



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

# **Financial Statements Audit Report**

## **Valley View Sewer District**

**For the period January 1, 2016 through December 31, 2017**

**Published December 24, 2018**

**Report No. 1022758**





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

December 24, 2018

Board of Commissioners  
Valley View Sewer District  
Seattle, Washington

**Report on Financial Statements**

Please find attached our report on the Valley View Sewer District's financial statements.

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

Sincerely,

Pat McCarthy  
State Auditor  
Olympia, WA

## TABLE OF CONTENTS

Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards.....	4
Independent Auditor's Report on Financial Statements.....	6
Financial Section.....	9
About the State Auditor's Office.....	52

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

**Valley View Sewer District  
January 1, 2016 through December 31, 2017**

Board of Commissioners  
Valley View Sewer District  
Seattle, Washington

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the Valley View Sewer District, as of and for the years ended December 31, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated October 18, 2018.

**INTERNAL CONTROL OVER FINANCIAL REPORTING**

In planning and performing our audits of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

## COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of the District's compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## PURPOSE OF THIS REPORT

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.



Pat McCarthy  
State Auditor  
Olympia, WA

October 18, 2018

# INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

## Valley View Sewer District January 1, 2016 through December 31, 2017

Board of Commissioners  
Valley View Sewer District  
Seattle, Washington

### REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the Valley View Sewer District, as of and for the years ended December 31, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed on page 9.

#### Management's Responsibility for the Financial Statements

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

#### Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control

relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Valley View Sewer District, as of December 31, 2017 and 2016, and the changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplementary information listed on page 9 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

## **OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS**

In accordance with *Government Auditing Standards*, we have also issued our report dated October 18, 2018 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.



Pat McCarthy  
State Auditor  
Olympia, WA

October 18, 2018



## FINANCIAL SECTION

### Valley View Sewer District January 1, 2016 through December 31, 2017

#### REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2017 and 2016

#### BASIC FINANCIAL STATEMENTS

Statement of Net Position – 2017 and 2016

Statement of Revenues, Expenses, and Changes in Fund Net Position – 2017 and 2016

Statement of Cash Flows – 2017 and 2016

Notes to the Financial Statements – 2017 and 2016

#### REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Proportionate Share of Net Pension Liability – PERS 1 – 2017 and 2016

Schedule of Proportionate Share of Net Pension Liability – PERS 2/3 – 2017 and 2016

Schedule of Employer Contributions – PERS 1 – 2017 and 2016

Schedule of Employer Contributions – PERS 2/3 – 2017 and 2016

**VALLEY VIEW SEWER DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2017 AND 2016**

**INTRODUCTION**

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

This section of management's discussion and analysis presents our review of the District's financial position as of December 31, 2017 and 2016 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.

**VALLEY VIEW SEWER DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2017 AND 2016**

<b>CONDENSED STATEMENTS OF NET POSITION AT DECEMBER 31</b>			
	2017	2016	2015
Capital Assets	\$ 37,648,258	\$ 34,895,009	\$ 35,249,528
Other Assets	8,069,557	7,936,067	8,983,533
Total Assets	45,717,815	42,831,076	44,233,061
Deferred Outflows of Resources	179,629	243,959	150,723
Long-Term Liabilities	8,208,096	8,401,402	9,218,354
Other Liabilities	1,600,282	1,439,276	1,290,839
Total Liabilities	9,808,378	9,840,678	10,509,193
Deferred Inflows of Resources	160,714	25,925	157,353
Net Investment in Capital Assets	29,498,263	26,793,979	26,090,038
Restricted Net Position	938,802	1,203,461	1,508,487
Unrestricted Net Position	5,491,287	5,210,992	6,118,713
Total Net Position	<u>\$ 35,928,352</u>	<u>\$ 33,208,432</u>	<u>\$ 33,717,238</u>

**VALLEY VIEW SEWER DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2017 AND 2016**

	2017	2016	2015
Sewer Service Charges	\$ 12,310,098	\$ 10,424,048	\$ 11,024,772
Other Operating Revenue	567,996	299,591	352,623
Total Operating Revenues	12,878,094	10,723,639	11,377,395
Operating Costs	9,165,891	9,070,950	8,735,457
General and Administrative Expenses	1,754,583	1,766,256	1,716,574
Depreciation and Amortization	1,190,248	1,158,228	1,172,649
Total Operating Expenses	12,110,722	11,995,434	11,624,680
Operating Income (Loss)	767,372	(1,271,795)	(247,285)
Nonoperating Revenue (Expense):			
Investment and Interest Income	145,152	174,979	139,491
Net Gain (Loss) on Disposal and Abandonment of Assets	-	(44,163)	83,735
Private Property Improvements	(195,250)	-	-
Interest and Amortization on Long-Term Debt - Net of Amount Capitalized	(101,309)	(116,542)	(155,970)
Bond Issue Costs	-	(17,600)	-
Income (Loss) Before Capital Contributions	615,965	(1,275,121)	(180,029)
Capital Contributions	2,103,955	766,315	670,778
Increase (Decrease) in Net Position	2,719,920	(508,806)	490,749
Net Position, January 1	33,208,432	33,717,238	33,226,489
Net Position, December 31	<u>\$ 35,928,352</u>	<u>\$ 33,208,432</u>	<u>\$ 33,717,238</u>

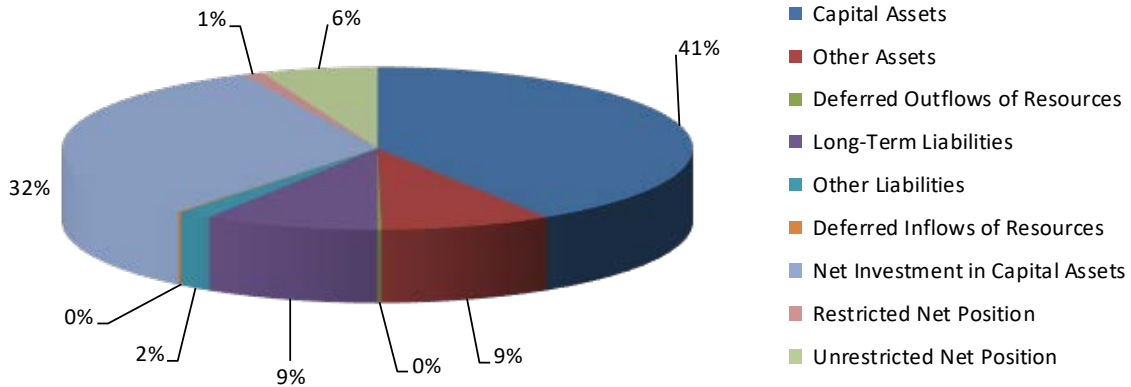
**VALLEY VIEW SEWER DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2017 AND 2016**

**FINANCIAL POSITION**

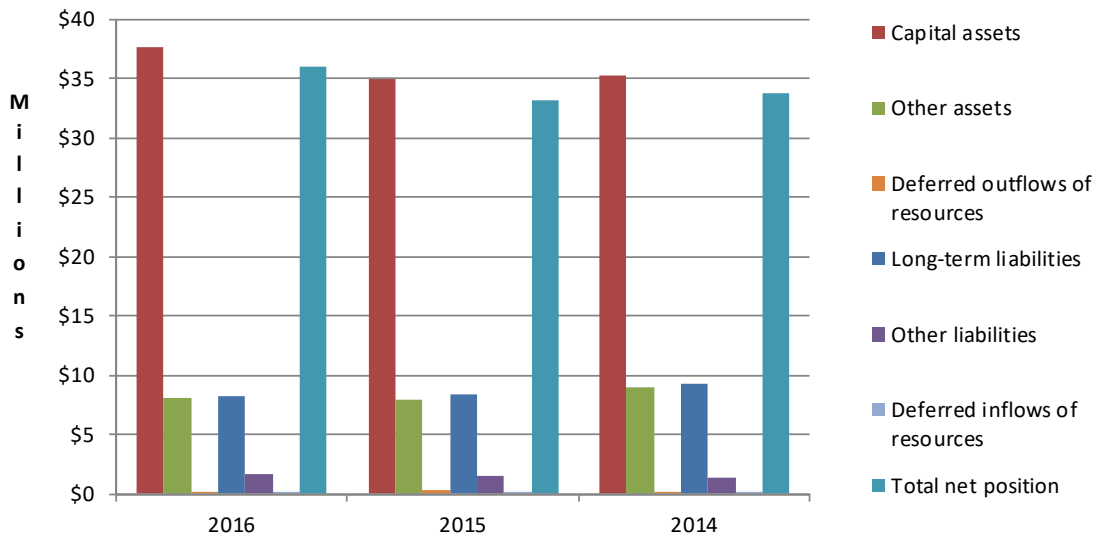
The District's overall financial position continues to be strong. The District is financed primarily by equity. Sufficient liquid assets are available to fund liabilities and construction. Capital assets increased in 2017 due to growth in the customer base and construction activity to upgrade the system. Capital assets decreased in 2016 due to depreciation in excess of construction activity, capital asset purchases, and donated systems.

The following charts indicate the components of financial position.

**2017 STATEMENT OF NET POSITION**



**COMPARATIVE STATEMENT OF NET POSITION**

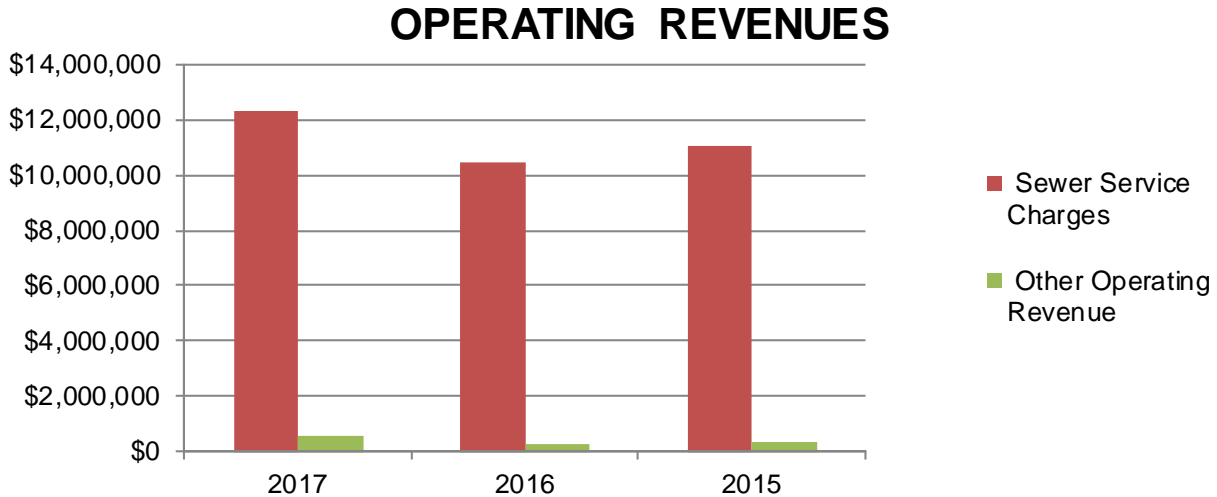


**VALLEY VIEW SEWER DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2017 AND 2016**

**RESULTS OF OPERATIONS**

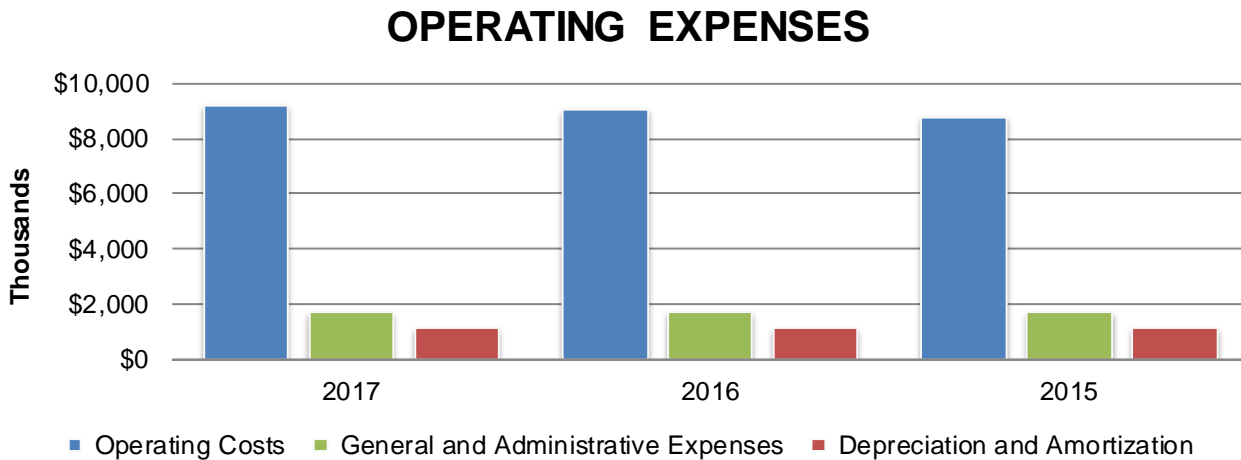
Operating revenues are received primarily from sewer service charges.

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



Operating revenues increased in 2017 and decreased in 2016 due to variances in consumption. The variances in consumption are caused primarily by changes in the amount of rainfall and related stormwater runoff during the winter months.

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



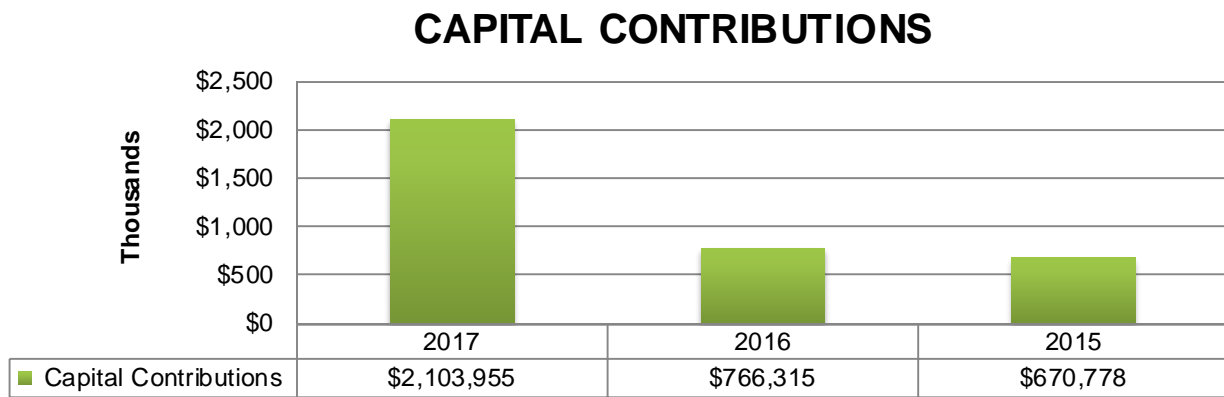
**VALLEY VIEW SEWER DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2017 AND 2016**

**RESULTS OF OPERATIONS (CONTINUED)**

The increase in operating and general and administrative expenses in 2017 was primarily due to increased personnel costs and increased maintenance activities. The increase in operating and general and administrative expenses in 2016 was primarily due to an additional billing for treatment costs to correct amounts previously billed to the District and increased personnel costs. The District's philosophy generally is not to provide for all depreciation through rates based on the principle that connection charges and other fees also contribute to the cost of the sewer system. Operating results are augmented by earnings on investments and other nonoperating revenues and capital contributions.

The District collects capital contributions from new customers. These contributions consist of connection charges, grants, ULID assessments, and donated systems.

The following chart indicates capital contributions over the past three years.



The contributions are indicative of the growth of the District and include donated systems totaling \$702,532, \$48,974, and \$59,210 for the years ended December 31, 2017, 2016, and 2015, respectively.

**VALLEY VIEW SEWER DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2017 AND 2016**

**CAPITAL ASSETS AND LONG-TERM LIABILITIES**

Capital assets increased in 2017 due to growth in the customer base and construction activity to upgrade the system. Capital assets decreased in 2016 due to depreciation in excess of construction activity, capital asset purchases, and donated systems.

Significant capital asset additions during the years included the following:

2017		2016	
S 136th St Extension	\$ 195,094	S 136th St Easement Extension	\$ 54,916
The Loop	442,288	The Loop	311,683
West of Military Road Project	2,311,392	West of Military Road Project	261,131
LARC at Burien Offsite	75,489	SRF Application	33,511
40/42 Wastewater Bypass	36,199	Donated Systems	48,974
S 127th St Sewer Extension	37,112		
Donated Systems	702,532		

The decrease in long-term liabilities in 2017 was mainly due to decreases in the net pension liability and principal payments on outstanding debt. The decrease in long-term liabilities in 2016 was due to principal payments made by the District in excess of new borrowings and increases in the net pension liability.

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

On March 3, 2016, the District issued a \$1,013,087 Sewer Revenue Refunding Bond to advance refund \$1,020,000 of outstanding 2006 bonds. See Note 8 in the financial statements for more details.

**ADDITIONAL COMMENTS**

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



**VALLEY VIEW SEWER DISTRICT  
STATEMENTS OF NET POSITION  
DECEMBER 31, 2017 AND 2016**

	2017	2016
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Unrestricted:		
Cash and Cash Equivalents	\$ 4,208,706	\$ 3,710,059
Accounts Receivable - Users	737,972	764,289
Accounts Receivable - Other	68,581	64,548
Unbilled Utility Service Receivable	507,336	717,698
Interest Receivable	74,068	86,525
Prepaid Expenses	96,298	91,244
Contracts Receivable - Current Portion	134,970	93,785
Grant Receivable	434,640	416,293
Total Unrestricted	6,262,571	5,944,441
Restricted:		
Cash and Cash Equivalents	313,840	361,088
Interest Receivable	144	230
Assessments Receivable - Current Portion	137,276	190,771
Total Restricted	451,260	552,089
Total Current Assets	6,713,831	6,496,530
Noncurrent Assets:		
Unrestricted:		
Contracts Receivable, Less Current Portion	821,507	743,363
Preliminary Surveys and Investigations	40,935	38,201
Total	862,442	781,564
Restricted:		
Assessments Receivable, Less Current Portion	493,284	657,973
Capital Assets Not Being Depreciated:		
Land, Land Rights, and Other	628,310	628,310
Construction in Progress	1,207,179	993,038
Capital Assets Being Depreciated:		
Plant in Service	59,942,030	56,212,674
Less: Accumulated Depreciation	(24,129,261)	(22,939,013)
Net Capital Assets	37,648,258	34,895,009
Total Noncurrent Assets	39,003,984	36,334,546
Total Assets	45,717,815	42,831,076
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Deferred Loss on Refunding of Debt	7,755	12,298
Deferred Outflows Related to Pensions	171,874	231,661
Total Deferred Outflows of Resources	179,629	243,959
Total Assets and Deferred Outflows or Resources	<u>\$ 45,897,444</u>	<u>\$ 43,075,035</u>

*The accompanying notes are an integral part of this statement.*

**VALLEY VIEW SEWER DISTRICT  
STATEMENTS OF NET POSITION (CONTINUED)  
DECEMBER 31, 2017 AND 2016**

	2017	2016
<b>LIABILITIES</b>		
<b>CURRENT LIABILITIES</b>		
Payable from Unrestricted Assets:		
Accounts Payable	\$ 418,264	272,780
Side Sewer Deposits Payable	-	22,265
Compensated Absences	141,300	117,900
Retainage Payable	12,051	601
Accrued Interest	16,776	12,453
Long-Term Debt - Current Maturities	633,013	639,634
Total Payable from Unrestricted Assets	1,221,404	1,065,633
Payable from Restricted Assets:		
Accrued Interest	5,742	6,601
Long-Term Debt - Current Maturities	373,136	367,042
Total Payable from Restricted Assets	378,878	373,643
Total Current Liabilities	1,600,282	1,439,276
<b>NONCURRENT LIABILITIES</b>		
Long-Term Debt Payable from Unrestricted Assets, Net of Current Maturities	5,345,392	4,927,308
Long-Term Debt Payable from Restricted Assets, Net of Current Maturities	1,806,209	2,179,344
Compensated Absences	88,342	103,943
Net Pension Liability	968,153	1,190,807
Total Noncurrent Liabilities	8,208,096	8,401,402
Total Liabilities	9,808,378	9,840,678
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Deferred Inflows Related to Pensions	160,714	25,925
Total Liabilities and Deferred Inflows of Resources	9,969,092	9,866,603
<b>NET POSITION</b>		
Net Investment in Capital Assets	29,498,263	26,793,979
Restricted for Debt Service	930,236	1,194,170
Restricted for Impaired Investments	8,566	9,291
Unrestricted	5,491,287	5,210,992
Total Net Position	35,928,352	33,208,432
Total Liabilities and Deferred Inflows of Resources and Net Position	<u>\$ 45,897,444</u>	<u>\$ 43,075,035</u>

*The accompanying notes are an integral part of this statement.*

**VALLEY VIEW SEWER DISTRICT  
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION  
YEARS ENDED DECEMBER 31, 2017 AND 2016**

	2017	2016
<b>OPERATING REVENUES</b>		
Service Charges:		
Commercial	\$ 7,461,138	\$ 5,874,354
Residential	4,848,960	4,549,694
Total Service Charges	12,310,098	10,424,048
Late Charges	131,198	134,058
Permit Fees	20,350	20,765
Rental of Flush Truck	2,307	(2,553)
Miscellaneous	414,141	147,321
Total Operating Revenues	12,878,094	10,723,639
<b>OPERATING EXPENSES</b>		
Collection and Transmission	8,863,045	8,777,209
Pumping	302,846	293,741
General and Administrative	1,754,583	1,766,256
Depreciation	1,190,248	1,158,228
Total Operating Expenses	12,110,722	11,995,434
<b>OPERATING INCOME (LOSS)</b>	767,372	(1,271,795)
<b>NONOPERATING REVENUE (EXPENSE)</b>		
Investment Income	32,501	40,447
Interest on Assessments	72,115	82,798
Interest on Contracts	40,536	48,546
Other Interest	-	3,188
Private Property Improvements	(195,250)	-
Net Gain (Loss) on Disposal and Abandonment of Assets	-	(44,163)
Interest and Amortization on Long-Term Debt - Net of Amount Capitalized	(101,309)	(116,542)
Bond Issue Costs	-	(17,600)
Total Nonoperating Revenue (Expense)	(151,407)	(3,326)
<b>INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS</b>	615,965	(1,275,121)
Capital Contributions	2,103,955	766,315
<b>CHANGE IN NET POSITION</b>	2,719,920	(508,806)
Net Position - Beginning of Year	33,208,432	33,717,238
<b>NET POSITION - END OF YEAR</b>	<u>\$ 35,928,352</u>	<u>\$ 33,208,432</u>

*The accompanying notes are an integral part of this statement.*

**VALLEY VIEW SEWER DISTRICT  
STATEMENTS OF CASH FLOWS  
YEARS ENDED DECEMBER 31, 2017 AND 2016**

	2017	2016
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash Received from Customers	\$ 13,110,740	\$ 10,945,634
Cash Paid to Vendors	(9,181,822)	(8,946,481)
Cash Paid to and for Employees and Commissioners	(1,852,642)	(1,807,351)
Cash Paid for Private Property Improvements	(195,250)	-
Issuance of Side Sewer Contracts Receivable	(48,983)	(29,582)
Collections on Side Sewer Contracts Receivable	36,416	22,441
Interest Received	7,539	11,490
Net Cash Provided by Operating Activities	1,875,998	196,151
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Capital Contributions	1,045,422	215,236
Collections on ULID Assessments Receivable	218,184	249,421
Collections on Contracts Receivable	182,576	134,810
Interest Received on Contracts and Assessments	118,782	115,702
Expenditures for Plant in Service and Construction	(2,987,911)	(657,269)
Proceeds from Issuance of Long-Term Debt	1,051,097	58,763
Deposit to Refunding Escrow	-	(45,468)
Payment on Long-Term Debt	(1,006,675)	(1,105,378)
Interest Paid on Long-term Debt	(103,499)	(115,918)
Net Cash Used by Capital and Related Financing Activities	(1,482,024)	(1,150,101)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Collections on Contract with City of Tukwila	26,051	26,051
Interest Received on Investments	31,374	40,702
Net Cash Provided by Investing Activities	57,425	66,753
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	451,399	(887,197)
Cash and Cash Equivalents - Beginning of Year	4,071,147	4,958,344
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	<b>\$ 4,522,546</b>	<b>\$ 4,071,147</b>
Cash and Cash Equivalents Balance is Comprised of the Following at December 31:		
Cash and Cash Equivalents - Unrestricted	\$ 4,208,706	\$ 3,710,059
Cash and Cash Equivalents - Restricted	313,840	361,088
Total	<b>\$ 4,522,546</b>	<b>\$ 4,071,147</b>

*The accompanying notes are an integral part of this statement.*

**VALLEY VIEW SEWER DISTRICT  
STATEMENTS OF CASH FLOWS (CONTINUED)  
YEARS ENDED DECEMBER 31, 2017 AND 2016**

	2017	2016
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>		
Operating Income (Loss)	\$ 767,372	\$ (1,271,795)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities:		
Depreciation	1,190,248	1,158,228
(Increase) Decrease in Assets and Deferred Outflows of Resources:		
Accounts Receivable	232,646	221,995
Prepaid Expenses	(5,054)	(2,011)
Side Sewer Contracts	9,698	(10,227)
Deferred Outflows Related to Pensions	59,787	(89,888)
Increase (Decrease) in Liabilities and Deferred Inflows of Resources:		
Accounts Payable	(88,657)	60,614
Side Sewer Deposits Payable	(22,265)	3,086
Compensated Absences	7,799	27,505
Net Pension Liability	(222,654)	218,582
Deferred Inflows Related to Pensions	134,789	(131,428)
Private Property Improvements	(195,250)	-
Other Income	7,539	11,490
Net Cash Provided by Operating Activities	<u>\$ 1,875,998</u>	<u>\$ 196,151</u>
<b>SUPPLEMENTAL SCHEDULE OF SIGNIFICANT NON-CASH FINANCING AND INVESTING ACTIVITIES</b>		
Contract Assessments	<u>\$ 337,654</u>	<u>\$ 85,812</u>
Utility Plant Donations Received	<u>\$ 702,532</u>	<u>\$ 48,974</u>
Increase in Grant Receivable	<u>\$ 18,347</u>	<u>\$ 416,293</u>
Revenue Refunding Bonds Issued in Exchange for Deposit to Refunding Escrow, Interest to the Refunding Date, and Bond Issue Costs	<u>\$ -</u>	<u>\$ 1,058,556</u>

*The accompanying notes are an integral part of this statement.*

**VALLEY VIEW SEWER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2017 AND 2016**

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

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

Valley View Sewer District (the District), a municipal corporation organized under the laws of the state of Washington, was created for the purpose of constructing, maintaining and operating a sewer system within its boundaries, which encompass a portion of the cities of SeaTac, Burien, and Tukwila, Washington and surrounding unincorporated areas. The District is governed by an elected three-member board and has no component units.

**Basis of Presentation and Accounting**

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

**Cash and Cash Equivalents**

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

**Accounts Receivable**

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

**Capital Assets**

Capital assets are stated at cost and include the capitalized portion of District employees' wages and related overhead costs. For sewer systems installed by developers or customers and conveyed to the District by bill of sale, the District records the cost of the system at acquisition value, which is estimated using the contributing party's cost. Major expenses for capital assets, including capital leases and major repairs that increase useful lives, are capitalized. Maintenance, repairs, and minor renewals are accounted for as expenses when incurred. When capital assets are retired or otherwise disposed of, the cost and accumulated depreciation are removed from the accounts and any resulting gain or loss is recognized in income for the period. Depreciation on capital assets is computed using the straight-line method over the following estimated useful lives:

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

**VALLEY VIEW SEWER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2017 AND 2016**

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

**Interest Capitalization**

Interest costs incurred for the construction of capital assets are subject to capitalization.

Total interest and amortization cost incurred for the years ended December 31, 2017 and 2016 was \$111,506 and \$125,788, respectively. Interest capitalized to Construction in Progress for the years ended December 31, 2017 and 2016 was \$10,197 and \$9,246, respectively.

**Pensions**

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

**Deferred Outflows/Inflows of Resources**

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

**VALLEY VIEW SEWER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2017 AND 2016**

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

**Compensated Absences**

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

**Long-Term Debt**

Long-term debt is reported net of premiums and discounts. Premiums and discounts on long-term debt are amortized by the interest method over the period the related debt is outstanding.

**Net Position**

Net position is classified in the following three components:

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

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

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

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

**Revenues and Expenses**

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



**VALLEY VIEW SEWER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2017 AND 2016**

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

**Capital Contributions**

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

**Use of Estimates in Financial Statement Preparation**

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

**NOTE 2 DEPOSITS AND INVESTMENTS**

**Deposits**

The Districts bank balances as of December 31, 2017 and 2016 were \$49,076 and \$73,317, respectively.

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

**Investments**

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

**VALLEY VIEW SEWER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2017 AND 2016**

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

**Investments (Continued)**

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

<u>Investment Type</u>	<u>Fair Value</u>	<u>Average Effective Duration</u>
<u>2017</u>		
King County Investment Pool:		
Main Pool	\$ 4,463,704	1.02 Years
Impaired Pool	8,566	
<u>2016</u>		
King County Investment Pool:		
Main Pool	\$ 3,987,338	1.10 Years
Impaired Pool	9,291	

**Impaired Investments**

As of December 31, 2017 and 2016, 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 \$12,716 and \$14,946 at December 31, 2017 and 2016, respectively. The District's unrealized loss for these investments is \$4,150 and \$5,655 at December 31, 2017 and 2016, respectively.

**Interest Rate Risk**

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

**Credit Risk**

As of December 31, 2017 and 2016, the District's investment in the Pool was not rated by a nationally recognized statistical rating organization (NRSRO). In compliance with state statutes, Pool policies authorize investments in U.S. treasury securities, U.S. agency securities and mortgage-backed securities, corporate note (rated at least "A" by two NRSROs), municipal securities (rated at least "A" by two NRSROs), commercial paper (rated at least the equivalent of "A-1" by two NRSROs), certificates of deposits issued by qualified public depositories, repurchase agreements, and the Local Government Investment Pool managed by the Washington State Treasurer's office.

**VALLEY VIEW SEWER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2017 AND 2016**

**NOTE 3 RESTRICTED ASSETS**

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

	Cash and Cash Equivalents	Interest Receivable	Current Assessments Receivable	Long-Term Assessments Receivable
<u>December 31, 2017</u>				
Current Restricted Assets:				
Impaired Investment Pool	\$ 8,566	\$ -	\$ -	\$ -
Revenue Bond Reserve Account	305,274	-	-	-
Revenue Bond Fund Debt				
Service Account	-	144	137,276	493,284
Total	<u>\$ 313,840</u>	<u>\$ 144</u>	<u>\$ 137,276</u>	<u>\$ 493,284</u>
	Cash and Cash Equivalents	Interest Receivable	Current Assessments Receivable	Long-Term Assessments Receivable
<u>December 31, 2016</u>				
Current Restricted Assets:				
Impaired Investment Pool	\$ 9,291	\$ -	\$ -	\$ -
Revenue Bond Reserve Account	329,533	-	-	-
Revenue Bond Fund Debt				
Service Account	22,264	230	190,771	657,973
Total	<u>\$ 361,088</u>	<u>\$ 230</u>	<u>\$ 190,771</u>	<u>\$ 657,973</u>

**VALLEY VIEW SEWER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2017 AND 2016**

**NOTE 4 CAPITAL ASSETS**

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

	Balance - Beginning of Year	Increase	Decrease	Balance - End of Year
<b>2017</b>				
Capital Assets Not Being Depreciated:				
Land, Land Rights, and Other	\$ 628,310	\$ -	\$ -	\$ 628,310
Construction in Progress	993,038	3,143,405	(2,929,264)	1,207,179
Total	1,621,348	3,143,405	(2,929,264)	1,835,489
Capital Assets Being Depreciated:				
Sewer Mains and Extensions	46,727,488	3,677,829	-	50,405,317
Sewer Structures and Intangibles	3,582,562	28,589	-	3,611,151
Equipment	1,523,025	4,779	-	1,527,804
Office Building	4,379,599	18,159	-	4,397,758
Total	56,212,674	3,729,356	-	59,942,030
Accumulated Depreciation:				
Sewer Mains and Extensions	(17,945,015)	(949,461)	-	(18,894,476)
Sewer Structures and Intangibles	(2,375,694)	(63,992)	-	(2,439,686)
Equipment	(1,348,850)	(62,177)	-	(1,411,027)
Office Building	(1,269,454)	(114,618)	-	(1,384,072)
Total	(22,939,013)	(1,190,248)	-	(24,129,261)
<b>Net Capital Assets</b>	<b>\$ 34,895,009</b>	<b>\$ 5,682,513</b>	<b>\$ (2,929,264)</b>	<b>\$ 37,648,258</b>

**VALLEY VIEW SEWER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2017 AND 2016**

**NOTE 4 CAPITAL ASSETS (CONTINUED)**

	Balance - Beginning of Year	Increase	Decrease	Balance - End of Year
<b>2016</b>				
Capital Assets Not Being Depreciated:				
Land, Land Rights, and Other	\$ 628,310	\$ -	\$ -	\$ 628,310
Construction in Progress	288,903	719,531	(15,396)	993,038
Total	917,213	719,531	(15,396)	1,621,348
Capital Assets Being Depreciated:				
Sewer Mains and Extensions	46,667,072	60,416	-	46,727,488
Sewer Structures and Intangibles	3,544,387	38,175	-	3,582,562
Equipment	1,522,042	983	-	1,523,025
Office Building	4,379,599	-	-	4,379,599
Total	56,113,100	99,574	-	56,212,674
Accumulated Depreciation:				
Sewer Mains and Extensions	(17,032,517)	(912,498)	-	(17,945,015)
Sewer Structures and Intangibles	(2,317,715)	(57,979)	-	(2,375,694)
Equipment	(1,276,477)	(72,373)	-	(1,348,850)
Office Building	(1,154,076)	(115,378)	-	(1,269,454)
Total	(21,780,785)	(1,158,228)	-	(22,939,013)
Net Capital Assets	<u>\$ 35,249,528</u>	<u>\$ (339,123)</u>	<u>\$ (15,396)</u>	<u>\$ 34,895,009</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 Public Works Trust Fund Loans, secured by the revenue of the sewer system, issued for utility construction:

Description	2017	2016
Public Works Trust Fund Loans:		
1997 \$124,334 loan: Payable \$6,621 annually through the year 2017, plus interest at 1.0 annual percentage rate.	\$ -	\$ 6,621
1998 \$257,040 loan: Payable \$13,782 annually through the year 2018, plus interest at 1.0 annual percentage rate.	13,782	27,564
2001 \$1,394,170 loan: Payable \$73,581 annually through the year 2021, plus interest at 0.50 annual percentage rate.	294,325	367,906

**VALLEY VIEW SEWER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2017 AND 2016**

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

Description	2017	2016
2002 \$1,908,250 loan: Payable \$101,025 annually through the year 2022, plus interest at 0.50 annual percentage rate.	\$ 505,125	\$ 606,150
2003 \$1,280,058 loan: Payable \$68,755 annually through the year 2023, plus interest at 0.50 annual percentage rate.	412,528	481,283
2004 \$88,230 loan: Payable \$4,780 annually through the year 2023, plus interest at 0.50 annual percentage rate.	28,682	33,462
2004 \$1,609,050 loan: Payable \$85,185 annually through the year 2024, plus interest at 0.50 annual percentage rate.	596,295	681,480
2006 \$3,320,632 loan: Payable \$185,219 annually through the year 2026, plus interest at 0.50 annual percentage rate.	1,666,975	1,852,194
2012 \$1,950,000 loan: Payable \$100,685 annually through the year 2031, plus interest at 0.25 annual percentage rate.	1,409,596	1,510,282
Clean Water State Revolving Fund Loans:		
2017 Loan: \$165,085 authorized, \$147,639 drawn to December 31, 2017. Based on draws to December 31, 2017, payable \$9,476 annually through the year 2038, plus interest at 2.0 annual percentage rate.	147,639	-
2017 Loan: \$597,461 authorized, \$597,461 drawn to December 31, 2017. 100% of loan balance or eligible project cost forgiven at project completion.	597,461	-
2017 Loan: \$244,064 authorized, \$151,566 drawn to December 31, 2017. Based on draws to December 31, 2017, payable \$9,719 annually through the year 2038, plus interest at 2.0 annual percentage rate.	151,566	-
2017 Loan: \$244,064 authorized; \$154,431 drawn to December 31, 2017. 100% of loan balance or eligible project cost forgiven at project completion.	154,431	-
Subtotal	5,978,405	5,566,942
Less: Current Maturities	633,013	639,634
Total	<u>\$ 5,345,392</u>	<u>\$ 4,927,308</u>

**VALLEY VIEW SEWER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2017 AND 2016**

**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 Ended December 31,</u>	Principal	Interest	Total
2018	\$ 633,013	\$ 21,182	\$ 654,195
2019	616,249	30,778	647,027
2020	632,449	21,333	653,782
2021	632,715	18,222	650,937
2022	559,405	15,107	574,512
2023-2027	1,561,242	42,663	1,603,905
2028-2032	483,415	17,823	501,238
2033-2037	89,113	6,866	95,979
2038	18,912	284	19,196
Subtotal	5,226,513	174,258	5,400,771
Loans to be Forgiven	751,892	-	751,892
Total	<u>\$ 5,978,405</u>	<u>\$ 174,258</u>	<u>\$ 6,152,663</u>

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

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

<u>Description</u>	2017	2016
Revenue Bonds:		
\$1,835,000 issued September 18, 2008 for utility construction, due serially through the year 2023, with interest payable semi-annually at 4.0 to 4.30 annual percentage rates.	\$ 860,000	\$ 985,000
\$981,000 issued May 1, 2012 for utility construction, due annually through the year 2027, with interest payable semi-annually at 3.00 annual percentage rate.	664,703	731,173
\$1,013,087 issued March 3, 2016 for refunding, due serially through the year 2022, with interest payable semi-annually at 1.89 annual percentage rate.	654,642	830,213
Subtotal	2,179,345	2,546,386
Less: Current Maturities	373,136	367,042
Total	<u>\$ 1,806,209</u>	<u>\$ 2,179,344</u>

**VALLEY VIEW SEWER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2017 AND 2016**

**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 Ended December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 373,136	\$ 68,904	\$ 442,040
2019	369,037	58,371	427,408
2020	359,979	47,405	407,384
2021	296,081	36,489	332,570
2022	293,760	26,541	320,301
2023-2027	487,352	36,577	523,929
Total	<u>\$ 2,179,345</u>	<u>\$ 274,287</u>	<u>\$ 2,453,632</u>



**VALLEY VIEW SEWER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2017 AND 2016**

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

Changes in long-term liabilities were as follows:

	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:					
Public Works Trust					
Fund Loans:					
1997	\$ 6,621	\$ -	\$ (6,621)	\$ -	\$ -
1998	27,564	-	(13,782)	13,782	13,782
2001	367,906	-	(73,581)	294,325	73,581
2002	606,150	-	(101,025)	505,125	101,025
2003	481,283	-	(68,755)	412,528	68,755
2004	33,462	-	(4,780)	28,682	4,780
2004	681,480	-	(85,185)	596,295	85,185
2006	1,852,194	-	(185,219)	1,666,975	185,219
2012	1,510,282	-	(100,686)	1,409,596	100,686
Clean Water State Revolving					
Fund Loans:					
2017	-	147,639	-	147,639	-
2017	-	597,461	-	597,461	-
2017	-	151,566	-	151,566	-
2017	-	154,431	-	154,431	-
Total	<u>\$5,566,942</u>	<u>\$1,051,097</u>	<u>\$ (639,634)</u>	<u>\$5,978,405</u>	<u>\$ 633,013</u>
Long-Term Debt Payable					
from Restricted Assets:					
2008 Revenue Bonds	\$ 985,000	\$ -	\$ (125,000)	\$ 860,000	\$ 130,000
2012 Revenue Bonds	731,173	-	(66,470)	664,703	66,470
2016 Revenue Bonds	830,213	-	(175,571)	654,642	176,666
Total	<u>\$2,546,386</u>	<u>\$ -</u>	<u>\$ (367,041)</u>	<u>\$2,179,345</u>	<u>\$ 373,136</u>
Compensated Absences	<u>\$ 221,843</u>	<u>\$ 151,741</u>	<u>\$ (143,942)</u>	<u>\$ 229,642</u>	<u>\$ 141,300</u>
Net Pension Liability	<u>\$1,190,807</u>	<u>\$ -</u>	<u>\$ (222,654)</u>	<u>\$ 968,153</u>	

**VALLEY VIEW SEWER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2017 AND 2016**

**NOTE 7 CHANGES IN LONG-TERM LIABILITIES (CONTINUED)**

	Balance - Beginning of Year	Additions	Reductions	Balance - End of Year	Amounts Due Within One Year
<b>2016</b>					
Long-Term Debt Payable from Unrestricted Assets:					
Public Works Trust					
Fund Loans:					
1997	\$ 13,241	\$ -	\$ (6,620)	\$ 6,621	\$ 6,621
1998	41,346	-	(13,782)	27,564	13,782
2001	441,487	-	(73,581)	367,906	73,581
2002	707,175	-	(101,025)	606,150	101,025
2003	550,037	-	(68,754)	481,283	68,755
2004	38,244	-	(4,782)	33,462	4,780
2004	766,665	-	(85,185)	681,480	85,185
2006	2,037,414	-	(185,220)	1,852,194	185,219
2012	1,648,604	58,763	(197,085)	1,510,282	100,686
Total	<u>\$6,244,213</u>	<u>\$ 58,763</u>	<u>\$ (736,034)</u>	<u>\$5,566,942</u>	<u>\$ 639,634</u>
Long-Term Debt Payable from Restricted Assets:					
2006 Revenue Bonds	\$1,020,000	\$ -	\$ (1,020,000)	\$ -	\$ -
2008 Revenue Bonds	1,105,000	-	(120,000)	985,000	125,000
2012 Revenue Bonds	797,643	-	(66,470)	731,173	66,470
2016 Revenue Bonds	-	1,013,087	(182,874)	830,213	175,572
Total	<u>\$2,922,643</u>	<u>\$1,013,087</u>	<u>\$ (1,389,344)</u>	<u>\$2,546,386</u>	<u>\$ 367,042</u>
Compensated Absences	<u>\$ 194,338</u>	<u>\$ 145,428</u>	<u>\$ (117,923)</u>	<u>\$ 221,843</u>	<u>\$ 117,900</u>
Net Pension Liability	<u>\$ 972,225</u>	<u>\$ 350,218</u>	<u>\$ (131,636)</u>	<u>\$1,190,807</u>	

**NOTE 8 REFUNDED BONDS**

On March 3, 2016, the District issued a \$1,013,087 of Sewer Revenue Refunding Bond with interest at 1.89% to advance refund \$1,020,000 of outstanding 2006 bonds with interest rates of 4.25%. The net proceeds of refunding bond, plus \$46,187 of cash on hand, totaling \$1,040,956 including \$11,133 representing accrued interest to the refunding date, were used to purchase U.S. Government securities to provide the beginning escrow balance. The 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, 2017 and 2016 is \$-0-.

**VALLEY VIEW SEWER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2017 AND 2016**

**NOTE 8 REFUNDED BONDS (CONTINUED)**

Although the advance refunding resulted in an accounting loss of \$16,914 (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 \$101,668 through December 1, 2022 and obtained an economic gain (difference between the present values of the old and new debt service payments) of \$49,595.

**NOTE 9 PENSION PLAN**

The following table represents the aggregate pension amounts for all plans subject to the requirements of Governmental Accounting Standards Board Statement 68, *Accounting and Financial Reporting for Pensions* as of and for the years ended December 31:

<u>Aggregate Pension Amounts - All Plans</u>	<u>2017</u>	<u>2016</u>
Net Pension Liabilities	\$ 968,153	\$ 1,190,807
Deferred Outflows of Resources	171,874	231,661
Deferred Inflows of Resources	160,714	25,925
Pension Expense	131,298	138,981

**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).

**VALLEY VIEW SEWER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2017 AND 2016**

**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.

**VALLEY VIEW SEWER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2017 AND 2016**

**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:

PERS Plan 1 Actual Contribution Rates	Employer	Employee
<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 %
<u>2016</u>		
January through December		
PERS Plan 1	6.23 %	6.00 %
PERS Plan 1 UAAL	4.77	
Administrative Fee	0.18	
Total	11.18 %	6.00 %

The District's actual contributions to the plan were \$65,409 and \$60,463 for the years ended December 31, 2017 and 2016, respectively.

**VALLEY VIEW SEWER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2017 AND 2016**

**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.

**Contributions** – The PERS Plan 2/3 employer and employee contribution rates are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. The Plan 2/3 employer rates include a component to address the PERS Plan 1 unfunded actuarially accrued liability (UAAL) and an administrative expense that is currently set at 0.18%. Each biennium, the state Pension Funding Council adopts Plan 2 employer and employee contribution rates and Plan 3 contribution rates.

**VALLEY VIEW SEWER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2017 AND 2016**

**NOTE 9 PENSION PLAN (CONTINUED)**

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

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

PERS Plan 2/3 Actual Contribution Rates	Employer 2/3	Employee 2	Employee 3
<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 %	6.12 %	Varies
PERS Plan 1 UAAL	5.03		
Administrative Fee	0.18		
Total	<u>12.70 %</u>	<u>6.12 %</u>	<u>Varies</u>
<u>2016</u>			
January through December			
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>

The District's actual contributions to the plan were \$93,967 and \$81,251 for the years ended December 31, 2017 and 2016, respectively.

**Actuarial Assumptions**

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

**VALLEY VIEW SEWER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2017 AND 2016**

**NOTE 9 PENSION PLAN (CONTINUED)**

**Actuarial Assumptions (Continued)**

Additional 2017 assumptions for subsequent events and law changes are current as of the 2016 actuarial valuation report. Additional 2016 assumptions for subsequent events and law changes are current as of the 2015 actuarial valuation report. The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2017 and June 30, 2016. 2017 Plan liabilities were rolled forward from June 30, 2016 to June 30, 2017, and 2016 Plan liabilities were rolled forward from June 30, 2015 to June 30, 2016, reflecting each plan's normal cost (using the entry-age cost method), assumed interest, and actual benefit payments.

- **Inflation:** 3% total economic inflation; 3.75% salary inflation
- **Salary increases:** In addition to the base 3.75% salary inflation assumption, salaries are also expected to grow by promotions and longevity.
- **Investment rate of return:** 7.5%

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

There were changes in methods and assumptions in 2017 since the 2016 valuation.

- 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.

There were minor changes in methods and assumptions in 2016 since the 2015 valuation.

- The assumed valuation interest rate was lowered from 7.8% to 7.7%. Assumed administrative factors were updated.



**VALLEY VIEW SEWER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2017 AND 2016**

**NOTE 9 PENSION PLAN (CONTINUED)**

**Discount Rate**

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

To determine that rate, an asset sufficiency test included an assumed 7.7% long-term discount rate to determine funding liabilities for calculating future contribution rate requirements. Consistent with the long-term expected rate of return, a 7.5% 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 7.5% was used to determine the total liability.

**Long-Term Expected Rate of Return**

The long-term expected rate of return on the DRS pension plan investments of 7.5% was determined using a building-block-method. In selecting this assumption, the Office of the State Actuary (OSA) reviewed the historical experience date, 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 at various future times.

**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.

**VALLEY VIEW SEWER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2017 AND 2016**

**NOTE 9 PENSION PLAN (CONTINUED)**

**Estimated Rates of Return by Asset Class (Continued)**

As of June 30, 2017 and 2016:

		Percent Long-Term Expected Real Rate of Return Arithmetic
<u>Asset Class</u>	<u>Target Allocation</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>	
<u>2016</u>		
Fixed Income	20 %	1.70 %
Tangible Assets	5	4.40
Real Estate	15	5.80
Global Equity	37	6.60
Private Equity	23	9.60
Total	<u>100 %</u>	

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

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

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
<u>2017</u>			
PERS 1	\$ 607,354	\$ 498,571	\$ 404,341
PERS 2/3	1,265,103	469,582	(182,229)
<u>2016</u>			
PERS 1	\$ 651,878	\$ 540,574	\$ 444,790
PERS 2/3	1,197,195	650,233	(338,483)

**VALLEY VIEW SEWER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2017 AND 2016**

**NOTE 9 PENSION PLAN (CONTINUED)**

**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, 2017 and 2016, the District reported a total pension liability (asset) for its proportionate share of the net pension liabilities as follows (measured as of June 30, 2017 and 2016):

	2017	2016
PERS 1	\$ 498,571	\$ 540,574
PERS 2/3	469,582	650,233
Total	<u>\$ 968,153</u>	<u>\$ 1,190,807</u>

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

	Proportionate Share 6/30/16	Proportionate Share 6/30/17	Change in Proportion
PERS 1	0.010066%	0.010507%	0.000441%
PERS 2/3	0.012914%	0.013515%	0.000601%
	Proportionate Share 6/30/15	Proportionate Share 6/30/16	Change in Proportion
PERS 1	0.009874%	0.010066%	0.000192%
PERS 2/3	0.012755%	0.012914%	0.000159%

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 2017 and 2016 collective net pension liability (asset) was measured as of June 30, 2017 and 2016, respectively, and the actuarial valuation date on which the total pension liability (asset) is based was as of June 30, 2016 and 2015, respectively, with update procedures used to roll forward the total pension liability to the measurement date.

**VALLEY VIEW SEWER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2017 AND 2016**

**NOTE 9 PENSION PLAN (CONTINUED)**

**Pension Expense**

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

	2017	2016
PERS 1	\$ 53,416	\$ 39,310
PERS 2/3	75,479	97,389
Expenses and Other	2,403	2,282
Total	<u>\$ 131,298</u>	<u>\$ 138,981</u>

**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:

	Deferred Outflows of Resources	Deferred Inflows of Resources
<u>2017</u>		
<b>PERS 1</b>		
Differences Between Expected and Actual Experience	\$ -	\$ -
Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments	-	18,605
Changes of Assumptions	-	-
Changes in Proportion and Differences Between Contributions and Proportionate Share of Contributions	-	-
Contributions Subsequent to the Measurement	33,525	-
Total	<u>\$ 33,525</u>	<u>\$ 18,605</u>
<b>PERS 2/3</b>		
Differences Between Expected and Actual Experience	\$ 47,580	\$ 15,444
Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments	-	125,179
Changes of Assumptions	4,988	-
Changes in Proportion and Differences Between Contributions and Proportionate Share of Contributions	35,859	1,486
Contributions Subsequent to the Measurement	49,922	-
Total	<u>\$ 138,349</u>	<u>\$ 142,109</u>
Total All Plans	<u>\$ 171,874</u>	<u>\$ 160,714</u>

**VALLEY VIEW SEWER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2017 AND 2016**

**NOTE 9 PENSION PLAN (CONTINUED)**

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
<u>2016</u>		
<b>PERS 1</b>		
Differences Between Expected and Actual Experience	\$ -	\$ -
Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments	13,611	-
Changes of Assumptions	-	-
Changes in Proportion and Differences Between Contributions and Proportionate Share of Contributions	-	-
Contributions Subsequent to the Measurement	31,320	-
Total	<u>\$ 44,931</u>	<u>\$ -</u>
<b>PERS 2/3</b>		
Differences Between Expected and Actual Experience	\$ 34,624	\$ 21,465
Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments	79,570	-
Changes of Assumptions	6,721	-
Changes in Proportion and Differences Between Contributions and Proportionate Share of Contributions	24,909	4,460
Contributions Subsequent to the Measurement	40,906	-
Total	<u>\$ 186,730</u>	<u>\$ 25,925</u>
Total All Plans	<u>\$ 231,661</u>	<u>\$ 25,925</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>	PERS 1	PERS 2/3
2018	\$ (12,576)	\$ (38,207)
2019	3,970	21,509
2020	(922)	(7,266)
2021	(9,077)	(47,045)
2022	-	7,533
Thereafter	-	9,794
Total	<u>\$ (18,605)</u>	<u>\$ (53,682)</u>

**VALLEY VIEW SEWER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2017 AND 2016**

**NOTE 10 DEFERRED COMPENSATION PLAN**

The District offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. This plan is with Aetna Life Insurance and Annuity Company and the State of Washington. The plan, available to all eligible employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to the employees until termination, retirement, death, or unforeseeable emergency. The District made no contributions to the plan in 2017 or 2016.

**NOTE 11 RISK MANAGEMENT**

Valley View Sewer District is a member of Enduris. Chapter 48.62 RCW provides the exclusive source of local government entity authority to individually or jointly self-insure risks, jointly purchase insurance or reinsurance, and to contract for risk management, claims, and administrative services. Enduris was formed July 10, 1987 pursuant to the provisions of Chapter 48.62 RCW, Chapter 200-100 WAC, and Chapter 39.34 RCW. Two (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, 2017, there are 540 Enduris members representing a broad array of special purpose districts throughout the state. Enduris provides property and liability coverage as well as risk management services and other related administrative services.

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

- \$1,000,000 deductible on liability loss - the member is responsible for the first \$1,000 of the deductible amount of each claim, while Enduris is responsible for the remaining \$999,000 on a liability loss.
- \$250,000 deductible on property loss - the member is responsible for the first \$1,000 of the deductible amount of each claim, while Enduris is responsible for the remaining \$249,000 on a property loss.
- Enduris is responsible for the \$4,000 deductible on boiler and machinery loss.

**VALLEY VIEW SEWER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2017 AND 2016**

**NOTE 11 RISK MANAGEMENT (CONTINUED)**

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

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

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

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

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

In the past three years (2017, 2016, and 2015), there have been no claim settlements, per occurrence or in aggregate, that have exceeded the coverage provided by excess/reinsurance contracts.

**NOTE 12 HEALTH AND WELFARE**

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

**VALLEY VIEW SEWER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2017 AND 2016**

**NOTE 12 HEALTH AND WELFARE (CONTINUED)**

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

As of December 31, 2017, 261 cities/towns/non-city entities participate in the AWC Trust HCP.

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

Participating employers pay monthly premiums to the AWC Trust HCP. The AWC Trust HCP is responsible for payment of all covered claims. In 2017, the AWC Trust HCP purchased stop loss insurance for Regence/Asuris plans at an Individual Stop Loss (ISL) of \$1.5 million through Life Map, and Kaiser ISL at \$1 million with Companion Life through ASG Risk Management. The aggregate policy is for 200% of expected medical claims.

Participating employers contract to remain in the AWC HCP for a minimum of three years. Participating employers with over 250 employees must provide written notice of termination of all coverage a minimum of 12 months in advance of the termination date, and participating employers with under 250 employees must provide written notice of termination of all coverage a minimum of 6 months in advance of termination date. When all coverage is being terminated, termination will only occur on December 31. Participating employers terminating a group or line of coverage must notify the HCP a minimum of 60 days prior to termination. A participating employer's termination will not obligate that member to past debts, or further contributions to the HCP. Similarly, the terminating member forfeits all rights and interest to the HCP Account.



**VALLEY VIEW SEWER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2017 AND 2016**

**NOTE 12 HEALTH AND WELFARE (CONTINUED)**

The operations of the Health Care Program are managed by the board of trustees or its delegates. The board of trustees is comprised of four regionally elected officials from Trust member cities or towns, the Employee Benefit Advisory Committee Chair and Vice Chair, and two appointed individuals from the AWC Board of Directors, who are from Trust member cities or towns.

The Trustees or its appointed delegates review and analyze Health Care Program related matters and make operational decisions regarding premium contributions, reserves, plan options, and benefits in compliance with Chapter 48.62 RCW. The board of trustees has decision authority consistent with the Trust Agreement, Health Care Program policies, Chapter 48.62 RCW and Chapter 200-110-WAC.

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

In the past three years (2017, 2016, and 2015), there have been no claim settlements, per occurrence or in aggregate, that have exceeded the coverage provided by stop loss contracts.

**NOTE 13 COMMITMENTS**

**Joint Administration Building**

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

As of December 31, 2017, the District is also committed under construction contracts totaling \$449,187 of which \$265,565 has been expended.

**NOTE 14 MAJOR SUPPLIER**

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

**VALLEY VIEW SEWER DISTRICT  
SCHEDULES OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY  
JUNE 30 (MEASUREMENT DATE)  
LAST 10 FISCAL YEARS\***

<b>PERS 1</b>					
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
2017	0.010507%	\$ 498,571	\$ 1,325,011	37.63%	61.24%
2016	0.010066%	540,574	1,196,693	45.17%	57.03%
2015	0.009874%	516,479	1,137,451	45.41%	59.10%
2014	0.009227%	464,815	1,060,628	43.82%	61.19%
2013	0.009156%	535,003	1,026,904	52.10%	
<b>Notes to Schedule:</b>					
* Information is presented only for those years for which information is available.					
<b>PERS 2/3</b>					
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
2017	0.013515%	\$ 469,582	\$ 1,325,011	35.44%	90.97%
2016	0.012914%	650,233	1,196,693	54.34%	85.82%
2015	0.012755%	455,746	1,137,451	40.07%	89.20%
2014	0.001188%	240,134	1,060,628	22.64%	93.29%
2013	0.001219%	520,648	1,026,904	50.70%	
<b>Notes to Schedule:</b>					
* Information is presented only for those years for which information is available.					

**VALLEY VIEW SEWER DISTRICT  
SCHEDULES OF EMPLOYER CONTRIBUTIONS  
DECEMBER 31 (EMPLOYER REPORTING DATE)  
LAST 10 FISCAL YEARS\***

<b>PERS 1</b>					
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
2017	\$ 65,409	\$ (65,409)	\$ -	\$ 1,334,925	4.90%
2016	60,463	(60,463)	-	1,267,567	4.77%
2015	51,240	(51,240)	-	1,171,860	4.37%
2014	42,553	(42,553)	-	1,060,538	4.01%
2013	32,399	(32,399)	-	1,015,617	3.19%
<b>Notes to Schedule:</b>					
* Information is presented only for those years for which information is available.					
<b>PERS 2/3</b>					
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
2017	\$ 93,967	\$ (93,967)	\$ -	\$ 1,334,925	7.04%
2016	81,251	(81,251)	-	1,267,567	6.41%
2015	67,895	(67,895)	-	1,171,860	5.79%
2014	54,575	(54,575)	-	1,060,538	5.15%
2013	50,690	(50,690)	-	1,015,617	4.99%
<b>Notes to Schedule:</b>					
* Information is presented only for those years for which information is available.					

## ABOUT THE STATE AUDITOR'S OFFICE

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

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

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

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

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

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

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

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