Office of the Washington State Auditor
Pat McCarthy

Financial Statements Audit Report

North City Water District

King County

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

Published November 22, 2017

Report No. 1020256

Office of the Washington State Auditor
Pat McCarthy

November 22, 2017

Board of Commissioners
North City Water District
Shoreline, Washington

Report on Financial Statements

Please find attached our report on the North City Water District's financial statements.

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

Sincerely,

Pat McCarthy

State Auditor

Olympia, WA

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SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

North City Water District
King County
January 1, 2016 through December 31, 2016

This schedule presents the status of findings reported in prior audit periods. The status listed below is the representation of the North City Water District. The State Auditor's Office has reviewed the status as presented by the District.

Audit Period: 2015	**Report Ref. No:** 1017294	**Finding Ref. No:** 2015-001
Finding Caption: The District's internal controls were inadequate to ensure accurate reporting in its Schedule of Expenditures of Federal Awards.		
Background: In fiscal year 2016, our audit identified a significant deficiency in internal controls over the District's preparation of the Schedule of Expenditures of Federal Awards (SEFA). The District implemented a coding system that captured all project expenditures. However, this resulted in non-federal expenditures being reported on the SEFA for the Capitalization Grants for Drinking Water State Revolving Funds (CFDA 66.468). The District reported $2.2 million for the program when it should have been $1.5 million.		
Status of Corrective Action: ☒ Fully Corrected ☐ Partially Corrected ☐ Not Corrected ☐ Finding is considered no longer valid		
Corrective Action Taken: *In the future if District staff is uncertain what to do, they will seek guidance from the SAO help desk in advance of submitting a Schedule of Expenditures of Federal Awards.*		

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*

North City Water District
King County
January 1, 2016 through December 31, 2016

Board of Commissioners
North City Water District
Shoreline, 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 North City Water District, King County, Washington, as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated November 14, 2017.

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

Pat McCarthy

State Auditor

Olympia, WA

November 14, 2017

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

North City Water District
King County
January 1, 2016 through December 31, 2016

Board of Commissioners
North City Water District
Shoreline, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the North City Water District, King County, Washington, as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed on page 10.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express 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 North City Water District, as of December 31, 2016, 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 10 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated on November 14, 2017 our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Pat McCarthy

State Auditor

Olympia, WA

November 14, 2017

FINANCIAL SECTION

North City Water District
King County
January 1, 2016 through December 31, 2016

REQUIRED SUPPLEMENTARY INFORMATION

Management Discussion and Analysis – 2016

BASIC FINANCIAL STATEMENTS

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

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Proportionate Share of Net Pension Liability – PERS 1 – 2016
Schedule of Proportionate Share of Net Pension Liability – PERS 2/3 – 2016
Schedule of Employer Contributions – PERS 1 – 2016
Schedule of Employer Contributions – PERS 2/3 – 2016

North City Water District
MANAGEMENT DISCUSSION AND ANALYSIS
For the Year Ended December 31, 2016

Overview of the Financial Statements

The management discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements are comprised of District-wide financial statements and notes to the financial statements. The District began implementing the Governmental Accounting Standards Board (GASB) Statement 34 model of financial reporting in 2003. This statement establishes standards for external financial reporting for all state and local government entities.

The District's financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private sector business.

The *Statement of Net Position* presents information on the District's assets, liabilities, deferred inflows and outflow, with the difference between the two reported as net position per GASB 34. Increases or decreases in net position may serve as an indicator of whether the financial position of the District is improving or deteriorating. Assets are designated as either Unrestricted or Restricted based upon their purpose. Assets whose use is subject to constraints that are externally imposed, such as those imposed by creditors through debt covenants, are defined as Restricted Assets. Funds without a designated purpose are called Unrestricted.

The *Statement of Revenues, Expenses, and Changes in Net Position* presents information showing how the District's position changed during the most recent fiscal year. All changes are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g. depreciation as well as earned but unused vacation leave).

The *Statement of Cash Flows* accounts for the net change in cash and cash equivalents by summarizing cash receipts and cash disbursements resulting from operating activities, capital and related financing activities and investment activities. This statement assists the user in determining the source of cash coming into the District, the items for which cash was expended, and the beginning and ending cash balance.

The notes provide additional information that is essential to the full understanding of the data provided in the District's financial statements.

Financial Analysis

Condensed Comparative Statement of Net Position

	2016	2015	2014	2016-2015 Change
Current and Other Assets	$ 14,261,540	$ 5,742,007	$ 6,273,441	$ 8,519,533
Capital Assets	38,123,697	35,532,505	34,036,003	2,591,192
Total Assets	52,385,237	41,274,512	40,309,444	11,110,725
Deferred Outflows of Resources	190,451	110,293		80,158
Long-term Liabilities	19,814,944	10,254,686	10,013,171	9,560,258
Other Liabilities	2,002,486	1,505,107	1,252,487	497,379
Total Liabilities	21,817,430	11,759,793	11,265,658	10,057,637
Deferred Inflows of Resources	27,076	151,058		(123,982)
Invested in Capital Assets	27,199,695	25,817,021	23,774,332	1,382,674
Restricted	788,667	829,109	772,147	(40,442)
Unrestricted	2,742,820	2,827,824	4,497,307	(85,004)
Total Net Position	$ 30,731,182	$ 29,473,954	$ 29,043,786	$ 1,257,228

The overall financial condition of the District remains strong with an increase in net position of $1,257,227 in 2016. The increase is due to an increase of $11,190,883 in Total Assets and Deferred Outflows, net of $9,933,656 in Total Liabilities and Deferred Inflows. The increase in Total Assets is due to the proceeds from a bond issue in November 2016, and an excess of cash operating revenues over cash operating expenses. This excess was used to fund the capital costs related to purchasing or constructing District assets and for reducing debt principal. Deferred Outflows of Resources was established in 2016 under the new reporting requirements of GASB 68 in the amount of $190,451 (see Note 6). Total Liabilities increased by $10,057,638 with the major items being an increase in bonded and federal loan indebtedness of $9,485,193 (see NOTE 5), in increase Pension Liability (resulting from the new reporting requirements of GASB 68) and a reduction in indebtedness of $566,765 with the payment of current year maturities (see Note 5). Deferred Inflows decreased by $123,982 as a result of the new reporting requirements of GASB 68 (see NOTE 6).

The amount invested (or equity) in capital assets of $27,199,695 is the net book value of all District capital assets of $38,123,697 less the amount funded with outstanding debt of $10,924,002. Please refer to Note 3 for more information regarding the composition of capital assets and Note 5 for more information about the Districts debt. The restricted position of $788,667 is the amount set aside to make bond payments and for the payment of retainage held under construction contracts. The unrestricted balance of 2,742,820 represents the assets available for the future use in providing utility service.

Condensed Comparative Statement of Revenues and Expenses and Changes in Net Position

	2016	2015	2014	2016-2015 Change
Water Service	$ 6,527,181	$ 6,512,408	$ 6,165,955	$ 14,773
Other Operating Revenue	369,880	424,631	305,677	(54,751)
Other Non-Operating Revenue	45,917	30,390	27,685	15,527
Total Revenues	6,942,978	6,967,429	6,499,317	(24,451)
Operating Expenses	5,734,381	5,783,910	5,608,167	(49,529)
Non-Operating Expenses	377,861	136,204	89,597	241,657
Total Expenses	6,112,242	5,920,114	5,697,764	192,128
Excess before Contributions	830,736	1,047,314	801,553	(216,579)
Capital Contributions	426,493	400,913	1,301,234	25,580
Change in Net Position	1,257,229	1,448,227	2,102,787	(190,999)
Beginning Net Position	29,473,953	29,043,786	26,940,999	430,167
Change in Account Principle	-	(1,018,060)	-	1,018,060
Ending Net Position	$ 30,731,182	$ 29,473,953	$ 29,043,786	$ 1,257,228

The majority of the District’s revenues are derived from water service charges received from its ratepayers. The District also derives cash flow from connection charges, antenna rents, and interest. The increase in Water Service Revenue of $14,773 in 2016 over 2015 is primarily due to a rate increase offset by lower water usage in 2016. Other Operating Revenue decreased by $54,751 due to lower hookup revenues and from lower rental income for the building located on the site of the District’s future maintenance facilities.

The decrease of $49,529 in Operating Expenses is the result of lower water purchase costs and less labor costs being capitalized in 2016 than in 2015, offset by higher election, audit and insurance costs. Capital contributions vary from year to year and were $25,580 higher in 2016 due to more contributions from developers.

Capital Assets and Debt Administration

The majority of the District's net assets are invested in capital assets (e.g. buildings, land, lines, and equipment). The District uses these capital assets to provide water service to residential and commercial customers in the District.

As of December 31, 2016, the District's investment in capital assets shown on the Statement of Net Position and in Note 3: Capital Assets is $38,123,697 net of depreciation. This is a net increase of $2,591,192 since December 31, 2015. Capital assets include land, improvements to land, easements, buildings, building improvements, vehicles, machinery, equipment, infrastructure, and all other tangible or intangible assets that are used in operations and that have initial useful lives extending beyond a single reporting period. Please refer to Note 3.

Long-Term Debt

The District uses long-term debt to help fund its capital projects in the form of revenue bonds and, for qualifying projects, low interest loans administered through the Washington State Department of Commerce.

The District issued revenue bonds in December 2011 and again in November 2016 – see NOTE 5. Prior bond covenants required the District to fund reserves in its Bond Redemption Fund at a level at least equal to the average amount required in any calendar year. These covenants where changed with the 2016 bond issue to allow for the purchase of a surety bond instead. This allowed the District to use the existing reserve funds for capital costs and thus reduce the need for higher funding Proceeds from the 2016 bond issue were authorized for capitalized interest in the amount of $521,000 to be used In the first three years of debt repayment. These funds were deposited to the Bond Redemption Fund.

In 2012, the District was approved to receive Drinking Water State Revolving Fund loan monies for two capital projects totaling approximately $4.3 million. The District completed one project in 2013 and expects to complete the second project in 2017. Due to the amount of the loans, the District was subject to a Federal audit under the Single Audit Act guidelines.

North City Water District
STATEMENT OF NET POSITION – Page 1
As of December 31, 2016

ASSETS	
Current Assets:	
Cash and Cash Equivalents	
Maintenance/Operating Account	$ 1,335,717
Capital Account	10,378,105
Vehicle Replacement Account	215,049
Preservation Account	101,239
Accounts Receivable (Net)	1,163,446
Inventories	221,622
Prepayments	57,695
TOTAL CURRENT ASSETS	13,472,873
Non-Current Assets:	
Restricted Assets (*Cash & Cash Equivalents*) (NOTE 1))	
Revenue Bond Funds	591,120
Retainage Payable Account	197,547
Capital Assets Not Being Depreciated or Amortized:	
Land - (NOTE 3)	3,496,535
Construction in Progress (NOTE 4)	8,473,504
Capital Assets Being Amortized: (NOTE 3)	
Intangibles Plant (*Net of Amortization*)	199,414
Capital Assets Being Depreciated: (NOTE 3)	
Buildings	4,541,638
Equipment	1,097,110
Infrastructure	31,997,473
Vehicles	841,790
Less Accumulated Depreciation	(12,523,767)
Total Capital Assets (Net)	38,123,697
TOTAL NONCURRENT ASSETS	38,912,364
TOTAL NET ASSETS	**52,385,237**
DEFERRED OUTFLOWS OF RESOURCES	
Deferred Outflows Related to Pensions (NOTE 6)	190,451
TOTAL DEFERRED OUTFLOWS OF RESOURCES	**190,451**

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

North City Water District

STATEMENT OF NET POSITION – Page 2

As of December 31, 2016

LIABILITIES	
Current Liabilities:	
Accounts Payable - Maint	476,878
Accounts Payable - Construction	325,781
Accrued Employee Benefits	52,420
Compensated Absences - Current Portion	21,464
Other Liabilities	300,900
Accrued Interest Payable	85,666
Current Portion of Long-Term Debt (NOTE 5)	739,377
TOTAL CURRENT LIABILITIES	2,002,486
Non-Current Liabilities:	
Compensated Absences	63,713
Drinking Water State Revolving Fund Loans - Net of Current Portion (NOTE 5)	3,449,625
Long-Term Debt - Net of Current Portion (NOTE 5)	14,420,000
Unamortized Bond Premium (Discount)	758,510
Net Pension Liability (NOTE 6)	1,123,096
TOTAL NONCURRENT LIABILITIES	19,814,944
TOTAL NET LIABILITIES	**21,817,430**
DEFERRED INFLOWS OF RESOURCES	
Deferred Inflows Related to Pensions (NOTE 6)	27,076
TOTAL DEFERRED INFLOWS OF RESOURCES	**27,076**
NET POSITION	
Net Investment in Capital Assets	27,199,695
Restricted	788,667
Unrestricted	2,742,820
TOTAL NET POSITION	**$ 30,731,182**

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

North City Water District

STATEMENT OF REVENUES, EXPENSES & CHANGES IN NET POSITION

As of December 31, 2016

OPERATING REVENUE	
Utility Sales and Service Fees	$ 6,527,181
Other Operating Revenue	369,880
Total Operating Income	6,897,061
OPERATING EXPENSES	
Operations:	
Water Purchased for Resale	1,369,211
General Operations	733,396
Maintenance	290,624
Customer Service and Billing	266,805
Administration:	
General Administration	370,244
Planning & Development	6,274
Public & Regional Involvement	181,679
Office & Records Management	439,868
Depreciation and Amortization	1,377,978
Francise Fees	362,523
Property, Excise, and B&O Taxes	335,779
Total Operating Expenses	5,734,381
OPERATING INCOME	**1,162,680**
NON-OPERATING REVENUES (EXPENSES)	
Investment Interest Income	45,917
Bond Issue Costs	(119,178)
Bond and Loan Interest Expense (Net of Capitalization)	(95,294)
Other Non-Operating Revenue (Expense)	(163,389)
Total Non-Operating Revenues (Expenses)	(331,944)
Capital Contributions	426,493
CHANGE IN NET POSITION	1,257,229
TOTAL NET POSITION, January 1	29,473,953
TOTAL NET POSITION, July 31	**$ 30,731,182**

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

North City Water District
STATEMENT OF CASH FLOWS
As of December 31, 2016

CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash Received from Customers	$	6,886,172
Cash Payments to Suppliers for Goods & Services		(2,641,190)
Cash Payments for Payroll and Related Costs		(1,535,388)
NET CASH PROVIDED BY OPERATING ACTIVITIES		**2,709,594**
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Capital Contributions		426,493
Change in Non-Operating Expense/Income		(163,389)
Developer Costs (Net of Deposits)		202,540
Cash Payments for Capital Construction & Acquisition		(3,869,072)
2016 Bond Issue Proceeds		8,365,610
2016 Bond Issue Costs		(119,178)
DWSRF Loan Proceeds		1,775,282
Principal Paid on Revenue Bonds (NOTE 5)		(540,000)
Interest Paid on Revenue Bonds		(238,507)
Principal Paid on DWSRF Loan (NOTE 5)		(26,765)
Interest Paid on DWSRF Loan		(21,798)
TOTAL CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		**5,791,216**
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest Received on Investments (Net of Fees)		45,917
CASH FLOWS FROM INVESTING ACTIVITIES		**45,917**
NET INCREASE (DECREASE IN CASH AND CASH EQUIVALENTS		**8,546,727**
CASH AND CASH EQUIVALENTS - BEGINNING OF PERIOD		4,272,047
NON-CASH INVESTING, CAPITAL OR FINANCING TRANSACTIONS		
Contributions of capital assets from developers		**426,493**
CASH AND CASH EQUIVALENTS - END OF PERIOD		**12,818,774**
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
OPERATING INCOME (LOSS)	**$**	**1,162,680**
ADJUSTMENTS TO RECONCILE NET OPERAING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATIONS:		
Depreciation & Amortization Expense	$	1,377,978
Decrease (Increase) in Inventory		43,191
Decrease (Increase) in Accounts Receivable		(10,889)
Decrease (Increase) in Prepaid Expense		(5,106)
Increase (Decrease) in Other Payables		54,700
Increase (Decrease) in Maintenance Accounts Payable		99,894
Increase (Decrease) by Net Pensions Adjustments		(12,854)
NET CASH PROVIDED BY OPERATING ACTIVITIES	**$**	**2,709,594**

The accompanying notes are an integral part of these statements.

North City Water District
NOTES TO FINANCIAL STATEMENTS

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the District conform to generally accepted accounting principles (GAAP) as applicable to proprietary funds of governments. GASB is the accepted standard setting body for establishing governmental accounting and financial reporting principles. In June 1999, GASB approved Statement 34, *Basic Financial Statements – and Management Discussion and Analysis – for State and Local Governments.* This and consecutive statements are reflected in the accompanying financial statements (including notes to the financial statements). The following is a summary for the most significant policies (including identification of those policies, which result in material departures from GAAP:

a. Reporting Entity

The District is a municipal corporation governed by an elected three-member board. As required by generally accepted accounting principles, management has considered all potential component units in defining the reporting entity. The 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. An exception to full accrual is that interest on assessments is recorded when received. Capital asset purchases are capitalized and long-term liabilities are accounted for in the appropriate funds. Unbilled utility service receivables are recorded at year-end. Operating income includes gains and losses from the disposal of utility plant.

New Accounting Standards - For the year ended December 31, 2016, the District implemented Governmental Accounting Standards Board (GASB) Statement 68, *Accounting and Financial Reporting for Pensions*. See Note 6.

c. Cash and Cash Equivalents

For purposes of the statement of cash flows, the District considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents. All District deposits are covered by Federal Depository Insurance Corporation (FDIC) and are selected through the contracting of treasurer services through King County.

d. Capital Assets – See Note 3

e. Restricted Funds

In accordance with bond resolutions (and certain related agreements) separate restricted funds are required to be established. The assets held in these funds are restricted for specific uses, including construction, debt service and other special reserve requirements. Restricted funds as of December 31, 2016 include the Revenue Bond funds totaling $591,120.

Assets and liabilities shown as current in the accompanying statement of net assets exclude current maturities on revenue bonds and accrued interest thereon because debt service funds are provided for their payment.

f. Receivables

The District records receivables when billing takes place. The District takes advantage of its authority to lien properties with delinquent utility balances. Such liens are recorded with King County and are maintained until the balances are paid in full. Interest is assessed on these liens until paid. For this reason, there is not an allowance for bad debts.

g. Inventories

Inventory is valued at the average acquisition cost, which approximates the market value. All items are physically counted at year-end.

h. Investments

District funds not required for immediate expenditure are invested via King County, the District's ex-officio treasurer, in the King County Investment Pool (Pool). Investments are stated at cost. For various risks related to the investments, see Deposits and Investments Note No. 2

i. Compensated Absences

Compensated absences are absences for which employees will be paid, such as vacation and sick leave. The District records unpaid leave for compensated absences as an expense and liability when incurred. Vacation pay, which may be accumulated up to 360 hours, is payable upon resignation, retirement or death. Sick leave may accumulate up to 960 hours as of December 31 of each calendar year. This is an increase over 2015 because the District changed the sick leave policy in 2016 to allow for 25% of unused sick leave to be deposited to an employee's VEBA account upon resignation, retirement or death.

j. Revenues and Expenses

OPERATING REVENUE is defined as those revenues generated from the sale of utility services and all associated administrative charges directly connected to those services. Non-operating revenues are defined as those revenues not meeting the definition of operating revenue.

OPERATING EXPENSES are those direct costs necessary for providing water services. Non-operating expenses are all other expenses not meeting the definition of an operating expense.

k. Construction Financing

The District has issued revenue bonds for long-term financing of capital improvements. The District also takes advantage of Drinking Water State Revolving Fund Loans made available through the Washington State Department of Commerce for public works projects. See Note No. 5 for additional information. Developers also build regular system extensions. Upon the completion of the project, the developer donates those main lines to the District.

l. Other Current Assets – Pre-paid items

Prepaid expenses are those costs which are paid up front for short term future use. One such prepaid item is insurance. As noted in Note 8, the District carries insurance through the Washington Governmental Entities Pool and pays for this coverage bi-annually. Since the monies are paid in advance of the coverage, the amount allocated to future periods is noted as a pre-paid expense. The District also includes applies funds toward its postage meter and postage permit.

m. Intangible Assets

The District defers costs for intangible assets for a period of time equal to its estimated useful life. As of December 31, 2016, the District's intangible assets $199,414. See Note 3.

n. Pensions

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

NOTE 2 – DEPOSITS AND INVESTMENTS

a. Deposits

The District's deposits are covered by federal depository insurance (FDIC). The Public Deposit Protection Commission of the State of Washington (PDPC) also provides limited coverage of the Districts funds held by King County. The PDPC is a statutory authority which constitutes a multiple financial institution collateral pool that can make pro rata assessments to all public depositories within the state of up to ten percent (10%) of all their public deposits.

b. Investments

In accordance with state investment laws, the District's governing body has entered into a formal interlocal agreement with King County, its *ex officio* treasurer, to have all funds not required for immediate expenditure invested in the King County Investment Pool (Pool). As of December 31, 2016, the District had the following investments:

Investment Type	Fair Value	Effective Duration
King County Investment Pool	$12,742,452	1.10 Years

Impaired Investments: As of December 31, 2016, all impaired commercial paper investments have completed enforcement events. The King county impaired investment pool (Impaired Pool) held one commercial paper asset where the Impaired Pool accepted an exchange offer and is receiving the cash flows from the investment's underlying securities. The Impaired Pool also held the residual investments in four commercial paper assets that were part of completed enforcement events, where the Impaired Pool accepted the cash out option. The District's share of the impaired investment pool principal is $19,328 and the District's fair value of these investments is $12,007.

Interest Rate Risk. As of December 31, 2016, the Pool's average duration was .93 years. As a means of limiting its exposure to rising interest rates, securities purchased in the Pool must have a final maturity or weighted average life, no longer than five years. While the Pool's market value is calculated on a monthly basis, unrealized gains and losses are not distributed to participants. The Pool distributes earnings monthly using an amortized cost methodology.

Credit risk. As of December 2016, the District's investment in the Pool was not rated by a nationally recognized statistical rating organization (NRSRO). In compliance with state statutes, Pool policies authorize investments in U.S. Treasury securities, U.S. agency securities and mortgage-backed securities, municipal securities (rated at least "A" by two NRSROs), commercial paper (rated at least the equivalent of "A-1" by two NRSROs), Certificates of deposits issued by qualified public depositories, repurchase agreements, and the Local Government Investment Pool managed by the Washington State Treasurer's office.

NOTE 3 – 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 in excess of one year.

Major expenses for capital assets such as major repairs that increase useful lives are capitalized. Maintenance, repairs, and minor renewals are accounted for as expenses when incurred.

Utility plants in service and other capital assets are recorded at cost. Capital assets for the year ended December 31, 2016 were as shown in the following table:

	2016	2016 Activity		2016
	Beg Bal	Increase	Decrease / Adjustment	End Bal
UTILITY PLANT NOT BEING DEPRECIATED OR AMORTIZED				
Land	$ 3,496,535	$ -	$ -	3,496,535
Construction-in-Progress	5,077,714	3,586,715	(190,925)	8,473,504
TOTAL UTILITY PLANT NOT BEING DEPRECIAT	**$ 8,574,250**	**$ 3,586,715**	**$ (190,925)**	**$ 11,970,039**
UTILITY PLANT BEING AMORTIZED - NET OF AMORTIZATION				
Intangible Plant	$ 305,728	$ -	$ (106,314)	$ 199,414
TOTAL UTILITY PLANT BEING AMORTIZED	**$ 305,728**	**$ -**	**$ (106,314)**	**$ 199,414**
UTILITY PLANT BEING DEPRECIATED				
Building & Structures	$ 4,957,374	$ -	$ (415,736)	$ 4,541,638
Machinery & Equipment	1,089,243	7,866	-	1,097,110
Vehicles	916,897	-	(75,106)	841,790
Infrastructure	31,304,301	731,809	(38,637)	31,997,473
TOTAL UTILITY PLANT BEING DEPRECIATED	**$ 38,267,815**	**$ 739,675**	**$ (529,480)**	**$ 38,478,010**
LESS ACCUMULATED DEPRECIATION FOR:				
Building & Structures	$ (363,266)	$ (113,824)	$ 249,442	$ (227,648)
Machinery & Equipment	(680,146)	(93,411)	-	(773,558)
Vehicles	(499,657)	(78,568)	75,106	(503,118)
Infrastructure	(10,072,219)	(985,861)	38,637	(11,019,443)
TOTAL ACCUMULATED DEPRECIATION	**$ (11,615,288)**	**$ (1,271,664)**	**$ 363,185**	**$ (12,523,767)**
UTILITY PLANT BEING DEPRECIATED (NET)	**$ 26,652,527**	**$ (531,989)**	**$ (166,295)**	**$ 25,954,243**
TOTAL UTILITY PLANT, NET	**$ 35,532,505**	**$ 3,054,726**	**$ (463,534)**	**$ 38,123,697**

The original cost of operating property retired or otherwise disposed of and the cost of installation, less salvage, is charged to accumulated depreciation. However, in the case of the sale of a significant operating unit or system, the original cost is removed from the utility plant accounts, accumulated depreciation related to the property sold is charged, and the net gain or loss on disposition is credited or charged to income.

Capital assets are depreciated using straight-line method of depreciation over the following estimated useful lives:

Buildings	20 to 30 years
Equipment	3 to 10 years
Infrastructure	10 to 50 years
Vehicles	3 to 10 years

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

NOTE 4 – CONSTRUCTION IN PROGRESS

Construction in progress represents expenses to date on capital projects. The construction in progress as of December 31, 2016 was as follows:

CONSTRUCTION IN PROGRESS *As of December 31, 2016*		
PRV System-wide Rebuild		15,257
GIS Project		1,233
NCPS (Pump Station) Design and Construction		7,034,024
Main Replacement at 15th and 24th (CIP #4)		254,559
Maintenance Building		1,168,431
TOTAL	**$**	**8,473,504**

NOTE 5 - LONG-TERM DEBT

a. Revenue Bonds

The District issued Water Revenue Bonds in December 31, 2011 in the amount of $9,865,000. These bonds bear interest rates ranging from 2.0% to 4.0% and are payable semi-annually each April 1 and October 1. A portion of the bond principle matures each October 1 beginning in the year 2012 through 2031. The outstanding balance as 12/31/2016 is: $ 7,290,000

The District issued Water Revenue Bonds in November 3, 2016 in the amount of $7,685,000. These bonds bear interest rates of 4.0% and a term of thirty years. The interest is due semi-annually each April 1 and October 1. The bond principle is payable each October 1 beginning in the year 2032 through 2046. The outstanding balance as 12/31/2016 is: $ 7,685,000

Total Bond Restricted Debt $ 14,975,000

b. Junior Lien Loans

Drinking Water State Revolving Fund (DWSRF) Loan

The District entered into two loan agreements with the Department of Commerce in 2012. Both loans are for 24 years including 4 years from the contract execution date to the project completion date with a 1.5% interest rate. The first project allowed the District to accelerate the replacement of cast iron water mains. The second project will install upgrades to the North City pump station make it more efficient.

The pump station project started construction in May 2015 and will be completed in 2017. The funds drawn in 2016 were $1,775,282. The outstanding balance for both projects as 12/31/2016 is $3,634,002. See Schedule 16.

The District was required to have Federal Audits for both loans for 2013 and a single federal audit for 2015 for the pump station loan.

c. Short-term Debt

The District has not obtained short-term debt in the past. It does not anticipate obtaining short-term debt in the future.

Combined Long Term Debt Service Schedule

	2011 Revenue Bond Principal	2011 Revenue Bond Interest	2016 Revenue Bond Principal	2016 Revenue Bond Interest	DWSRF Loan Principal	DWSRF Loan Interest	COMBINED ANNUAL DEBT SERVICE
2017	$ 555,000	$ 214,548		$ 256,167	$ 184,377	122,583	$ 1,332,674
2018	565,000	203,448		307,400	184,377	51,744	1,311,968
2019	580,000	192,148		307,400	184,377	48,979	1,312,903
2020-2025	2,540,000	911,473	-	1,844,400	1,106,259	235,794	6,637,926
2026-2031	3,050,000	400,665	-	1,844,400	1,106,259	136,230	6,537,555
2032-2037			2,545,000	1,601,200	868,354	37,871	5,052,425
2038-2046			5,140,000	1,082,000	-	-	6,222,000
	$ 7,290,000	**$ 1,922,280**	**$ 7,685,000**	**$ 7,242,967**	**$ 3,634,002**	**$ 633,202**	**$ 28,407,450**

Changes in Long-Term Liabilities

During the year ended December 31, 2016, the following changes occurred in long-term liabilities: The District's compensated absence liability represents the amount owed to District employees upon separation from District employment. See Note 1i for more information regarding compensated absences. This liability increased by $24,911 from the addition of sick leave as a liability at the end of employment.

	Beginning Balance 1/1/2016	Additions	Reductions	Ending Balance 12/31/2016	Due Within One Year
Revenue Bonds Payable - 2011	$ 7,830,000	$ -	$ (540,000)	$ 7,290,000	$ 555,000
Revenue Bonds Payable - 2016 (1)		7,685,000		7,685,000	-
Compensated Absenses	60,266	3,447		63,713	21,464
DWSRF Loans	1,885,484	1,775,282	(26,765)	3,634,002	184,377
Pension Liability	931,809	191,287		1,123,095	
Total LT Liabilities	**$ 10,707,559**	**$ 9,655,015**	**$ (566,765)**	**$ 19,795,810**	**$ 760,841**

NOTE 6 – PENSION PLAN

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 2016:

Aggregate Pension Amounts – All Plans	
Pension liabilities	$1,123,096
Pension assets	$ 0
Deferred outflows of resources	$ 190,451
Deferred inflows of resources	$ 27,076
Pension expense/expenditures	$ 113,846

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.

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 2016 were as follows:

PERS Plan 1		
Actual Contribution Rates:	**Employer**	**Employee***
PERS Plan 1	6.23%	6.00%
PERS Plan 1 UAAL	4.77%	6.00%
Administrative Fee	0.18%	
Total	**11.18%**	**6.00%**

* 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.

<u>Contributions</u>

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 2016 were as follows:

PERS Plan 2/3		
Actual Contribution Rates:	**Employer 2/3**	**Employee 2***
PERS Plan 2/3	6.23%	6.12%
PERS Plan 1 UAAL	4.77%	
Administrative Fee	0.18%	
Employee PERS Plan 3		varies
Total	**11.18%**	**6.12%**

* For employees participating in JBM, the contribution rate was 15.30%.

The District's actual PERS plan contributions were $54,942 to PERS Plan 1 and $71,758 to PERS Plan 2/3 for the year ended December 31, 2016.

Actuarial Assumptions

The total pension liability (TPL) for each of the DRS plans was determined using the most recent actuarial valuation completed in 2016 with a valuation date of June 30, 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*.

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, 2016. Plan liabilities were rolled forward from June 30, 2016, to June 30, 2016, 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.
There were minor changes in methods and assumptions since the last valuation.

- For all systems, except LEOFF Plan 2, the assumed valuation interest rate was lowered from 7.8% to 7.7%. Assumed administrative factors were updated.

- Valuation software was corrected on how the nonduty disability benefits for LEOFF Plan 2 active members is calculated.

- New LEOFF Plan 2 benefit definitions were added within the OSA valuation software to model legislation signed into law during the 2016 legislative session.

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. The Washington State Investment Board (WSIB) used a best estimate of expected future rates of return (expected returns, net of pension plan investment expense, including inflation) to develop each major asset class. Those expected returns make up one component of WSIB's capital market assumptions. The WSIB uses the capital market assumptions and their target asset allocation to simulate future investment returns at various future times. The long-term expected rate of return of 7.5 percent approximately equals the median of the simulated investment returns over a 50-year time horizon.

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, 2016, 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%	1.70%
Tangible Assets	5%	4.40%
Real Estate	15%	5.80%
Global Equity	37%	6.60%
Private Equity	23%	9.60%
	100%	

Sensitivity of 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.

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
PERS 1	$ 615,244	$510,195	$ 419,794
PERS 2/3	$1,128,461	$612,901	$-319,050

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, 2016, the District reported a total pension liability of $1,123,096 for its proportionate share of the net pension liabilities as follows:

	Liability (or Asset)
PERS 1	$ 510,195
PERS 2/3	$ 612,901
TOTAL	$1,123,096

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

	Proportionate Share 6/30/15	Proportionate Share 6/30/16	Change in Proportion
PERS 1	0.009463%	0.009500%	0.000037%
PERS 2/3	0.012225%	0.012173%	-0.000052%

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, 2016, 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, 2016, the District recognized pension expense as follows:

	Pension Expense
PERS 1	$ 29,558
PERS 2/3	$ 84,288
TOTAL	$113,846

Deferred Outflows of Resources and Deferred Inflows of Resources

At December 31, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

PERS 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	$12,846	$
Changes of assumptions	$	$
Changes in proportion and differences between contributions and proportionate share of contributions	$	$
Contributions subsequent to the measurement date	$27,593	$
TOTAL	$40,439	$

PERS 2/3	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$32,637	$20,233
Net difference between projected and actual investment earnings on pension plan investments	$75,001	$
Changes of assumptions	$6,335	$
Changes in proportion and differences between contributions and proportionate share of contributions	$	$6,843
Contributions subsequent to the measurement date	$36,039	$
TOTAL	$150,012	$27,076

Deferred outflows of resources of $63,632 ($27,593 for PERS 1 and $36,039 for PERS 2/3) 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, 2017. 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 1	PERS 2/3
2017	($ 3,163)	($ 2,256)
2018	($ 3,163)	($ 2,256)
2019	$11,798	$55,966
2020	$ 7,374	$35,444
2021		
Thereafter		

NOTE 7 – JOINT VENTURES

The District has a long-term supply agreement with Seattle Public Utilities (SPU). SPU provides the District with all of its water. The supply quantity in the agreement is sufficient to supply the District for at least three decades. The District made direct water purchases from SPU in 2016 of $1,369,211.

NOTE 8 – RISK MANAGEMENT

The District is exposed to the risk of loss from torts, theft of or damage to assets, natural disasters, workers compensation, errors and omissions, and other general liabilities.

North City Water District is a member of Enduris. Chapter 48.62 RCW provides the exclusive source of local government entity authority to individually or jointly self-insure risks, jointly purchase insurance or reinsurance, and to contract for risk management, claims, and administrative services. Enduris was formed July 10, 1987 pursuant to the provisions of Chapter 48.62 RCW, Chapter 200-100 WAC, and Chapter 39.34 RCW. Two (2) counties and two (2) cities in the State of Washington joined together by signing an interlocal governmental agreement to fund their self-insured losses and jointly purchase insurance and administrative services. As of August 31, 2016, there are 524 Enduris members representing a broad array of special purpose districts throughout the state. Enduris provides property and liability coverage as well as risk management services and other related administrative services.

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

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

- $250,000 deductible on property loss - the member is responsible for the first $1,000 of the deductible amount of each claim, while Enduris is responsible for the remaining $249,000 on a property loss.
- Enduris is responsible for the $4,000 deductible on boiler and machinery loss.

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

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

The contract requires members to continue membership for a period of not less than one (1) year and must give notice 60 days before terminating participation. The Master Agreement (Intergovernmental Contract) is automatically renewed after the initial one (1) full fiscal year commitment. Even after termination, a member is still responsible for contribution to Enduris for any unresolved, unreported and in-process claims for the period they were a signatory to the Master Agreement.

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

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

Settlement claims have not exceeded insurance coverage for any of the past three years.

REQUIRED SUPPLEMENT INFORMATION (RSI)

Under GASB Statement 68, local governments that participate in one or more of the State's cost-sharing, multiple employer pension plans (PERS, SERS, PSERS, TRS, and LEOFF) must present as RSI:

- Schedule of Proportionate Share of the Net Pension Liability
- Schedule of Employer Contributions

These are 10-year schedules. Until a full 10-year trend is compiled, local governments should present information only for those years for which information is available

Schedule of Proportionate Share of Net Pension Liability **Plan PERS 1** **As of June 30:**	**2015**	**2016**
Employer's proportion of the net pension liability (asset)	0.009463%	0.009500%
Employer's proportionate share of the net pension liability	$ 495,003	$ 510,195
Employer's covered employee payroll	$ 1,088,204	$ 1,138,244
Employer's proportionate share of the net pension liability as a percentage of covered payroll	45.49%	44.82%
Plan fiduciary net position as percentage of the total pension liability	59.1%	57.03%

Schedule of Proportionate Share of Net Pension Liability **Plan PERS 2/3** **As of June 30:**	**2015**	**2016**
Employer's proportion of the net pension liability (asset)	0.012225%	0.012173%
Employer's proportionate share of the net pension liability	$ 436,806	$ 612,901
Employer's covered employee payroll	$ 1,088,204	$ 1,138,244
Employer's proportionate share of the net pension liability as a percentage of covered payroll	40.14%	53.85%
Plan fiduciary net position as percentage of the total pension liability	89.20%	85.82%

Schedule of Employer Contributions **Plan PERS 1** **As of December 31:**	**2015**	**2016**
Statutorily or contractually required contributions	$ 49,305	$ 54,942
Contributions in relation to the statutorily or contractually required contributions	$ (49,305)	$ (54,942)
Contribution deficiency (excess)	$ -	$ -
Covered employer payroll	$ 1,123,885	$ 1,143,374.03
Contributions as a percentage of covered employee payroll	4.39%	4.81%

Schedule of Employer Contributions **Plan PERS 2/3** **As of December 31:**	**2015**	**2016**
Statutorily or contractually required contributions	$ 65,333	$ 71,758
Contributions in relation to the statutorily or contractually required contributions	$ (65,333)	$ (71,758)
Contribution deficiency (excess)	$ -	$ -
Covered employer payroll	$ 1,123,885	$ 1,143,374
Contributions as a percentage of covered employee payroll	5.81%	6.28%

NOTES TO SCHEDULES

Note 1
These schedules will be built prospectively until they contain ten years of data.

Note 2: Changes of Benefit Terms
There were no changes of benefits for the Pension Plans.

Note 3: Changes of Assumptions
There were no changes for the Pension Plans.

ABOUT THE STATE AUDITOR'S OFFICE

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

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

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

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

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

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

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

Contact information for the State Auditor's Office	
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