS Plan 3		Varies
Total	12.83%	7.41%
July – December 2019		
PERS Plan 2/3	7.92%	7.90%
PERS Plan 1 UAAL	4.76%	
Administrative Fee	0.18%	
Employee PERS Plan 3		Varies
Total	12.86%	7.90%

* For employees participating in JBM, the contribution rate was 18.53% to 19.75%.

The District's actual PERS plan contributions were \$109,560 to PERS Plan 1 and \$169,082 to PERS Plan 2/3 for the year ended December 31, 2019.

Actuarial Assumptions

The 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*.

Additional assumptions for subsequent events and law changes are current as of the 2018 actuarial valuation report. The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2019. Plan liabilities were rolled forward from June 30, 2018, to June 30, 2019, reflecting each plan's normal cost (using the entry-age cost method), assumed interest and actual benefit payments.

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

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

**LAKE STEVENS SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDING DECEMBER 31, 2019**

NOTE 7: PENSION PLAN (continued)

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

- 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 and TRS 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.

Discount Rate

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

To determine that rate, an asset sufficiency test included an assumed 7.5 percent long-term discount rate to determine funding liabilities for calculating future contribution rate requirements. (All plans use 7.5 percent except LEOFF 2, which has assumed 7.4 percent). Consistent with the long-term expected rate of return, a 7.4 percent future investment rate of return on invested assets was assumed for the test. Contributions from plan members and employers are assumed to continue being made at contractually required rates (including PERS 2/3, PSERS 2, SERS 2/3, and TRS 2/3 employers, whose rates 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 7.4 percent was used to determine the total liability.

Long-Term Expected Rate of Return

The long-term expected rate of return on the DRS pension plan investments of 7.4 percent was determined using a building-block-method. In selecting this assumption, the Office of the State Actuary (OSA) reviewed the historical experience data, considered the historical conditions that produced past annual investment returns, and considered capital market assumptions and simulated expected investment returns provided by the Washington State Investment Board (WSIB). The WSIB uses the capital 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, 2019, 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.

Asset Class	Target Allocation	% Long-Term Expected Real Rate of Return Arithmetic
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%
	100%	

**LAKE STEVENS SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDING DECEMBER 31, 2019**

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

	1% Decrease (6.4%)	Current Discount Rate (7.4%)	1% Increase (8.4%)
PERS 1	\$ 731,106	\$ 583,802	\$ 455,996
PERS 2/3	\$ 1,461,351	\$ 190,538	\$ (852,248)

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, 2019, the District reported a total pension liability of \$774,340 for its proportionate share of the net pension liabilities as follows:

	Liability (or Asset)
PERS 1	\$583,802
PERS 2/3	\$190,538

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

	Proportionate Share 6/30/18	Proportionate Share 6/30/19	Change in Proportion
PERS 1	0.015618%	0.015182%	-0.000436%
PERS 2/3	0.020089%	0.019616%	-0.000473%

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

Pension Expense

For the year ended December 31, 2019, the District recognized pension expense as follows:

	Pension Expense
PERS 1	\$ 18,423
PERS 2/3	\$ 33,400

**LAKE STEVENS SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDING DECEMBER 31, 2019**

NOTE 7: PENSION PLAN (continued)

Deferred Outflows of Resources and Deferred Inflows of Resources

At December 31, 2019, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

PERS Plan 1	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience		
Net difference between projected and actual investment earnings on pension plan investments		\$ (39,004)
Changes of assumptions		
Changes in proportion and differences between contributions and proportionate share of contributions		
Contributions subsequent to the measurement date	\$ 53,478	
TOTAL	\$ 53,478	\$ (39,004)

PERS Plan 2/3	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 54,590	\$ (40,965)
Net difference between projected and actual investment earnings on pension plan investments		\$ (277,346)
Changes of assumptions	\$ 4,880	\$ (79,943)
Changes in proportion and differences between contributions and proportionate share of contributions	\$ 32,795	\$ (17,126)
Contributions subsequent to the measurement date	\$ 86,870	
TOTAL	\$ 179,135	\$ (415,380)

PERS Plan 1 and PERS Plan 2/3	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 54,590	\$ (40,965)
Net difference between projected and actual investment earnings on pension plan investments		\$ (316,350)
Changes of assumptions	\$ 4,880	\$ (79,943)
Changes in proportion and differences between contributions and proportionate share of contributions	\$ 32,795	\$ (17,126)
Contributions subsequent to the measurement date	\$ 140,348	
TOTAL	\$ 232,613	\$ (454,384)

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, 2019. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31:	PERS Plan 1
2020	\$ (8,610)
2021	\$ (20,396)
2022	\$ (7,278)
2023	\$ (2,720)
2024	\$ 0
Thereafter	\$ 0
TOTAL	\$ (39,004)

Year ended December 31:	PERS Plan 2/3
2020	\$ (82,772)
2021	\$ (137,586)
2022	\$ (58,372)
2023	\$ (29,029)
2024	\$ (16,174)
Thereafter	\$ 818
TOTAL	\$ (323,115)

**LAKE STEVENS SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDING DECEMBER 31, 2019**

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, 2019, 2018 and 2017.

The Lake Stevens Sewer District self-insures for employment compensation and does not pay quarterly unemployment insurance to the Washington State Employment Security Department. The District is a reimbursable employer, if an employee files an unemployment claim and that claim is approved, the District will reimburse Employment Security Department for the amount of the unemployment claim.

NOTE 9: 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 23rd 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 \$15,000 for the year ended December 31, 2019.

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><u>7,252,465</u></u>

NOTE 10: SUBSEQUENT EVENT

The Lake Stevens Sewer District immediately responded to orders by both the Governor of Washington State and President Trump by putting into action processes to protect the employees, and those that we come into contact daily. Our main office door was locked with a note posted of how we accept payments at any of our three drop off locations, including envelopes at the main office. In addition, we provide information about those organization which may assist our customers in making a payment. We have all staff working at the office to answer phones and post payments.

We have not made a cart blanche decision to waive all fees, as our delinquency has not at this time increased significantly. Rather we work with each customers request when they call us. We have waived fees for those that do not fit in our regular policy fee waiver, therefore helping them as needed. Many of them have taken an opportunity to work with the providers located on the Get Connected, Get Answers, North Sound 211 assistance business cards, and we have offered payment plans if needed. We will continue to monitor this as needed.

NOTE 10: SUBSEQUENT EVENT (continued)

We have operated with a full staff, all working their regular schedule, no split shifts, and all work has been completed as usual, no back-log of work, no falling behind in any of the necessary work orders. Administrative employees have abided by the physical distance rule, kept office wipes and hand sanitizer nearby and cleaning consistently. All employees have been provided with cloth masks, plenty of other PPE, including full face masks for those that are using the Vactor truck which tends to splatter a bit more when in use.

All of our meetings with outside sources are held via Go To Meeting, and the Monday morning all staff meeting is now done via email. A memo to all staff to keep them abreast of any and all updates in the District is sent approximately every two weeks.

The Lake Stevens District has not at this time seen a negative impact to the revenue, and we have already adjusted our annual forecast by delaying the hiring of summer help and two other positions. We are watching all costs, revenue closely and will continue to pull back on any Construction Works in Progress if this continues to last and we see a bigger drop in revenue or the need to reassess our financial forecast.

Lake Stevens Sewer District
Schedule of Proportionate Share of the Net Pension Liability
PERS 1

As of June 30
Last 10 Fiscal Years*

	2019	2018	2017	2016	2015	20XX	20XX	20XX	20XX	20XX
Employer's proportion of the net pension liability (asset)	%	0.015182	0.01536	0.015618	0.014697	0.015527				
Employer's proportionate share of the net pension liability	\$	583,802	685,982	741,086	789,299	812,207				
TOTAL	\$									
Covered payroll	\$	2,140,249	2,049,879	1,969,540	1,900,131	1,709,572				
Employer's proportionate share of the net pension liability as a percentage of covered payroll	%	27.28%	33.46%	37.63%	41.54%	47.51%				
Plan fiduciary net position as a percentage of the total pension liability	%	67.12%	63.22%	61.24%	57.03%	59.10%				

Notes to Schedule:

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

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

	2019	2018	2017	2016	2015	2014	2013	20XX	20XX
Statutorily or contractually required contributions	\$ 109,517	105,155	99,963	90,631	74,823	72,116	56,032		
Contributions in relation to the statutorily or contractually required contributions	\$ (109,517)	(105,155)	(99,963)	(90,631)	(74,823)	(72,116)	(56,032)		
Contribution deficiency (excess)	\$ 0	0	0	0	0	0	0		
Covered payroll	\$ 2,213,444	2,077,112	2,041,202	1,900,131	1,709,572	1,788,182	1,778,324		
Contributions as a percentage of covered payroll	% 4.95%	5.06%	4.90%	4.77%	4.38%	4.03%	3.15%		

Notes to Schedule:

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

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

	2019	2018	2017	2016	2015	20XX	20XX	20XX	20XX	20XX
Employer's proportion of the net pension liability (asset)	%	0.019616%	0.019597%	0.020089	0.018805	0.020055				
Employer's proportionate share of the net pension liability	\$	190,538	334,602	697,997	946,817	716,577				
Covered payroll	\$	2,140,249	2,049,879	1,969,540	1,900,131	1,709,572				
Employer's proportionate share of the net pension liability as a percentage of covered payroll	%	8.90%	16.32%	35.44%	49.83%	41.92%				
Plan fiduciary net position as a percentage of the total pension liability	%	97.77%	95.77%	90.97%	85.82%	89.20%				

Notes to Schedule:

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

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

	2019	2018	2017	2016	2015	2014	2013	20XX	20XX	20XX
Statutorily or contractually required contributions	\$ 170,810	155,173	139,754	121,795	99,105	92,548	88,633			
Contributions in relation to the statutorily or contractually required contributions	\$ (170,810)	(155,173)	(139,754)	(121,795)	(99,105)	(92,548)	(88,633)			
Contribution deficiency (excess)	\$ 0	0	0	0	0	0	0			
Covered payroll	\$ 2,213,444	2,077,112	2,041,202	1,900,131	1,709,572	1,788,182	1,778,324			
Contributions as a percentage of covered payroll	% 7.72%	7.47%	6.85%	6.41%	5.80%	5.18%	4.98%			

Notes to Schedule:

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

ABOUT THE STATE AUDITOR'S OFFICE

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

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

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

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

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

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

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

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