

**KING COUNTY WATER DISTRICT NO. 49**

**FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION**

**YEARS ENDED DECEMBER 31, 2018 AND 2017**



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**KING COUNTY WATER DISTRICT NO. 49  
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YEARS ENDED DECEMBER 31, 2018 AND 2017**

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## ACCOUNTANTS' COMPILATION REPORT

Board of Commissioners  
King County Water District No. 49  
Burien, Washington

Management is responsible for the accompanying financial statements of King County Water District No. 49, which comprise the statements of net position as of December 31, 2018 and 2017 and the related statements of revenues, expenses, and changes in fund net position, and cash flows for the years then ended, and the related notes to the financial statements in accordance with accounting principles generally accepted in the United States of America. We have performed a compilation engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. We did not audit or review the financial statements, nor were we required to perform any procedures to verify the accuracy or completeness of the information provided by management. Accordingly, we do not express an opinion, a conclusion, nor provide any form of assurance on these financial statements.

### 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 in the table of contents be presented to supplement the basic financial statements. Such information, although not a required 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 and for placing the basic financial statements in an appropriate operational, economic, or historical context. This information is the responsibility of management. This information was subject to our compilation engagement, however, we have not audited or reviewed the required supplementary information and, accordingly, do not express an opinion, a conclusion, nor provide any form of assurance on such information.

### Supplementary Information

The additional supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. This information is the representation of management. This information was subject to our compilation engagement, however, we have not audited or reviewed the supplementary information and, accordingly, do not express an opinion, a conclusion, nor provide any form of assurance on such information.

*CliftonLarsonAllen LLP*

**CliftonLarsonAllen LLP**

Bellevue, Washington  
May 29, 2019

**KING COUNTY WATER DISTRICT NO. 49  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2018 AND 2017  
(SEE ACCOUNTANTS' COMPILATION REPORT)**

## **INTRODUCTION**

King County Water District No. 49 was organized in 1933 to provide water services to customers residing within the District boundaries. Currently the District has approximately 4,000 meter connections that provide services to more than 16,000 residential and commercial users in parts of Burien and northern Normandy Park.

The mission of the Board of Commissioners and employees of King County Water District No. 49 is to provide high quality water and excellent customer service while effectively managing District infrastructure for a reliable water system today and for future generations.

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

This section of management's discussion and analysis presents our review of the District's financial position as of December 31, 2018 and 2017 and our financial performance for the years then ended. Please read these comments in conjunction with the District's financial statements, which follow this section.

## **OVERVIEW OF THE FINANCIAL STATEMENTS**

The financial statements include a statement of net position, statement of revenues, expenses, and changes in fund net position, statement of cash flows, and notes to the financial statements.

The statement of net position presents total assets and deferred outflows of resources and total liabilities and deferred inflows of resources with the difference between the two totals reported as net position. It provides information about the nature and amounts of investments in resources (assets), consumption of resources that are applicable to future periods (deferred outflows), obligations to District creditors (liabilities) and the acquisition of resources that are applicable to a future reporting period (deferred inflows). It provides a basis for evaluating the capital structure of the District and assessing its liquidity and financial flexibility. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial condition of the District is improving or deteriorating.

The statement of revenues, expenses, and changes in fund net position presents the results of the District's business activities over the course of the year. This information can be used to determine whether the District has successfully recovered all its costs through its user fees and other charges, and to evaluate our profitability and credit worthiness.

The statement of cash flows reports cash receipts, cash payments and net changes in cash resulting from operating, financing, and investing activities over the course of the year. It presents information regarding where cash came from and what it was used for.

The notes to the financial statements provide useful information regarding the District's significant accounting policies, explain significant account balances and activities, certain material risks, estimates, obligations, commitments, contingencies, and subsequent events, if any.

**KING COUNTY WATER DISTRICT NO. 49  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2018 AND 2017  
(SEE ACCOUNTANTS' COMPILATION REPORT)**

**CONDENSED STATEMENTS OF NET POSITION AT DECEMBER 31**

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Capital Assets	\$ 14,712,000	\$ 14,435,886	\$ 12,399,282
Other Assets	11,688,212	11,139,441	3,456,026
Total Assets	<u>26,400,212</u>	<u>25,575,327</u>	<u>15,855,308</u>
 Deferred Outflows of Resources	 <u>78,110</u>	 <u>93,646</u>	 <u>94,128</u>
 Long-Term Liabilities	 10,642,590	 11,002,517	 2,173,996
Other Liabilities	462,319	469,530	439,685
Total Liabilities	<u>11,104,909</u>	<u>11,472,047</u>	<u>2,613,681</u>
 Deferred Inflows of Resources	 <u>154,191</u>	 <u>99,039</u>	 <u>47,123</u>
 Net Investment in Capital Assets	 9,810,583	 9,857,198	 10,839,150
Restricted Amounts	1,077,783	1,061,810	1,290
Unrestricted Amounts	<u>4,330,856</u>	<u>3,178,879</u>	<u>2,448,192</u>
 Total Net Position	 <u><u>\$ 15,219,222</u></u>	 <u><u>\$ 14,097,887</u></u>	 <u><u>\$ 13,288,632</u></u>

*(continued on next page)*

**KING COUNTY WATER DISTRICT NO. 49**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**DECEMBER 31, 2018 AND 2017**  
(SEE ACCOUNTANTS' COMPILATION REPORT)

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

	<u>2018</u>	<u>2017</u>	<u>2016</u>
<b>OPERATING REVENUES</b>			
Water Sales	\$ 4,281,644	\$ 3,938,464	\$ 3,735,316
Penalties and Miscellaneous	105,787	86,317	60,097
Street Lighting	89,420	61,807	65,778
Total Operating Revenues	<u>4,476,851</u>	<u>4,086,588</u>	<u>3,861,191</u>
<b>OPERATING EXPENSES</b>			
Water Cost	1,224,722	1,123,721	1,166,361
Reservoir	54,741	18,524	17,055
Customer Accounts	30,339	34,058	45,608
Transmission and Distribution	464,082	466,118	475,172
Administrative and General	1,037,422	1,181,578	1,002,186
Street Lighting Cost	90,371	81,314	65,557
Depreciation and Amortization	573,040	572,240	562,061
Total Operating Expenses	<u>3,474,717</u>	<u>3,477,553</u>	<u>3,334,000</u>
<b>OPERATING INCOME</b>	1,002,134	609,035	527,191
<b>NONOPERATING REVENUE (EXPENSE)</b>			
Investment Income, Net of Service Fees	188,215	29,912	19,387
Loss on Disposal of Assets and Abandoned Projects	(14,238)	(119,670)	(13,438)
Bond Issuance Costs	-	(129,836)	-
Interest and Amortization Long-Term Debt, Net of Amount Capitalized	<u>(291,923)</u>	<u>(134,190)</u>	<u>(34,876)</u>
Total Nonoperating Revenue (Expense)	<u>(117,946)</u>	<u>(353,784)</u>	<u>(28,927)</u>
<b>INCOME BEFORE CAPITAL CONTRIBUTIONS</b>	884,188	255,251	498,264
Capital Contributions	<u>312,677</u>	<u>554,004</u>	<u>440,927</u>
<b>CHANGE IN NET POSITION</b>	1,196,865	809,255	939,191
Net Position - January 1	14,097,887	13,288,632	12,349,441
Restatement - Change in Accounting Principle	<u>(75,530)</u>	<u>-</u>	<u>-</u>
Net Position - January 1, as Restated	<u>14,022,357</u>	<u>13,288,632</u>	<u>12,349,441</u>
<b>NET POSITION - DECEMBER 31</b>	<u>\$ 15,219,222</u>	<u>\$ 14,097,887</u>	<u>\$ 13,288,632</u>

**KING COUNTY WATER DISTRICT NO. 49  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2018 AND 2017  
(SEE ACCOUNTANTS' COMPILATION REPORT)**

**OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)**

Effective January 1, 2018, the District adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (GASB 75). This statement replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*. GASB 75 establishes new accounting and financial reporting requirements for OPEB plans, establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense.

The cumulative impact of implementation of GASB 75 resulted in a \$75,530 reduction of net position as of January 1, 2018 as a result of recognizing the additional OPEB liability required under GASB 75. It was not practicable to measure the total OPEB liability as of January 1, 2017 and restate the 2017 financial statements as the alternative measurement tool prepared by the Washington State Actuary did not have the ability to produce those amounts.

Effective January 1, 2018, the District early implemented Governmental Accounting Standards Board (GASB) Statement No. 89, *Accounting for Interest Cost Incurred before the end of the Construction Period*. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset. This statement is applied on a prospective basis and did not affect prior year results.

**KING COUNTY WATER DISTRICT NO. 49  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2018 AND 2017  
(SEE ACCOUNTANTS' COMPILATION REPORT)**

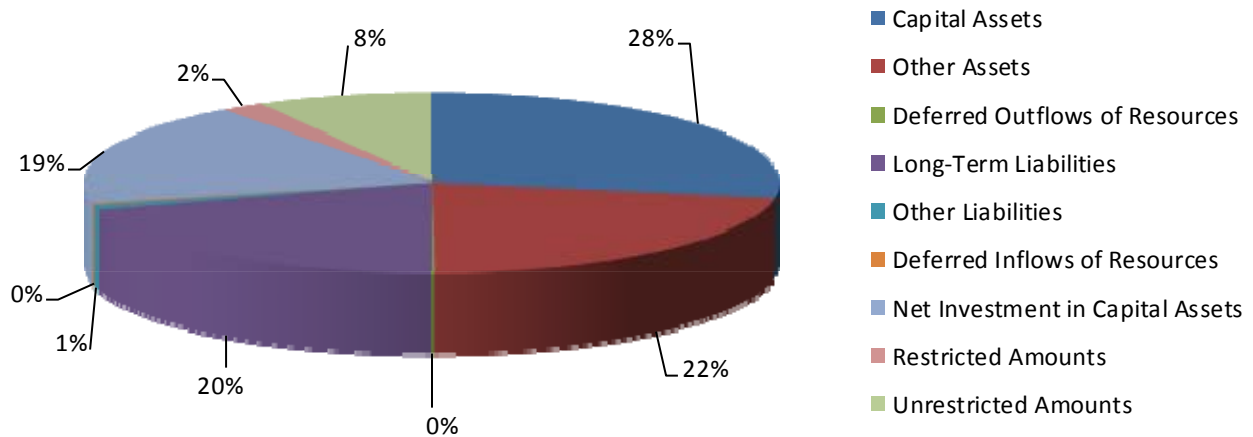
**FINANCIAL POSITION**

The District's overall financial position continues to be strong and provides sufficient liquidity to support stable, ongoing operations.

The District is financed primarily by equity. Substantial liquid assets are available to fund liabilities and construction. Capital assets increased in 2018 and 2017 due to growth in the customer base and construction activity to upgrade the system.

The following charts indicate the components of financial position.

**2018 STATEMENT OF NET POSITION**

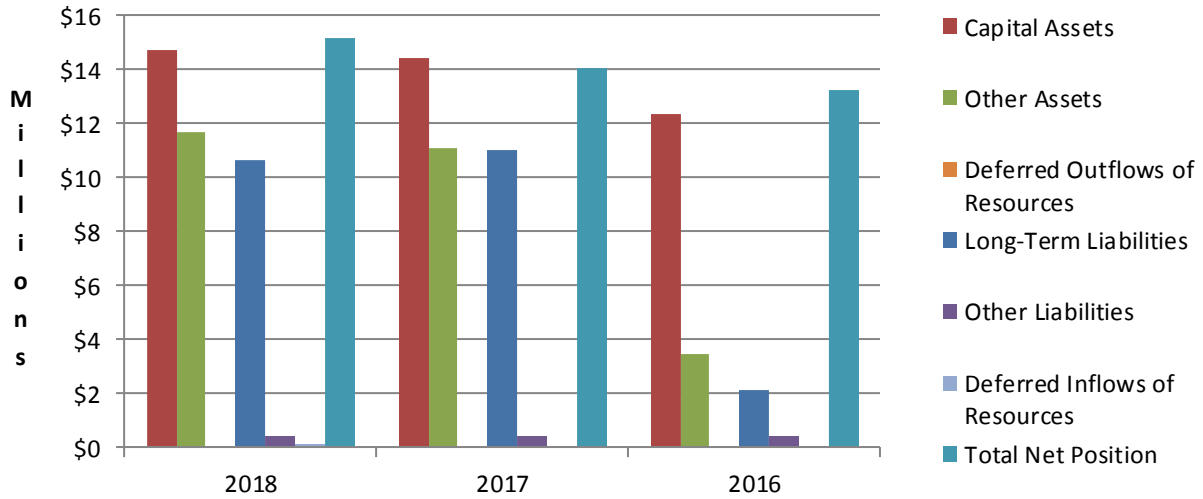




**KING COUNTY WATER DISTRICT NO. 49  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2018 AND 2017  
(SEE ACCOUNTANTS' COMPILATION REPORT)**

**FINANCIAL POSITION (CONTINUED)**

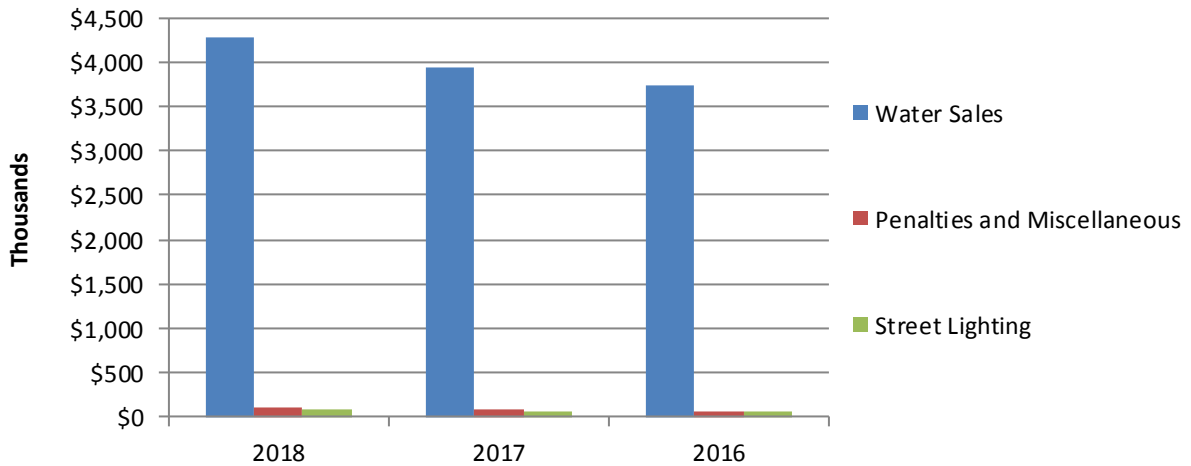
**COMPARATIVE STATEMENT OF NET POSITION**



**RESULTS OF OPERATIONS**

Operating revenues are received primarily from water sales and service charges (including street lights). The following chart indicates operating revenue over the last three years.

**OPERATING REVENUES**



**KING COUNTY WATER DISTRICT NO. 49  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2018 AND 2017  
(SEE ACCOUNTANTS' COMPILATION REPORT)**

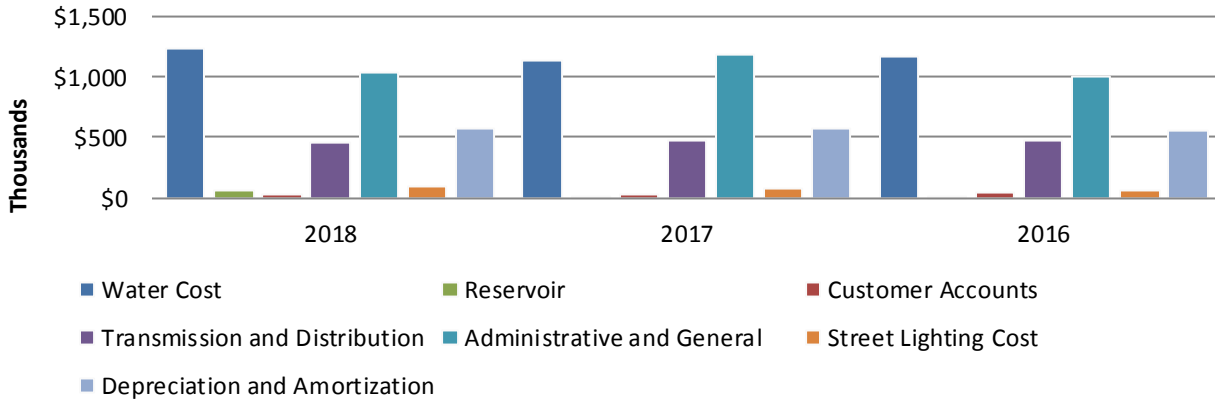
**RESULTS OF OPERATIONS (CONTINUED)**

Water usage, and corresponding revenues, can vary significantly due to weather conditions. Water revenue in 2018 and 2017 was due to high water consumption due to very dry and hot weather conditions during those summers.

The District increases rates as necessary to meet revenue requirements to support the ongoing operating, maintenance and capital needs of the system.

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

**OPERATING EXPENSES**



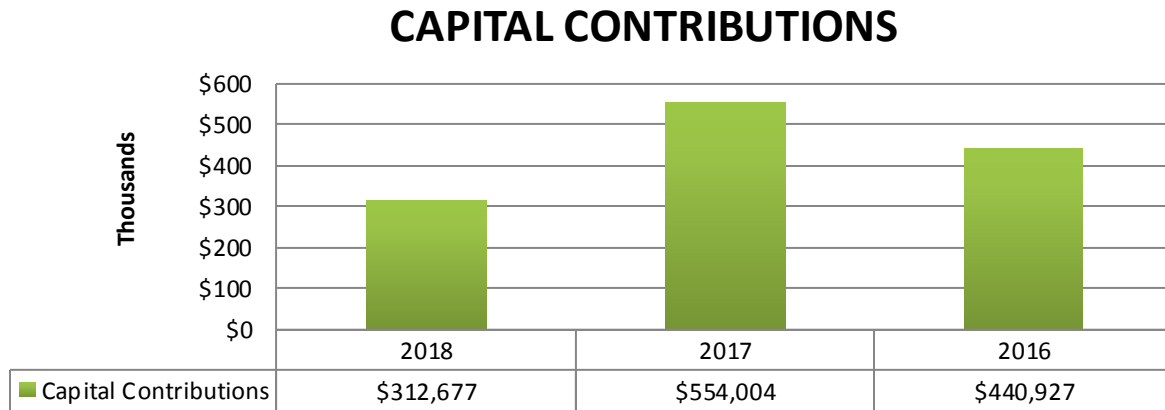
The Districts operating costs in 2018 were comparable to 2017. The Districts operating costs increased 2017 due to higher water purchases as a result of summer weather conditions as discussed above for operating revenue.

The District has operated at a profit in each of the past three years. The District's philosophy is to provide for all depreciation through rates, based on the principle that current users should pay all costs associated with the water system as it is being used. Operating revenues are augmented by earnings on investments and other nonoperating revenues in excess of other expenses, principally interest on long-term debt.

**KING COUNTY WATER DISTRICT NO. 49  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2018 AND 2017  
(SEE ACCOUNTANTS' COMPILATION REPORT)**

**CAPITAL CONTRIBUTIONS**

The District collects capital contributions from new customers. These contributions consist of connection charges, ULID assessments and donated systems. The following chart indicates capital contributions over the past three years.



The contributions are indicative of the growth of the District and include donated systems totaling \$209,327, \$503,004, and \$139,427 for the years ended December 31, 2018, 2017, and 2016 respectively.

**CAPITAL ASSETS AND LONG-TERM LIABILITIES**

Capital assets increased in 2018 and 2017 due to growth in the customer base and construction activity to upgrade the system. Significant capital asset additions included the following:

	<b>2018</b>		<b>2017</b>
Reservoir	\$ 427,745	Des Moines Memorial Drive, Phase 3	\$ 240,301
Pressure Reducing Value - 4	167,509	Reservoir	1,870,340
Donated Systems	209,327	Pressure Reducing Value - 4	23,867
		Donated Systems	503,004

Long-term liabilities decreased in 2018 due to principal payments made by the District and a decrease in the net pension liability. Long-term liabilities increased in 2017 due to the issuance of bonds in the amount of \$9,180,00 to advance refund \$960,000 of outstanding 2007 bonds and to finance system improvements.

See Notes 4, 5, 6, 7, and 8 in the financial statements for detail activity in capital assets and long-term liabilities.

**KING COUNTY WATER DISTRICT NO. 49  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2018 AND 2017  
(SEE ACCOUNTANTS' COMPILATION REPORT)**

**ADDITIONAL COMMENTS**

The District is currently dependent on Seattle Public Utilities for all of the water the District provides its customers.

The District currently has adequate water supply to grant all requests for water service within its boundaries due to its 60-year partial-supply contract with the City of Seattle.

**KING COUNTY WATER DISTRICT NO. 49**  
**STATEMENTS OF NET POSITION**  
**DECEMBER 31, 2018 AND 2017**  
(SEE ACCOUNTANTS' COMPILATION REPORT)

	2018	2017
<b>ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>		
<b>CURRENT ASSETS</b>		
Unrestricted:		
Cash and Cash Equivalents	\$ 4,270,103	\$ 3,311,366
Customer Accounts Receivable	193,745	141,184
Accrued Unbilled - Revenue	520,292	514,565
Receivable - Developers and Others	80,759	48,322
Interest Receivable	16,812	9,608
Inventories	91,628	69,049
Prepaid Expenses and Deposits	27,985	23,974
Total Unrestricted	5,201,324	4,118,068
Restricted:		
Cash and Cash Equivalents	6,465,660	7,000,520
Interest Receivable	2,040	1,208
Total Restricted	6,467,700	7,001,728
Total Current Assets	11,669,024	11,119,796
<b>NONCURRENT ASSETS</b>		
Unamortized Contracts Costs	19,188	19,645
Total	19,188	19,645
Capital Assets Not Being Depreciated:		
Land	1,808,618	69,049
Construction in Progress	900,920	2,033,387
Capital Assets Being Depreciated:		
Plant in Service	22,159,789	21,917,737
Less: Accumulated Depreciation	(10,157,327)	(9,584,287)
Net Capital Assets	14,712,000	14,435,886
Total Noncurrent Assets	14,731,188	14,455,531
Total Assets	26,400,212	25,575,327
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Deferred Loss on Refunding of Debt	10,833	13,623
Deferred Outflows Related to Pensions	64,200	80,023
Deferred Outflows Related to Other Postemployment Benefits	3,077	-
Total Deferred Outflows of Resources	78,110	93,646
Total Assets and Deferred Outflows of Resources	\$ 26,478,322	\$ 25,668,973

See accompanying Notes to Financial Statements.

**KING COUNTY WATER DISTRICT NO. 49**  
**STATEMENTS OF NET POSITION (CONTINUED)**  
**DECEMBER 31, 2018 AND 2017**  
(SEE ACCOUNTANTS' COMPILATION REPORT)

<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION</b>	2018	2017
<b>CURRENT LIABILITIES</b>		
Payable from Unrestricted Assets:		
Accounts Payable	\$ 108,437	\$ 112,594
Accrued Liabilities	14,561	12,132
Accrued Payroll Taxes and Benefits	2,671	2,301
Retainage Payable	-	1,132
Compensated Absences	75,800	58,600
Accrued Interest	3,548	4,218
Long-Term Debt - Current Maturities	68,052	68,052
Total Payable from Unrestricted Assets	273,069	259,029
Payable from Restricted Assets:		
Accounts Payable	11,847	37,673
Accrued Interest	87,403	87,828
Long-Term Debt - Current Maturities	90,000	85,000
Total Payable from Restricted Assets	189,250	210,501
Total Current Liabilities	462,319	469,530
<b>NONCURRENT LIABILITIES</b>		
Long-Term Debt Payable from Unrestricted Assets, Net of Current Maturities	178,316	246,368
Long-Term Debt Payable from Restricted Assets, Net of Current Maturities	9,847,505	10,006,176
Compensated Absences	523	34,228
Net Pension Liability	264,079	444,822
Other Postemployment Benefits Liability	352,167	270,923
Total Noncurrent Liabilities	10,642,590	11,002,517
Total Liabilities	11,104,909	11,472,047
<b>DEFERRED INFLOWS FOR RESOURCES</b>		
Deferred Inflows Related to Pensions	154,191	99,039
Total Liabilities and Deferred Inflows of Resources	11,259,100	11,571,086
<b>NET POSITION</b>		
Net Investment in Capital Assets	9,810,583	9,857,198
Restricted for Debt Service	1,076,972	1,060,613
Restricted for Impaired Investments	811	1,197
Unrestricted	4,330,856	3,178,879
Total Net Position	15,219,222	14,097,887
Total Liabilities, Deferred Inflows of Resources, and Net Position	\$ 26,478,322	\$ 25,668,973

See accompanying Notes to Financial Statements.

**KING COUNTY WATER DISTRICT NO. 49**  
**STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION**  
**YEARS ENDED DECEMBER 31, 2018 AND 2017**  
(SEE ACCOUNTANTS' COMPILATION REPORT)

	2018	2017
<b>OPERATING REVENUES</b>		
Water Sales	\$ 4,281,644	\$ 3,938,464
Penalties and Miscellaneous	105,787	86,317
Street Lighting	89,420	61,807
Total Operating Revenues	4,476,851	4,086,588
<b>OPERATING EXPENSES</b>		
Water Cost	1,224,722	1,123,721
Reservoir	54,741	18,524
Customer Accounts	30,339	34,058
Transmission and Distribution	464,082	466,118
Administrative and General	1,037,422	1,181,578
Street Lighting Cost	90,371	81,314
Depreciation and Amortization	573,040	572,240
Total Operating Expenses	3,474,717	3,477,553
<b>OPERATING INCOME</b>	1,002,134	609,035
<b>NONOPERATING REVENUE (EXPENSE)</b>		
Investment Income, Net of Service Fees	188,215	29,912
Interest and Amortization Long-Term Debt, Net of Amount Capitalized	(291,923)	(134,190)
Bond Issuance Costs	-	(129,836)
Loss on Disposal of Assets and Abandoned Projects	(14,238)	(119,670)
Total Nonoperating Revenue (Expense)	(117,946)	(353,784)
<b>INCOME BEFORE CAPITAL CONTRIBUTIONS</b>	884,188	255,251
Capital Contributions	312,677	554,004
<b>CHANGE IN NET POSITION</b>	1,196,865	809,255
Net Position - January 1, as Previously Reported	14,097,887	13,288,632
Restatement - Change in Accounting Principle	(75,530)	-
Net Position - January 1, as Restated	14,022,357	13,288,632
<b>NET POSITION - END OF YEAR</b>	\$ 15,219,222	\$ 14,097,887

See accompanying Notes to Financial Statements.

**KING COUNTY WATER DISTRICT NO. 49**  
**STATEMENTS OF CASH FLOWS**  
**YEARS ENDED DECEMBER 31, 2018 AND 2017**  
(SEE ACCOUNTANTS' COMPILATION REPORT)

	2018	2017
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash Received from Customers	\$ 4,386,126	\$ 3,968,855
Cash Paid to Vendors	(2,082,190)	(2,046,858)
Cash Paid to and for Employees and Commissioners	(989,658)	(866,632)
Net Cash Provided by Operating Activities	1,314,278	1,055,365
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Expenditures for Plant in Service and Construction	(661,979)	(2,161,096)
Capital Contributions	103,350	51,000
Proceeds from Issuance of Long-Term Debt	-	8,886,997
Payments on Long-Term Debt	(153,052)	(153,052)
Interest Paid on Long-Term Debt	(358,899)	(125,467)
Net Cash Provided (Used) by Capital and Related Financing Activities	(1,070,580)	6,498,382
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest Received on Investments	180,179	21,161
Net Cash Provided by Investing Activities	180,179	21,161
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	423,877	7,574,908
Cash and Cash Equivalents - Beginning of Year	10,311,886	2,736,978
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	\$ 10,735,763	\$ 10,311,886
Cash and Cash Equivalents Balance is Comprised of the Following at December 31:		
Cash - Unrestricted	\$ 4,270,103	\$ 3,311,366
Cash - Restricted	6,465,660	7,000,520
Total	\$ 10,735,763	\$ 10,311,886

See accompanying Notes to Financial Statements.



**KING COUNTY WATER DISTRICT NO. 49**  
**STATEMENTS OF CASH FLOWS (CONTINUED)**  
**YEARS ENDED DECEMBER 31, 2018 AND 2017**  
(SEE ACCOUNTANTS' COMPILATION REPORT)

	2018	2017
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>		
Operating Income	\$ 1,002,134	\$ 609,035
Adjustments to Reconcile Operating Income to Net Cash		
Provided by Operating Activities:		
Depreciation and Amortization	573,040	572,240
SPU Contract Costs Amortization	457	457
Bond Insurance Amortization	-	8,792
(Increase) Decrease in Assets and Deferred		
Outflows of Resources:		
Accounts Receivable	(52,561)	(40,124)
Accrued Unbilled - Revenue	(5,727)	(45,213)
Other Accounts Receivable	(32,437)	(32,396)
Inventories	(22,579)	8,778
Prepayments	(4,011)	(50)
Deferred Outflows of Resources Related to Pensions	15,823	14,105
Deferred Outflows Related to Other Postemployment Benefits	(3,077)	-
Increase (Decrease) in Liabilities and Deferred		
Inflows of Resources:		
Accounts Payable	(23,201)	(74,433)
Accrued Liabilities	2,799	(6,157)
Compensated Absences	(16,505)	42,246
Other Postemployment Benefits Liability	5,714	27,804
Net Pension Liability	(180,743)	(81,635)
Deferred Inflows of Resources Related to Pensions	55,152	51,916
Net Cash Provided by Operating Activities	\$ 1,314,278	\$ 1,055,365
<b>SUPPLEMENTAL SCHEDULE OF SIGNIFICANT NONCASH FINANCING AND INVESTING ACTIVITIES</b>		
Utility Plant Donations Received	\$ 209,327	\$ 503,004
Revenue Refunding Bonds Issued in Exchange for Deposit to Refunding Escrow, Interest to the Refunding Date, and Bond Issue Costs	\$ -	\$ 1,108,212

See accompanying Notes to Financial Statements.

**KING COUNTY WATER DISTRICT NO. 49**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2018 AND 2017**  
(SEE ACCOUNTANTS' COMPILATION REPORT)

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

**Description of Business, Nature of Operations, and Reporting Entity**

King County Water District No. 49 (the District), a municipal corporation organized under the laws of the state of Washington is governed by an elected three-member board. The District's primary activity is to provide water service to residential and commercial customers within the District's boundaries, which encompass parts of Burien, SeaTac, and Normandy Park, Washington. All water sold by the District is purchased from the City of Seattle, Washington under a purveyor's contract. The District has no component units.

**Basis of Presentation and Accounting**

These financial statements are prepared utilizing the economic resources measurement focus and full accrual basis of accounting. All activities of the District are accounted for within a single proprietary (enterprise) fund.

**Change in Accounting Principle**

Effective January 1, 2018, the District adopted Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (GASB 75). This statement replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*. GASB 75 establishes new accounting and financial reporting requirements for OPEB plans, establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense.

The cumulative impact of implementation of GASB 75 resulted in a \$75,530 reduction of net position as of January 1, 2018 as a result of recognizing the additional OPEB liability required under GASB 75. It was not practicable to measure the total OPEB liability as of January 1, 2017 and restate the 2017 financial statements as the alternative measurement tool prepared by the Washington State Actuary did not have the ability to produce those amounts.

**Cash and Cash Equivalents**

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

**Accounts Receivable**

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

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

**Inventory**

Inventory consists of materials and supplies available for future use and is stated at the lower of cost, using the first-in, first-out (FIFO) method or net realizable value.

**Capital Assets**

Capital assets are stated at cost and include the capitalized portion of District employees' wages and related overhead costs. 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. For water systems installed by developers or customers and conveyed to the District by bill of sale, the District records the cost of the system at acquisition value, which is determined by the contributing party's costs, contract price or appraised value. When capital assets are retired or otherwise disposed of, the cost and accumulated depreciation are removed from the accounts and any resulting gain or loss is recognized in income for the period.

Depreciation on capital assets is computed using the straight-line method over the following estimated useful lives:

Plant	5 – 40 Years
Machinery and Equipment	3 – 10 Years
Intangibles	10 Years

**Interest Capitalization**

Effective January 1, 2018, the District early implemented Governmental Accounting Standards Board (GASB) Statement No. 89, *Accounting for Interest Cost Incurred before the end of the Construction Period*. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset. This statement is applied on a prospective basis and did not affect prior year results.

Prior to implementation, interest costs incurred for the construction of capital assets were subject to capitalization. Total interest and amortization costs incurred for the year ended December 31, 2017 was \$171,251. Interest capitalized in 2017 was \$37,061.

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

**Pensions**

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

**Deferred Outflows/Inflows of Resources**

Deferred outflows of resources represent a consumption of net position that applies to future periods and will not be recognized as an outflow of resources (expense) until that time. Deferred outflows of resources consist of losses on refunding of debt, contributions to the OPEB plan subsequent to the June 30 measurement date, contributions to pension plans subsequent to the June 30 measurement date and the District's proportionate share of deferred outflows related to those plans. The deferred loss on refunding of debt results from a difference in the carrying value of refunded debt and its reacquisition price. Losses on refunding of debt are amortized by the interest method over the life of the refunded or refunding debt, whichever is shorter. OPEB and pension plan contributions subsequent to the measurement date are recognized as a reduction of the total OPEB liability and net pension liability, respectively, in the following year. Deferred outflows of resources related to pensions for the net difference between projected and actual earnings on plan investments are amortized over a closed five-year period. The remaining deferred outflows related to pensions are amortized over the average expected service lives of all employees provided with pensions through each plan.

Deferred inflows of resources represent an acquisition of net position that applies to future periods and will not be recognized as an inflow of resources (revenue) until that time. Deferred inflows of resources consist of the District's proportionate share of deferred inflows related to pension plans. Deferred inflows of resources related to pensions for the net difference between projected and actual earnings on plan investments are amortized over a closed five-year period. The remaining deferred inflows of resources related to pensions are amortized over the average expected service lives of all employees provided with pensions through each plan.

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

**Compensated Absences**

The District accrues accumulated unpaid vacation and sick leave benefit amounts as earned. District employees accumulate vacation and sick leave hours, subject to certain restrictions, for subsequent use or payment upon termination, retirement, or death.

**Net Position**

Net position is classified in the following three components:

Net Investment in Capital Assets – This component of net position consists of capital assets, net of accumulated depreciation, and capital-related deferred outflows of resources reduced by the outstanding balances of any capital-related borrowings and deferred inflows of resources. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of net investment in capital assets. Rather, that portion of the debt is included in the same net position component as the unspent proceeds.

Restricted – This component of net position consists of assets restricted by external creditors (such as through debt covenants), grantors, contributors or others reduced by related liabilities and deferred inflows of resources.

Unrestricted Net Position – This component of net position consists of all net position that does not meet the definition of “restricted” or “net investment in capital assets.”

The District applies unrestricted and restricted resources to purposes for which both unrestricted and restricted net resources are available based on management’s discretion.

**Revenues and Expenses**

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

**Capital Contributions**

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

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

**Use of Estimates in Financial Statement Preparation**

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

**Reclassifications**

Certain reclassifications have been made to the 2017 financial statements to conform to the 2018 financial statement presentation.

**NOTE 2 DEPOSITS AND INVESTMENTS**

**Deposits**

The District's bank balances as of December 31, 2018 and 2017 were \$5,000 and \$5,000, respectively.

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

**Investments**

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

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**NOTE 2 DEPOSITS AND INVESTMENTS (CONTINUED)**

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

<u>Investment Type</u>	<u>Fair Value</u>	<u>Average Effective Duration</u>
<u>2018</u>		
King County Investment Pool:		
Main Pool	\$ 10,729,327	0.94 Years
Impaired Pool	811	
<u>2017</u>		
King County Investment Pool:		
Main Pool	\$ 10,305,063	1.02 Years
Impaired Pool	1,197	

**Impaired Investments**

As of December 31, 2018 and 2017, all impaired commercial paper investments had completed enforcement events. The King County Impaired Investment Pool (Impaired Pool) held one commercial paper asset where the Impaired Pool accepted an exchange offer and is receiving the cash flows from the investment's underlying securities. The Impaired Pool also held the residual investments in two commercial paper assets that were part of completed enforcement events, where the Impaired Pool accepted the cash-out option. The District's share of the impaired investment pool principal was \$1,145 and \$1,784 at December 31, 2018 and 2017, respectively. The District's unrealized loss for these investments was \$334 and \$587 at December 31, 2018 and 2017, respectively.

**Interest Rate Risk**

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

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**NOTE 2 DEPOSITS AND INVESTMENTS (CONTINUED)**

**Credit Risk**

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

**NOTE 3 RESTRICTED ASSETS**

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

	<u>Cash and Cash Equivalents</u>	<u>Interest Receivable</u>	<u>Total</u>
<u>2018</u>			
Current Restricted Assets:			
Revenue Bond Fund	\$ 18,316	\$ 32	\$ 18,348
Revenue Bond Reserve Fund	1,144,019	2,008	1,146,027
Construction Funds	5,302,514	-	5,302,514
Impaired Investment Pool	811	-	811
Total Restricted Assets	<u>\$ 6,465,660</u>	<u>\$ 2,040</u>	<u>\$ 6,467,700</u>
<u>2017</u>			
Current Restricted Assets:			
Revenue Bond Fund	\$ 22,936	\$ 24	\$ 22,960
Revenue Bond Reserve Fund	1,124,297	1,184	1,125,481
Construction Funds	5,852,090	-	5,852,090
Impaired Investment Pool	1,197	-	1,197
Total Restricted Assets	<u>\$ 7,000,520</u>	<u>\$ 1,208</u>	<u>\$ 7,001,728</u>

Terms of the revenue bond issues require the District to establish and maintain principal and interest and reserve accounts. The principal and interest account is to accumulate funds for payment of bonds, principal, and interest and the reserve account is to provide security for bond holders. The required reserve at December 31, 2018 and 2017 was \$699,638 and \$699,638, respectively, and was fully funded.



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**NOTE 4 CAPITAL ASSETS**

Major classes of capital assets and capital asset activity were as follows at December 31:

	Balance - Beginning of Year	Increase	Decrease	Balance - End of Year
<u>2018</u>				
Capital Assets Not Being Depreciated:				
Land	\$ 69,049	\$ 1,739,569	\$ -	\$ 1,808,618
Construction in Progress	<u>2,033,387</u>	<u>628,897</u>	<u>(1,761,364)</u>	<u>900,920</u>
	2,102,436	2,368,466	(1,761,364)	2,709,538
Capital Assets Being Depreciated:				
Plant	21,070,595	213,473	-	21,284,068
Machinery and Equipment	680,152	22,309	-	702,461
Intangibles	<u>166,990</u>	<u>6,270</u>	<u>-</u>	<u>173,260</u>
	21,917,737	242,052	-	22,159,789
Accumulated Depreciation:				
Plant	(8,831,526)	(530,337)	-	(9,361,863)
Machinery and Equipment	(594,153)	(39,264)	-	(633,417)
Intangibles	<u>(158,608)</u>	<u>(3,439)</u>	<u>-</u>	<u>(162,047)</u>
	(9,584,287)	(573,040)	-	(10,157,327)
Net Capital Assets	<u>\$ 14,435,886</u>	<u>\$ 2,037,478</u>	<u>\$ (1,761,364)</u>	<u>\$ 14,712,000</u>

**KING COUNTY WATER DISTRICT NO. 49**  
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**NOTE 4 CAPITAL ASSETS (CONTINUED)**

	Balance - Beginning of Year	Increase	Decrease	Balance - End of Year
<b>2017</b>				
Capital Assets Not Being Depreciated:				
Land	\$ 69,049	\$ -	\$ -	\$ 69,049
Construction in Progress	265,110	2,296,087	(527,810)	2,033,387
	<u>334,159</u>	<u>2,296,087</u>	<u>(527,810)</u>	<u>2,102,436</u>
Capital Assets Being Depreciated:				
Plant	20,231,855	839,624	(884)	21,070,595
Machinery and Equipment	678,817	3,934	(2,599)	680,152
Intangibles	363,244	-	(196,254)	166,990
	<u>21,273,916</u>	<u>843,558</u>	<u>(199,737)</u>	<u>21,917,737</u>
Accumulated Depreciation:				
Plant	(8,319,825)	(512,585)	884	(8,831,526)
Machinery and Equipment	(549,862)	(46,890)	2,599	(594,153)
Intangibles	(339,106)	(12,765)	193,263	(158,608)
	<u>(9,208,793)</u>	<u>(572,240)</u>	<u>196,746</u>	<u>(9,584,287)</u>
Net Capital Assets	<u>\$ 12,399,282</u>	<u>\$ 2,567,405</u>	<u>\$ (530,801)</u>	<u>\$ 14,435,886</u>

**NOTE 5 LONG-TERM DEBT PAYABLE FROM UNRESTRICTED ASSETS**

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

Description	2018	2017
Public Works Trust Fund Loans:		
2000 \$914,748 loan, payable \$46,000 annually through the year 2020, plus interest at 1.0 annual percentage rate	\$ 92,000	\$ 137,999
2005 \$419,000 loan, payable \$22,053 annually through the year 2025, plus interest at 4.0 annual percentage rate	154,368	176,421
Subtotal	<u>246,368</u>	<u>314,420</u>
Less: Current Maturities	<u>68,052</u>	<u>68,052</u>
Total	<u>\$ 178,316</u>	<u>\$ 246,368</u>

**KING COUNTY WATER DISTRICT NO. 49**  
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**NOTE 5 LONG-TERM DEBT PAYABLE FROM UNRESTRICTED ASSETS (CONTINUED)**

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

<u>Year Ending December 31.</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 68,052	\$ 7,095	\$ 75,147
2020	68,052	5,753	73,805
2021	22,053	4,411	26,464
2022	22,053	3,528	25,581
2023	22,053	2,646	24,699
2024-2025	44,105	2,646	46,751
Total	<u>\$ 246,368</u>	<u>\$ 26,079</u>	<u>\$ 272,447</u>

In December 2018, the District was awarded a Public Works Trust Fund Pre-Construction Loan Contract totaling \$1,000,000. The loan is payable annually through June 1, 2039 plus interest annually at 0.84%. Loan proceeds are awarded on a reimbursement basis. No draws have been made as of December 31, 2018.

**NOTE 6 LONG-TERM DEBT PAYABLE FROM RESTRICTED ASSETS**

Long-term debt payable from restricted assets outstanding at December 31, 2018 consisted of the following revenue bond, secured by revenue of the system:

<u>Description</u>	<u>2018</u>	<u>2017</u>
\$1,565,000 issued December 21, 2007 for utility construction, due in 2027, with interest payable semi-annually at 4.25 annual percentage rate.	\$ 130,000	\$ 130,000
\$9,810,000 issued July 6, 2017 for refunding and utility construction, due serially through the year 2037, with interest payable semi-annually at 3.00 to 4.00 annual percentage rate.	9,095,000	9,180,000
Subtotal	<u>9,225,000</u>	<u>9,310,000</u>
Less: Current Maturities	90,000	85,000
Add: Unamortized Bond (Discounts) Premiums	<u>712,505</u>	<u>781,176</u>
Total	<u>\$ 9,847,505</u>	<u>\$ 10,006,176</u>

**KING COUNTY WATER DISTRICT NO. 49**  
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**NOTE 6 LONG-TERM DEBT PAYABLE FROM RESTRICTED ASSETS (CONTINUED)**

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

<u>Year Ending December 31.</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 90,000	\$ 348,263	\$ 438,263
2020	355,000	339,813	694,813
2021	370,000	325,313	695,313
2022	385,000	312,138	697,138
2023	400,000	298,362	698,362
2024-2028	2,255,000	1,233,424	3,488,424
2029-2033	2,755,000	732,087	3,487,087
2034-2037	2,615,000	175,794	2,790,794
Total	<u>\$ 9,225,000</u>	<u>\$ 3,765,194</u>	<u>\$ 12,990,194</u>

**NOTE 7 CHANGES IN LONG-TERM LIABILITIES**

Changes in long-term liabilities were as follows at December 31:

	<u>Balance - Beginning of Year</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance - End of Year</u>	<u>Amounts Due Within One Year</u>
<u>2018</u>					
Long-Term Debt Payable from Unrestricted Assets:					
2000 Public Works Trust Fund Loan	\$ 137,999	\$ -	\$ (45,999)	\$ 92,000	\$ 46,000
2005 Public Works Trust Fund Loan	176,421	-	(22,053)	154,368	22,052
	<u>\$ 314,420</u>	<u>\$ -</u>	<u>\$ (68,052)</u>	<u>\$ 246,368</u>	<u>\$ 68,052</u>
Long-Term Debt Payable from Restricted Assets:					
2007 Revenue Bonds	\$ 130,000	\$ -	\$ -	\$ 130,000	\$ -
2017 Revenue Bonds	9,180,000	-	(85,000)	9,095,000	90,000
	<u>\$ 9,310,000</u>	<u>\$ -</u>	<u>\$ (85,000)</u>	<u>\$ 9,225,000</u>	<u>\$ 90,000</u>
Compensated Absences	<u>\$ 92,828</u>	<u>\$ 73,708</u>	<u>\$ (90,213)</u>	<u>\$ 76,323</u>	<u>\$ 75,800</u>
Net Pension Liability	<u>\$ 444,822</u>	<u>\$ -</u>	<u>\$ (180,743)</u>	<u>\$ 264,079</u>	
Other Postemployment Benefits Liability	<u>\$ 270,923</u>	<u>\$ 106,124</u>	<u>\$ (24,880)</u>	<u>\$ 352,167</u>	

**KING COUNTY WATER DISTRICT NO. 49**  
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**NOTE 7 CHANGES IN LONG-TERM LIABILITIES (CONTINUED)**

	Balance - Beginning of Year	Additions	Reductions	Balance - End of Year	Amounts Due Within One Year
<u>2017</u>					
Long-Term Debt Payable from Unrestricted Assets:					
2000 Public Works Trust Fund Loan	\$ 183,998	\$ -	\$ (45,999)	\$ 137,999	\$ 46,000
2005 Public Works Trust Fund Loan	198,474	-	(22,053)	176,421	22,052
	<u>\$ 382,472</u>	<u>\$ -</u>	<u>\$ (68,052)</u>	<u>\$ 314,420</u>	<u>\$ 68,052</u>
Long-Term Debt Payable from Restricted Assets:					
2007 Revenue Bonds	\$ 1,175,000	-	\$ (1,045,000)	\$ 130,000	\$ -
2017 Revenue Bonds	-	9,180,000	-	9,180,000	85,000
	<u>\$ 1,175,000</u>	<u>\$ 9,180,000</u>	<u>\$ (1,045,000)</u>	<u>\$ 9,310,000</u>	<u>\$ 85,000</u>
Compensated Absences	<u>\$ 50,582</u>	<u>\$ 65,086</u>	<u>\$ (22,840)</u>	<u>\$ 92,828</u>	<u>\$ 58,600</u>
Net Pension Liability	<u>\$ 526,457</u>	<u>\$ -</u>	<u>\$ (81,635)</u>	<u>\$ 444,822</u>	
Net Other Postemployment Benefits Obligation	<u>\$ 243,119</u>	<u>\$ 27,804</u>	<u>\$ -</u>	<u>\$ 270,923</u>	

**NOTE 8 REFUNDED BONDS**

On July 6, 2017, the District issued \$9,180,000 of Water Revenue Improvement and Refunding Bonds. Of the \$9,180,000 issued, \$905,000 of the bonds with interest rates of 2.00% to 4.00% were used to advance refund \$960,000 of outstanding 2007 bonds with interest rates of 4.00% to 4.25%. The net proceeds of refunding bonds, totaling \$978,375 including \$10,380 representing accrued interest to the refunding date, were used to purchase U.S. government securities and to provide the beginning escrow cash balance. The cash and securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the refunded bonds. As a result, the refunded bonds are considered to be extinguished and the liability for those bonds is not included in the accompanying financial statements. The principal amount of refunded bonds in this fund at December 31, 2018 is \$-0-.

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**NOTE 8 REFUNDED BONDS (CONTINUED)**

Although the advance refunding resulted in an accounting loss of \$15,091 (which will be amortized over the shorter of the life of the refunded or refunding bonds), the District in effect reduced its aggregate debt service payments by \$93,378 through October 1, 2026, and obtained an economic gain (difference between the present values of the old and new debt service payments) of \$84,363.

**NOTE 9 PENSION PLAN**

The following table represents the aggregate pension amounts for all plans as of and for the years ended December 31, 2018 and 2017:

Aggregate Pension Amounts – All Plans		
	2018	2017
Net Pension Liabilities	\$ 264,079	\$ 444,822
Deferred Outflows of Resources	64,200	80,023
Deferred Inflows of Resources	154,191	99,039
Pension Expense	(36,185)	51,860

**State Sponsored Pension Plans**

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

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

Department of Retirement Systems  
Communications Unit  
PO Box 48380  
Olympia, WA 98540-8380

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

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**NOTE 9 PENSION PLAN (CONTINUED)**

**Public Employees Retirement System (PERS)**

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

**PERS Plan 1** - provides retirement, disability, and death benefits. Retirement benefits are determined as 2% of the member's average final compensation (AFC) times the member's years of service. The AFC is the average of the member's 24 highest consecutive service months. Members are eligible for retirement from active status at any age with at least 30 years of service, at age 55 with at least 25 years of service, or at age 60 with at least 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 nonduty disability payments, an optional cost-of-living adjustment (COLA), and a one-time duty-related death benefit, if found eligible by the Department of Labor and Industries. PERS 1 members were vested after the completion of five years of eligible service. The plan was closed to new entrants on September 30, 1977.

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

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**NOTE 9 PENSION PLAN (CONTINUED)**

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

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

<u>PERS Plan 1 Actual Contribution Rates</u>	<u>Employer</u>	<u>Employee</u>
<u>2018</u>		
January through August		
PERS Plan 1	7.49 %	6.00 %
PERS Plan 1 UAAL	5.03	
Administrative Fee	0.18	
Total	12.70 %	6.00 %
September through December		
PERS Plan 1	7.52 %	6.00 %
PERS Plan 1 UAAL	5.13	
Administrative Fee	0.18	
Total	12.83 %	6.00 %
<u>2017</u>		
January through June		
PERS Plan 1	6.23 %	6.00 %
PERS Plan 1 UAAL	4.77	
Administrative Fee	0.18	
Total	11.18 %	6.00 %
July through December		
PERS Plan 1	7.49 %	6.00 %
PERS Plan 1 UAAL	5.03	
Administrative Fee	0.18	
Total	12.70 %	6.00 %

The District's actual contributions to the plan were \$29,365 and \$27,769 for the years ended December 31, 2018 and 2017, respectively.



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**NOTE 9 PENSION PLAN (CONTINUED)**

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

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

PERS Plan 2/3 members who have 30 or more years of service credit and are at least 55 years old can retire under one of two provisions:

- With a benefit that is reduced by 3% for each year before age 65, or
- With a benefit that has a smaller (or no) reduction (depending on age) that imposes stricter return-to-work rules.

PERS Plan 2/3 members hired on or after May 1, 2013 have the option to retire early by accepting a reduction of 5% for each year of retirement before age 65. This option is available only to those who are age 55 or older and have at least 30 years of service credit. PERS Plan 2/3 retirement benefits are also actuarially reduced to reflect the choice of a survivor benefit. Other PERS Plan 2/3 benefits include duty and nonduty disability payments, a cost-of-living allowance (based on the CPI), capped at 3% annually and a one-time duty related death benefit, if found eligible by the Department of Labor and Industries. PERS 2 members are vested after completing 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% and escalate to 15% with a choice of six options. Employers do not contribute to the defined contribution benefits. PERS Plan 3 members are immediately vested in the defined contribution portion of their plan.

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**NOTE 9 PENSION PLAN (CONTINUED)**

**Public Employees Retirement System (PERS) (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 unfunded actuarially accrued liability (UAAL) and an administrative expense that is currently set at 0.18%. Each biennium, the state Pension Funding Council adopts Plan 2 employer and employee contribution rates and Plan 3 contribution rates.

The PERS Plan 2/3 required contribution rates (expressed as a percentage of covered payroll) were as follows:

<u>PERS Plan 2/3 Actual Contribution Rates</u>	<u>Employer 2/3</u>	<u>Employee 2</u>	<u>Employee 3</u>
<u>2018</u>			
January through August			
PERS Plan 2/3	7.49 %	7.38 %	Varies
PERS Plan 1 UAAL	5.03		
Administrative Fee	0.18		
Total	<u>12.70 %</u>	<u>7.38 %</u>	<u>Varies</u>
September through December			
PERS Plan 2/3	7.52 %	7.41 %	Varies
PERS Plan 1 UAAL	5.13		
Administrative Fee	0.18		
Total	<u>12.83 %</u>	<u>7.41 %</u>	<u>Varies</u>
<u>2017</u>			
January through June			
PERS Plan 2/3	6.23 %	6.12 %	Varies
PERS Plan 1 UAAL	4.77		
Administrative Fee	0.18		
Total	<u>11.18 %</u>	<u>6.12 %</u>	<u>Varies</u>
July through December			
PERS Plan 2/3	7.49 %	7.38 %	Varies
PERS Plan 1 UAAL	5.03		
Administrative Fee	0.18		
Total	<u>12.70 %</u>	<u>7.38 %</u>	<u>Varies</u>

The District's actual contributions to the plan were \$43,500 and \$38,875 for the years ended December 31, 2018 and 2017, respectively.

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**NOTE 9 PENSION PLAN (CONTINUED)**

**Actuarial Assumptions**

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

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

Additional 2018 assumptions for subsequent events and law changes are current as of the 2017 actuarial valuation report. Additional 2017 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, 2018 and June 30, 2017. 2018 Plan liabilities were rolled forward from June 30, 2017, to June 30, 2018, and 2017 Plan liabilities were rolled forward from June 30, 2016, to June 30, 2017, reflecting each plan's normal cost (using the entry-age cost method), assumed interest and actual benefit payments.

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

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

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**NOTE 9 PENSION PLAN (CONTINUED)**

**Actuarial Assumptions (Continued)**

There were changes in methods and assumptions between the 2018 and 2017 valuations.

- Lowered the valuation interest rate from 7.70% to 7.50% for all plans.
- Lowered the assumed general salary growth from 3.75% to 3.50% for all plans.
- Lowered assumed inflation from 3.00% to 2.75% for all plans.
- Lowered assumed investment rate of return from 7.50% to 7.40% for all plans.

There were changes in methods and assumptions between the 2017 and 2016 valuations.

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

**Discount Rate**

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

To determine that rate, an asset sufficiency test included an assumed 7.5% long-term discount rate to determine funding liabilities for calculating future contribution rate requirements. Consistent with the long-term expected rate of return, a 7.4% future investment rate of return on invested assets was assumed for the test. Contributions from plan members and employers are assumed to continue being made at contractually required rates (including PERS 2/3 employers, whose rates include a component for the PERS 1 plan liabilities). Based on these assumptions, the pension plans' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return of 7.4% was used to determine the total liability.

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**NOTE 9 PENSION PLAN (CONTINUED)**

**Long-Term Expected Rate of Return**

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

**Estimated Rates of Return by Asset Class**

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

As of June 30, 2018 and 2017:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Percent Long-Term Expected Real Rate of Return Arithmetic</u>
<u>2018</u>		
Fixed Income	20 %	1.70 %
Tangible Assets	7	4.90
Real Estate	18	5.80
Global Equity	32	6.30
Private Equity	23	9.30
Total	<u>100 %</u>	
<u>2017</u>		
Fixed Income	20 %	1.70 %
Tangible Assets	5	4.90
Real Estate	15	5.80
Global Equity	37	6.30
Private Equity	23	9.30
Total	<u>100 %</u>	

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**NOTE 9 PENSION PLAN (CONTINUED)**

**Sensitivity of Net Pension Liability (NPL)**

The table below presents the District's proportionate share of the net pension liability calculated using the applicable discount rate, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than applicable discount rate.

	1% Decrease (6.4%)	Current Discount Rate (7.4%)	1% Increase (8.4%)
<u>2018</u>			
PERS 1	\$ 217,350	\$ 176,860	\$ 141,787
PERS 2/3	398,944	87,219	(168,360)
	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
<u>2017</u>			
PERS 1	\$ 279,052	\$ 229,070	\$ 185,776
PERS 2/3	581,258	215,752	(83,726)

**Pension Plan Fiduciary Net Position**

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

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

At December 31, 2018 and 2017, the District reported a total pension liability (asset) for its proportionate share of the net pension liabilities as follows (measured as of June 30, 2018 and 2017):

	<u>2018</u>	<u>2017</u>
PERS 1	\$ 176,860	\$ 229,070
PERS 2/3	87,219	215,752
Total	<u>\$ 264,079</u>	<u>\$ 444,822</u>

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**NOTE 9 PENSION PLAN (CONTINUED)**

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

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

	<u>Proportionate Share 6/30/17</u>	<u>Proportionate Share 6/30/18</u>	<u>Change in Proportion</u>
PERS 1	0.004828%	0.003960%	-0.000868%
PERS 2/3	0.006210%	0.005108%	-0.001102%

	<u>Proportionate Share 6/30/16</u>	<u>Proportionate Share 6/30/17</u>	<u>Change in Proportion</u>
PERS 1	0.004457%	0.004828%	0.000371%
PERS 2/3	0.005702%	0.006210%	0.000508%

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

The 2018 and 2017 collective net pension liability (asset) was measured as of June 30, 2018 and 2017, respectively, and the actuarial valuation date on which the total pension liability (asset) is based was as of June 30, 2017 and 2016, respectively, with update procedures used to roll forward the total pension liability to the measurement date.

**Pension Expense**

For the years ended December 31, 2018 and 2017, the District recognized pension expense as follows:

	<u>2018</u>	<u>2017</u>
PERS 1	\$ (24,924)	\$ 31,133
PERS 2/3	(11,980)	19,897
Expenses and Other	719	830
Total	<u>\$ (36,185)</u>	<u>\$ 51,860</u>

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**NOTE 9 PENSION PLAN (CONTINUED)**

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

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

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
<u>2018</u>		
PERS 1:		
Differences Between Expected and Actual Experience	\$ -	\$ -
Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments	-	7,028
Changes of Assumptions	-	-
Changes in Proportion and Differences Between Contributions and Proportionate Share of Contributions	-	-
Contributions Subsequent to the Measurement Date	<u>14,803</u>	<u>-</u>
Total PERS 1	<u>14,803</u>	<u>7,028</u>
 PERS 2/3:		
Differences Between Expected and Actual Experience	10,691	15,271
Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments	-	53,522
Changes of Assumptions	1,020	24,822
Changes in Proportion and Differences Between Contributions and Proportionate Share of Contributions	15,870	53,548
Contributions Subsequent to the Measurement Date	<u>21,816</u>	<u>-</u>
Total PERS 2/3	<u>49,397</u>	<u>147,163</u>
 Total All Plans	<u>\$ 64,200</u>	<u>\$ 154,191</u>



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**NOTE 9 PENSION PLAN (CONTINUED)**

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

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
<u>2017</u>		
PERS 1:		
Differences Between Expected and Actual Experience	\$ -	\$ -
Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments	-	8,548
Changes of Assumptions	-	-
Changes in Proportion and Differences Between Contributions and Proportionate Share of Contributions	-	-
Contributions Subsequent to the Measurement Date	<u>14,245</u>	<u>-</u>
Total PERS 1	<u>14,245</u>	<u>8,548</u>
PERS 2/3:		
Differences Between Expected and Actual Experience	21,861	7,096
Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments	-	57,514
Changes of Assumptions	2,292	-
Changes in Proportion and Differences Between Contributions and Proportionate Share of Contributions	20,413	25,881
Contributions Subsequent to the Measurement Date	<u>21,212</u>	<u>-</u>
Total PERS 2/3	<u>65,778</u>	<u>90,491</u>
	<u>\$ 80,023</u>	<u>\$ 99,039</u>

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

<u>Year Ending December 31,</u>	<u>PERS 1</u>	<u>PERS 2/3</u>
2019	\$ 307	\$ (23,145)
2020	(1,536)	(23,552)
2021	(4,610)	(36,116)
2022	(1,189)	(15,487)
2023	-	(7,846)
Thereafter	-	(13,436)
Total	<u>\$ (7,028)</u>	<u>\$ (119,582)</u>

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**NOTE 10 OTHER POSTEMPLOYMENT BENEFITS**

The following table represents the aggregate OPEB amounts for all plans subject to the requirements of GASB 75 for the year ended December 31:

	2018
OPEB Liabilities	\$ 352,167
Deferred Outflows of Resources	3,077
OPEB Expense	11,370

The District provides its retirees employer subsidies for postemployment medical insurance benefits (OPEB) through the Public Employees Benefits Board (PEBB). The actual medical costs are paid through annual fees and premiums to the PEBB.

**General Information about the OPEB Plan**

**Plan Description** - The PEBB was created within the Washington State Health Care Authority to administer medical, dental and life insurance plans for public employees and retirees and their dependents. District employees who end public employment are eligible to continue PEBB insurance coverage as a retiree if they retire under the public employees' retirement system and are vested in that system.

**Benefits Provided** - The Washington State Health Care Authority (HCA) administers PEBB plan benefits. For medical insurance coverage, the HCA has two claims pools: one covering employees and non-Medicare eligible retirees, and the other covering retirees enrolled in Medicare Parts A and B. Each participating employer pays a portion of the premiums for active employees. For retirees, participating employers provide two different subsidies: an explicit subsidy and an implicit subsidy.

The explicit subsidies are monthly amounts paid per post-65 retiree and spouse. As of the valuation date, the explicit subsidy for post-65 retirees and spouses is the lesser of \$150 or 50% of the monthly premiums. As of January 1, 2019, the subsidy will be increased to \$168 per month. The retirees and spouses currently pay the premium minus \$150 when the premium is over \$300 per month and pay half the premium when the premium is lower than \$300.

The implicit medical subsidy is the difference between the total cost of medical benefits and the premiums. For pre-65 retirees and spouses, the retiree pays the full premium amount, but that amount is based on a pool that includes active employees. Active employees will tend to be younger and healthier than retirees on average, and therefore can be expected to have lower average health costs. For post-65 retirees and spouses, the retiree does not pay the full premium due to the subsidy discussed above.

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**NOTE 10 OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)**

**Employees Covered by Benefit Terms**

At December 31, the following employees were covered by the benefit terms:

	<u>2018</u>
Inactive Employees or Beneficiaries Currently Receiving Benefit Payments	2
Inactive Employees Entitled to But Not Yet Receiving Benefit Payments	-
Active Employees	7

**Funding Policy**

The plan is funded on a pay-as-you-go basis and there are no assets accumulating in a qualifying trust.

**Contributions**

The OPEB relationship between PEBB employers and their employees and retirees is not formalized in a contract or plan document. Rather, the benefits are provided in accordance with a substantive plan. A substantive plan is one in which the plan terms are understood by the employers and plan members. This understanding is based on communications between the employers and plan members and the historical pattern of practice with regard to the sharing of benefit costs.

**Total OPEB Liability**

The District's total OPEB liability was measured as of June 30, 2018, and was determined using the alternative measurement method as of that date. All significant assumptions utilized in the alternative measurement were provided by the Washington State Actuary.

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**NOTE 10 OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)**

**Total OPEB Liability (Continued)**

The alternative measurement was based on the following methods and assumptions:

Methodology:

Actuarial Cost Method	Entry Age
Amortization Method	Recognized Immediately

Assumptions:

Discount Rate - Based on Bond Buyer

General Obligation 20-Bond Municipal Index:

Beginning of Measurement Year	3.58%
End of Measurement Year	3.87%

Projected Salary Changes	3.75% Plus Service-Based Increases
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Healthcare Trend Rates	Initial rate is approximately 7%, trends down to approximately 5% in 2080
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Trend rate assumptions vary slightly by medical plan. For additional detail on the healthcare trend rates, see Office of the State Actuary's 2017 PEBB OPEB Actuarial Valuation Report.

Mortality Rates:

Base Mortality Table	Healthy RP-2000
Age Setback	1 year
Mortality Improvements	100% Scall BB
Projection Period	Generational

Inflation Rate	3.00%
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Post-Retirement Participation Percentage	65.00%
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Percentage with Spouse Coverage	45.00%
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**NOTE 10 OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)**

**Changes in the Total OPEB Liability**

	2018
Balance - January 1	\$ 346,453
Service Cost	17,659
Interest	12,935
Changes in Experience and Data Assumptions	(19,224)
Changes in Benefit Terms	-
Benefit Payments	(5,656)
Other	-
Total	\$ 352,167

**Sensitivity of the Total OPEB Liability to Changes in the Healthcare Cost Trend Rate and Discount Rate**

The following presents the total OPEB liability of the District calculated using a discount rate and healthcare cost trend rates that are 1-percentage point lower or 1-percentage-point higher than the current discount rate and health care cost trend rates:

2018	1% Decrease	Current Rate	1% Increase
Discount Rate	\$ 422,557	\$ 352,167	\$ 296,689
Healthcare Cost Trend Rate	291,161	352,167	432,064

**OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB**

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

	2018
Service Cost	\$ 17,659
Interest Cost	12,935
Changes in Experience and Data Assumptions	(19,224)
Total	\$ 11,370

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
2018		
Contributions Subsequent to the Measurement Date	\$ 3,077	\$ -

Deferred outflows of resources related to OPEB resulting from the District's contributions subsequent to the measurement date will be recognized as a reduction of the total OPEB liability in the following year.

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**NOTE 10 OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)**

**Net OPEB Obligation as of December 31, 2017 and 2017 OPEB Expense**  
**Actuarial Methods and Assumptions**

The District used the alternative measurement method permitted under GASB Statement No. 45. Data (e.g., age range, years of service, active age average, etc.) is compiled into the Office of State Actuary GASB No. 45 reporting tool for all active and inactive members to determine the Actuarial Accrued Liability (AAL) and normal cost.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation. The actuarial methods and assumptions used included techniques that are designed to reduce the effects of short term volatility in actuarial accrued liabilities, consistent with the long term perspective of the calculations.

All demographic assumptions, healthcare assumptions, and methods used match those disclosed in the 2017 OPEB Actuarial Valuation Report published by the Office of the State Actuary. Specifically, the Projected Unit Credit actuarial cost method was used. The actuarial assumptions include a 3.75% discount rate, which is based upon the long term investment yield on the investments that are expected to be used to finance the payment of benefits. The healthcare cost inflation trends, which vary by medical plan and age, start at approximately 7% in 2017 and gradually to 5% in 2102 and beyond. The inflation rate assumption used in the calculation is 3%. The date used for this valuation was identified by department number from the date disclosed in the 2017 OPEB Actuarial Valuation Report. Please see <http://leg.wa.gov/osa/Pages/default.aspx> for more detail.

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**NOTE 10 OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)**

**Net OPEB Obligation as of December 31, 2017 and 2017 OPEB Expense (Continued)**

**Annual OPEB Cost and Net OPEB Obligation**

The District's annual OPEB cost is calculated based upon the Annual Required Contribution (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities over a period of 25 years. The following table shows the components of the District's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the District's net OPEB.

Determination of Annual Required Contribution	<u>2017</u>	
Normal Cost at Year End	\$	17,767
Amortization of Unfunded Actuarial Accrued Liability		17,541
Annual Required Contribution	\$	<u>35,308</u>
Determination of Annual OPEB Cost	<u>2017</u>	
Annual Required Contribution	\$	35,308
Net OPEB Obligation Interest		9,725
Net OPEB Obligation Amortization		(14,060)
Annual OPEB Cost	\$	<u>30,973</u>
Determination of Net OPEB Obligation	<u>2017</u>	
Starting Net OPEB Obligation	\$	243,119
Annual OPEB Cost		30,973
Contributions		(3,169)
Net OPEB Obligation	\$	<u>270,923</u>

The District's OPEB cost, the percentage of OPEB cost contributed to the plan, and the net OPEB obligation for 2017 are as follows:

<u>Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Contributions as a Percentage of OPEB Cost</u>	<u>Net OPEB Obligation</u>
2017	\$ 30,973	11.43%	\$ 270,923
2016	31,579	12.99%	243,119
2015	30,533	14.24%	214,458

**KING COUNTY WATER DISTRICT NO. 49**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2018 AND 2017**  
**(SEE ACCOUNTANTS' COMPILATION REPORT)**

**NOTE 10 OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)**

**Net OPEB Obligation as of December 31, 2017 and 2017 OPEB Expense (Continued)**  
**Funded Status and Funding Progress**

As of June 30, 2017, the most recent actuarial valuation date, the plan was 0% funded. As of December 31, 2017, the accrued liability for benefits was \$1,202,892, and the actuarial value of assets was \$-0-, resulting in an Unfunded Actuarial Accrued Liability (UAAL) of \$1,202,892.

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the health care cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

**NOTE 11 DEFERRED COMPENSATION PLAN**

The District offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan assets are invested with the Washington State Department of Retirement Systems. The plan, available to all employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. The District made no contributions to the plan in 2018 or 2017.



**KING COUNTY WATER DISTRICT NO. 49**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2018 AND 2017**  
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**NOTE 12 RISK MANAGEMENT**

King County Water District No. 49 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, 2018, there are 549 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 self-insured retention on liability loss - the member is responsible for the first \$1,000 of the amount of each claim, while Enduris is responsible for the remaining \$999,000 on a liability loss.
- \$250,000 self-insured retention on property loss - the member is responsible for the first \$1,000 of the amount of each claim, while Enduris is responsible for the remaining \$249,000 on a property loss. For property losses related to boiler and machinery Enduris is responsible for the first \$4,000 of the claim.

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

**KING COUNTY WATER DISTRICT NO. 49**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2018 AND 2017**  
(SEE ACCOUNTANTS' COMPILATION REPORT)

**NOTE 12 RISK MANAGEMENT (CONTINUED)**

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. The Pool's members elect the Board and the positions are filled on a rotating basis. The Board meets quarterly and is responsible for conducting the business affairs of Enduris.

In the past three years (2018, 2017, and 2016), there have been no claim settlements, per occurrence or in aggregate, that have exceeded the coverage provided by excess/reinsurance contracts.

**NOTE 13 LEASE COMMITMENTS**

**Operating Leases**

The District is committed under various leases for office equipment. These leases are considered operating leases for accounting purposes. Lease expense for the years ended December 31, 2018 and 2017 amounted to \$7,652 and \$5,534, respectively.

Future minimum rental commitments for these leases are as follows:

<u>Year Ending December 31,</u>	<u>Amount</u>
2019	\$ 9,753
2020	9,753
2021	4,288
2022	3,520
2023	1,984
Total	<u>\$ 29,298</u>

**NOTE 14 MAJOR SUPPLIER**

All water purchased by the District is provided by Seattle Public Utilities.

**KING COUNTY WATER DISTRICT NO. 49**  
**SCHEDULE OF CHANGES IN TOTAL OPEB LIABILITY AND RELATED RATIOS**  
**JUNE 30 (MEASUREMENT DATE)**  
**LAST 10 FISCAL YEARS\***  
(SEE ACCOUNTANTS' COMPILATION REPORT)

	2018
<b>Total OPEB Liability - Beginning</b>	\$ 346,453
Service Cost	17,659
Interest	12,935
Changes in Experience and Data Assumptions	(19,224)
Changes in Benefit Terms	-
Benefit Payments	(5,656)
Other Changes	-
<b>Total OPEB Liability - Ending</b>	\$ 352,167
 <b>Covered-Employee Payroll</b>	\$ 572,714
 <b>Total OPEB Liability as a % of Covered-Employee Payroll</b>	61.49%

**Notes to Schedule:**

No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB 75.

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

**KING COUNTY WATER DISTRICT NO. 49**  
**SCHEDULES OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY**  
**JUNE 30 (MEASUREMENT DATE)**  
**LAST 10 FISCAL YEARS\***  
(SEE ACCOUNTANTS' COMPILATION REPORT)

**PERS 1**

Year	Employer's Proportion of the Net Pension Liability (Asset)	Employer's Proportionate Share of the Net Pension Liability (Asset)	Employer's Covered Payroll	Net Pension Liability (Asset) as a Percentage of Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2018	0.003960%	\$ 176,860	\$ 572,714	30.88%	63.22%
2017	0.004828%	229,070	562,570	40.72%	61.24%
2016	0.004457%	239,344	537,367	44.54%	57.03%
2015	0.005338%	279,227	578,786	48.24%	59.10%

**Notes to Schedule:**

- PERS 1 contributions are from the component of PERS 2 contributions required to address the PERS 1 unfunded actuarially accrued liability (UAAL).

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

**PERS 2/3**

Year	Employer's Proportion of the Net Pension Liability (Asset)	Employer's Proportionate Share of the Net Pension Liability (Asset)	Employer's Covered Payroll	Net Pension Liability (Asset) as a Percentage of Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2018	0.005108%	\$ 87,219	\$ 572,714	15.23%	95.77%
2017	0.006210%	215,752	562,570	38.35%	90.97%
2016	0.005702%	287,113	537,367	53.43%	85.82%
2015	0.006896%	246,398	578,786	42.57%	89.20%

**Notes to Schedule:**

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

**KING COUNTY WATER DISTRICT NO. 49  
SCHEDULES OF EMPLOYER CONTRIBUTIONS  
DECEMBER 31 (EMPLOYER REPORTING DATE)  
LAST 10 FISCAL YEARS\*  
(SEE ACCOUNTANTS' COMPILATION REPORT)**

**PERS 1**

Year	Statutorily Required Contribution	Contributions in Relation to the Statutorily Required Contribution	Contribution Deficiency (Excess)	Employer's Covered Payroll	Contributions as a Percent of Covered Payroll
2018	\$ 29,365	\$ (29,365)	\$ -	\$ 580,009	5.06%
2017	27,769	(27,769)	-	566,717	4.90%
2016	26,316	(26,316)	-	551,691	4.77%
2015	24,893	(24,893)	-	578,786	4.30%

**Notes to Schedule:**

- PERS 1 contributions are from the component of PERS 2 contributions required to address the PERS 1 unfunded actuarially accrued liability (UAAL).

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

**PERS 2/3**

Year	Statutorily Required Contribution	Contributions in Relation to the Statutorily Required Contribution	Contribution Deficiency (Excess)	Employer's Covered Payroll	Contributions as a Percent of Covered Payroll
2018	\$ 43,500	\$ (43,500)	\$ -	\$ 580,009	7.50%
2017	38,875	(38,875)	-	566,717	6.86%
2016	34,370	(34,370)	-	551,691	6.23%
2015	31,917	(31,917)	-	578,786	5.51%

**Notes to Schedule:**

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

**KING COUNTY WATER DISTRICT NO. 49**  
**SCHEDULES OF OPERATING EXPENSES**  
**YEARS ENDED DECEMBER 31, 2018 AND 2017**  
(SEE ACCOUNTANTS' COMPILATION REPORT)

	<u>2018</u>	<u>2017</u>
<b>WATER COSTS</b>		
Water Cost	\$ 1,224,265	\$ 1,123,264
Amortization - Contract Cost	457	457
Total Water Costs	<u>\$ 1,224,722</u>	<u>\$ 1,123,721</u>
<b>RESERVOIR EXPENSES</b>		
Maintenance - Materials and Contractors	\$ 40,207	\$ 5,258
Electric Power	14,192	13,266
Telephone	342	-
Total Reservoir Expenses	<u>\$ 54,741</u>	<u>\$ 18,524</u>
<b>CUSTOMER ACCOUNTS EXPENSES</b>		
Standby Pager - Labor	\$ 16,425	\$ 16,380
Supplies	3,240	2,856
Postage and Postage Machine	10,674	10,645
Maintenance and Miscellaneous	-	4,177
Total Customer Accounts Expenses	<u>\$ 30,339</u>	<u>\$ 34,058</u>
<b>TRANSMISSION AND DISTRIBUTION</b>		
Supplies and Miscellaneous	\$ 12,035	\$ 3,635
Uniforms and Clothing	3,697	4,486
Street Repair	2,896	2,340
Permits, Licenses and Inspections	15,335	14,933
Equipment Rental	1,485	2,787
Electric Power - Interties	283	195
Maintenance of Mains - Materials	6,958	3,409
Maintenance of Mains - Contractors and Miscellaneous	9,640	9,890
Maintenance of Valves - Materials	728	253
Maintenance of Valves - Contractors and Miscellaneous	2,750	26,014
Maintenance of Services - Materials	2,244	(1,922)
Maintenance of Services - Contractors and Miscellaneous	1,244	(546)
Maintenance of Services - Crew	(2,006)	-
Maintenance of Meters - Materials	54,779	11,707
Maintenance of Meters - Contractors and Miscellaneous	2,808	-
Maintenance of Hydrants - Materials	6,163	11,021
Maintenance of Hydrants - Contractors and Miscellaneous	535	853
Maintenance of Automotive	2,949	10,261
Maintenance of Other Equipment	703	845
Field Lead Salary	101,177	114,322
Field Tech Salary	237,679	251,635
Total Transmission and Distribution Expenses	<u>\$ 464,082</u>	<u>\$ 466,118</u>

**KING COUNTY WATER DISTRICT NO. 49**  
**SCHEDULES OF ADMINISTRATIVE AND GENERAL EXPENSES**  
**YEARS ENDED DECEMBER 31, 2018 AND 2017**  
(SEE ACCOUNTANTS' COMPILATION REPORT)

	2018	2017
Office Manager Salary	\$ 81,156	\$ 79,903
Accounting Clerk Salary	135,319	140,962
OPEB Expense	11,370	27,804
State Retirement	(36,185)	51,860
Medical Insurance	214,505	218,072
Life Insurance	2,994	2,275
F.I.C.A.	46,434	55,289
Workmen's Compensation	8,492	8,225
Commissioner Compensation	12,950	11,406
Contract Labor	248	-
Legal	28,958	31,297
Engineering	31,380	167,581
Accounting	27,257	24,556
State Auditor	3,091	-
Software Support	61,964	41,794
Insurance	46,874	37,607
Office Supplies	7,009	7,189
Telephone	11,499	15,752
Utilities	13,038	11,522
Dues, Subscriptions, and Advertising	8,261	7,424
State Excise Tax	213,326	195,947
Equipment Rental - Office	7,652	5,534
Miscellaneous General Expenses	59,463	19,218
Gas and Oil	10,200	10,119
Seminar Registration	2,175	2,302
Travel and Mileage	4,045	2,632
Election Costs	8,551	-
Dumping Expense	425	-
Maintenance - Building	14,773	5,308
Maintenance Office Equipment	198	-
	<u>\$ 1,037,422</u>	<u>\$ 1,181,578</u>
Total Administrative and General Expenses		