Office of the Washington State Auditor
Pat McCarthy

Financial Statements Audit Report

Clark Regional Wastewater District

For the period January 1, 2018 through December 31, 2018

Published June 13, 2019

Report No. 1024067

Office of the Washington State Auditor
Pat McCarthy

June 13, 2019

Board of Commissioners
Clark Regional Wastewater District
Vancouver, Washington

Report on Financial Statements

Please find attached our report on the Clark Regional Wastewater District's financial statements.

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

Sincerely,

Pat McCarthy

State Auditor

Olympia, WA

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Clark Regional Wastewater District
January 1, 2018 through December 31, 2018

Board of Commissioners
Clark Regional Wastewater District
Vancouver, 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 Clark Regional Wastewater District, as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated June 7, 2019. As discussed in Note 2 to the financial statements, during the year ended December 31, 2018, the District implemented Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

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

COMPLIANCE AND OTHER MATTERS

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

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

PURPOSE OF THIS REPORT

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

Pat McCarthy
State Auditor
Olympia, WA

June 7, 2019

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Clark Regional Wastewater District
January 1, 2018 through December 31, 2018

Board of Commissioners
Clark Regional Wastewater District
Vancouver, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the Clark Regional Wastewater District, as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed on page 9.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Clark Regional Wastewater District, as of December 31, 2018, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Matters of Emphasis

As discussed in Note 2 to the financial statements, in 2018, the District adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated June 7, 2019 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

June 7, 2019

FINANCIAL SECTION

Clark Regional Wastewater District
January 1, 2018 through December 31, 2018

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CLARK REGIONAL WASTEWATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2018

INTRODUCTION

As management of the Clark Regional Wastewater District (District), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities for the fiscal year ended December 31, 2018. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found on pages 1-6 of this report.

The following Management's Discussion and Analysis is intended to serve as an introduction to the District's basic financial statements, the notes to the financial statements and, if applicable, any other supplementary information required as part of the basic financial statements. Please refer to the accompanying Notes to the Financial Statements, which can be found on pages 27-56.

The District is not legally required to adopt a budget, however, does so as a measure of monitoring revenues and controlling expenses. The Board of Commissioners adopts an annual budget and uses it as a financial plan for the District. The District has not reported budgetary comparison schedules herein as required supplementary information.

The District's financial statements present a Special Purpose District organized under the laws of the State of Washington, Revised Code of Washington (RCW), Title 57, to provide sanitary sewer service to specific areas in Clark County, Washington. The District is not a segment of any other local government nor is it a component unit thereof. The financial statements are presented in a manner similar to a private-sector business.

The District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities (i.e. sewer service). The District reports its activities as a single enterprise fund, which is a type of proprietary fund.

The *Statement of Net Position* presents information on all the District's assets, deferred outflows, liabilities and deferred inflows with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The *Statement of Revenues, Expenses and Changes in Fund Net Position* display the change in the District's net position during the most recent fiscal year. All changes in net position are reported as soon as the underlying event occurs regardless of the timing of related cash flows.

The *Statement of Cash Flows* presents the cash flow from operations, non-capital financing and from capital and related financing, as well as from investing activities.

Financial Highlights

- The District had a total net position of $211,516,409 at December 31, 2018. Of this amount, $35,014,931 is classified as unrestricted and may be used to meet the District's ongoing obligations. The District has restricted funds of $541,765 at December 31, 2018 for debt service reserve.

- The District's change in net position was $13,381,244 for 2018. The 2018 increase is primarily a result of capital contributions from developers and connection charges totaling $21,098,294. Additionally, the District has recorded a change in accounting principle decreasing beginning net position by $831,952, leading to a total change in net position from 2017 to 2018 of $12,549,292 (see Note 2 for further details).

- In 2018, the District made regular principal payments on its outstanding sewer revenue bonds of $546,402 and PWTF loans of $1,225,163.

Assets, Deferred Outflows, Liabilities, Deferred Inflows and Net Position

December 31	2018	2017	2018 to 2017 Change	%
Assets				
Current and other assets	$ 47,510,735	$ 45,633,049	$ 1,877,686	4.1%
Capital assets (net of depreciation) and construction work in progress	194,432,171	183,368,605	11,063,566	6.0%
Total assets	241,942,906	229,001,654	12,941,252	
Deferred Outflows	480,210	401,171	79,039	19.7%
Liabilities				
Long-term liabilities	22,846,376	24,268,405	(1,422,029)	-5.9%
Other liabilities	7,198,237	5,619,551	1,578,686	28.1%
Total liabilities	30,044,613	29,887,956	156,657	
Deferred Inflows	862,094	547,752	314,342	57.4%
Net position				
Net investment in capital assets	175,959,713	163,321,428	12,638,285	7.7%
Restricted - debt service reserve	541,765	541,765	-	0.0%
Unrestricted	35,014,931	35,103,924	(88,993)	-0.3%
Total net position	$ 211,516,409	$ 198,967,117	$ 12,549,292	

- Current and other assets increased in 2018 by $1,877,686 or 4.1% due primarily to an increase in the District's investment portfolio.
- Other liabilities increased in 2018 by $1,578,686 or 28.1% due to more outstanding warrants payable at December 31, 2018 than at the end of 2017.

- Deferred outflows and deferred inflows of resources fluctuate annually due to the change in proportionate share of state-calculated pension deferred outflows and inflows.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

Investment in capital assets includes land, buildings, pump stations, collection and transmission lines, machinery and equipment, construction work in progress and intangible assets. The District's total net capital assets as of December 31, 2018, were $194.4 million. This increase of $11.1 million or 6.0% from 2017 is due to several major capital assets events during the fiscal year, including the following:

- In 2018, donated capital assets from developers totaled $11,015,461.

- During 2018, the District placed $14.5 million of construction work in progress into service as infrastructure projects were completed.

- For further explanations of the capital asset activity of the District, please refer to Note 4, Capital Assets, page 34.

Long-Term Liabilities

- During 2018, the District decreased its loan and bond liabilities by a total of $1,771,565. This decrease was solely driven by regular principal payments on outstanding loans. Please refer to the Long-Term Liabilities, Note 3, pages 31-33, for more detailed information regarding long-term debt activity.

- The District's total OPEB liability increased to $2.4 million in 2018 from $1.5 million in 2017 as a direct result of the implementation of GASB 75, which requires the District to report the full actuarially determined liability for health benefit costs associated with subsidized premiums for retirees. See Note 2, page 30, for further details.

- In 2018, the District's net pension liability decreased by $534,914 or 21.3% from 2017, primarily as a result of better than expected earnings on pension plan investments and improved projected assumptions. See Note 7, pages 42-48, for further details.

Revenues, Expenses and Changes in Net Position

	2018	2017	2018 to 2017 Change	%
Revenues				
Operating revenue				
Charges for services	$ 20,307,186	$ 19,443,672	$ 863,514	4.4%
Permits	166,170	173,785	(7,615)	-4.4%
Miscellaneous	1,008,571	645,946	362,625	56.1%
Non-operating revenue				
Interest and investment income	849,485	301,509	547,976	181.7%
Other non-operating revenue	598,802	785,426	(186,624)	-23.8%
Total revenues	22,930,214	21,350,338	1,579,876	
Expenses				
Operating expenses	30,068,732	28,405,062	1,663,670	5.9%
Non-operating expenses				
Other non-operating expenses	211,947	394,473	(182,526)	-46.3%
Loss on disposal of asset	228,256	1,033,913	(805,657)	-77.9%
Interest expense	138,329	155,553	(17,224)	-11.1%
Total expenses	30,647,264	29,989,001	658,263	
EXCESS (DEFICIENCY) BEFORE CONTRIBUTIONS	(7,717,050)	(8,638,663)	921,613	-10.7%
CAPITAL CONTRIBUTIONS	21,098,294	15,890,237	5,208,057	32.8%
CHANGE IN NET POSITION	13,381,244	7,251,574	6,129,670	84.5%
NET POSITION, January 1	198,967,117	189,626,995	9,340,122	4.9%
PRIOR PERIOD ADJUSTMENT	-	2,088,548	(2,088,548)	
CHANGE IN ACCOUNTING PRINCIPLE	(831,952)	-	(831,952)	
NET POSITION, December 31	$ 211,516,409	$ 198,967,117	$ 12,549,292	

- Service revenues increased in 2018 by $863,514 or 4.4% due primarily to an increase in number of connections to sewer service. Miscellaneous revenues increased by 56.1% over 2017, to $1,008,571. This increase is a direct result of the District taking over operations of the Ridgefield Treatment Plant effective July 1, 2018.

- Actual Equivalent Residential Unit (ERU) growth was 1,951 and 1,807 ERUs for 2018 and 2017, respectively.

- Interest and investment income in 2018 increased by 181.7% from 2017 due to rising interest rates, as well as an unrealized gain on investments in 2018 where 2017 yielded an unrealized loss. The District continues to actively manage and diversify its investments outside of the State and County pools to maximize interest earnings.

- Other non-operating revenue decreased by $186,624 or 23.8% in 2018. This decrease was driven by a decrease in Administrative Lead Revenues, specifically from a decreased need for capital-related support.

- The District receives System Development Charge (SDC) revenues, based on a tiered system, in an effort to support economic development within the District service area. The revenue from this charge is used for new infrastructure and capital projects within the District service area. Connection fee revenues (SDCs) for 2018 totaled $9,977,924 compared to $8,618,680 in 2017. These charges per connection did not change in 2018 from 2017. The charges per connection are as follows:

Tier	Treatment Plant	SDC
1	Vancouver (VTP)	$ 1,720
2	Salmon Creek (SCTP)	$ 4,708
3	Ridgefield (RFTP)	$ 7,550

- The remaining increase in capital contributions is a result of increased donated capital. The District received $11,015,461 in 2018 compared to $7,093,412 in 2017. This 55.3% increase is a result of increased development activity within the District's service area and the effort to extend service to new development areas.

- Operating expenses for 2018 increased over 2017 by $1.7 million or 5.9%. The main drivers for this decrease are:

  - Treatment contract services are the largest category of operating expenses. It increased $412,818 or 4.5%, mainly due to increased rates due to the Alliance as it expands operations.

  - Labor costs reflect an increase of $268,679 or 6.8% due to annual salary merit and cost of living increases. Related benefit costs increased by $70,330 for 2018 as a function of salary increases as well as a small increase in pension contribution rates.

  - Professional services costs increased $202,004 or 53.3% in 2018 over 2017. This increase is due both to additional professional services needed relating to development in the District's service area and also professional services required in operating the Ridgefield Treatment Plant.

  - Other operating expenses increased $211,074 or 16.9% in 2018 over 2017 as a direct result of the District taking over operations of the Ridgefield Treatment Plant effective July 1, 2018.

Cash Flows

Wastewater collection is a very capital and asset intensive utility service. The District's current system, inclusive of the Ridgefield service area, is spread across 46 square-miles. Significant portions of the service area are undeveloped and require major infrastructure improvements and investments. Other portions of the system are over 50 years old and are beginning to reach their useful life. Growth in sewer service customers and service charges help fund capital expansion to the Alliance-owned Salmon

Creek and Ridgefield wastewater treatment plants. Customer utility payments provide the necessary annual cash flow to cover operating activities and partially support capital needs of the District.

Economic Factors and Next Year's Budget and Rates

The District's economic condition improved during 2018. Unrestricted cash and investments increased by $2.1 million or 5.0%. These improvements are due largely to the District's customer base growing by 4.3% from 32,139 customer accounts in 2017 to 33,535 in 2018 and an increase of $3.9 million in capital contributions from development related activity.

The following economic factors currently affect the District and were considered in developing the 2019 fiscal year budget:

- Service charges will increase by $1 per month per Equivalent Residential Unit.
- Capital spending on existing infrastructure is driven by the results of a criticality assessment performed by the District during 2018 in conjunction with the General Sewer Plan prepared by the District.
- Increases in inflation and interest rates are expected during 2019.
- On the expenditures side, increases are expected in health insurance premiums, as well as pension and other employee benefit costs.
- The District continues to purchase a pooled group liability insurance policy to protect itself from unforeseen losses in excess of the member deductible.
- Total Equivalent Residential Units (ERUs) are anticipated to increase by 1,800, or 4.0% in 2019.

Requests for Information

This financial report is designed and intended to provide a general overview of the District's financial position. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Clark Regional Wastewater District, Finance Director/Treasurer, PO Box 8979, Vancouver, WA 98668-8979 or http://www.crwwd.com

CLARK REGIONAL WASTEWATER DISTRICT
STATEMENT OF NET POSITION
DECEMBER 31, 2018

	2018
ASSETS	
Current Assets:	
Cash and cash equivalents	$ 19,991,585
Investments (at fair value)	7,020,237
Receivables	
Customer accounts	1,745,193
Contracts (current and delinquent)	52,653
Interest	115,552
Due from other governments	682,367
Prepaid expenses	163,586
Total current assets	29,771,173
Noncurrent Assets:	
Investments (at fair value)	16,937,353
Restricted cash and cash equivalents	541,765
Contracts receivable	260,444
Capital assets not being depreciated:	
Land and land rights	578,745
Construction work in progress	3,422,952
Total capital assets not being depreciated	4,001,697
Capital assets being depreciated:	
Buildings	4,000,626
Infrastructure	218,765,114
Equipment	3,477,179
Less: accumulated depreciation	(54,876,735)
Total capital assets being depreciated	171,366,184
Capital assets being amortized:	
Intangible assets, including future treatment capacity rights	49,383,521
Less: accumulated amortization	(30,319,231)
Total capital assets being amortized	19,064,290
Total noncurrent assets	212,171,733
TOTAL ASSETS	241,942,906
DEFERRED OUTFLOWS of RESOURCES	
Amounts related to pension	476,724
Amounts related to OPEB	3,486
TOTAL DEFERRED OUTFLOWS of RESOURCES	$ 480,210

Continued on next page

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

CLARK REGIONAL WASTEWATER DISTRICT
STATEMENT OF NET POSITION
DECEMBER 31, 2018

Continued from previous page

	2018
LIABILITIES	
Current Liabilities:	
Warrants payable	$ 3,696,956
Accounts payable	612,290
Due to other governments	70,724
Interest payable	51,620
Retainage payable	196,844
Revenue collected in advance	439,108
System development charge (SDC) credits	75,500
Construction deposits	228,959
Compensated absences	43,800
Loans payable	1,225,162
Sewer revenue bonds	557,274
Total current liabilities	7,198,237
Noncurrent Liabilities:	
Compensated absences	442,869
System development charge (SDC) credits	1,532,910
Loans payable	14,753,937
Sewer revenue bonds	1,739,241
Net pension liability	1,974,486
Total other postemployment benefits (OPEB) liability	2,402,933
Total noncurrent liabilities	22,846,376
TOTAL LIABILITIES	30,044,613
DEFERRED INFLOWS of RESOURCES	
Amounts related to pensions	862,094
TOTAL DEFERRED INFLOWS of RESOURCES	862,094
NET POSITION	
Net investment in capital assets	175,959,713
Restricted - debt service reserve	541,765
Unrestricted	35,014,931
TOTAL NET POSITON	$ 211,516,409

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

CLARK REGIONAL WASTEWATER DISTRICT
STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN FUND NET POSITION
YEAR ENDED DECEMBER 31, 2018

		2018
OPERATING REVENUES		
Charges for services	$	20,307,186
Permits		166,170
Other operating revenue		1,008,571
Total operating revenues		21,481,927
OPERATING EXPENSES		
Salaries and wages		4,204,696
Personnel benefits		1,673,728
Supplies		461,681
Professional services		581,089
Insurance		165,432
Repairs and maintenance		911,590
Treatment contract services		9,611,585
Taxes		497,255
Other operating expense		1,461,863
Depreciation and amortization		10,499,813
Total operating expenses		30,068,732
Operating income (loss)		(8,586,805)
NON-OPERATING REVENUES (EXPENSES)		
Interest and investment revenue		849,485
Other non-operating revenue		598,802
Gain/loss on disposal of capital assets		(228,256)
Interest expense		(138,329)
Other non-operating expense		(211,947)
Total non-operating revenue (expenses)		869,755
Income before contributions		(7,717,050)
CAPITAL CONTRIBUTIONS		21,098,294
Change in net position		13,381,244
TOTAL NET POSITION, January 1		198,967,117
CHANGE IN ACCOUNTING PRINCIPLE		(831,952)
TOTAL NET POSITION, December 31	$	211,516,409

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

CLARK REGIONAL WASTEWATER DISTRICT
STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2018

	2018
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers and users	$ 21,440,631
Payments to suppliers	(14,085,652)
Payments to employees	(6,050,946)
Payments for taxes	(483,436)
Other reimbursements	(188,996)
Other revenues	862,351
Net cash from operating activities	1,493,952
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Receipts for future system improvements	10,145,970
Proceeds from sale of capital assets	25,482
Principal paid on long-term debt	(1,771,563)
Interest paid on long-term debt	(142,979)
Acquisition and construction of capital assets	(8,470,370)
Net cash from capital and related financing	(213,460)
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of investments	(13,990,073)
Proceeds from maturing or called investments	9,972,637
Interest on investments	752,910
Interest on contracts	14,026
Net cash from investing activities	(3,250,500)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(1,970,008)
CASH AND CASH EQUIVALENTS, January 1	22,503,358
CASH AND CASH EQUIVALENTS, December 31	$ 20,533,350
Cash and cash equivalents	19,991,585
Restricted cash and cash equivalents	541,765
CASH AND CASH EQUIVALENTS, December 31	$ 20,533,350

Continued on next page

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

CLARK REGIONAL WASTEWATER DISTRICT
STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2018

Continued from previous page

	2018
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH FROM OPERATING ACTIVITIES	
Utility operating income (loss)	$ (8,586,805)
Adjustments to reconcile operating income to net from operating activities	
Depreciation and amortization expense	10,499,813
(Increase) decrease in accounts receivable	(7,271)
(Increase) decrease in due from other governments	119,936
(Increase) decrease in prepaid expenses	76,489
(Increase) decrease in deferred outflows	(77,029)
Increase (decrease) in warrants payable	(957,930)
Increase (decrease) in accounts payable	90,349
Increase (decrease) in due to other governments	70,724
Increase (decrease) in accrued employee benefits	60,528
Increase (decrease) in revenue collected in advance	38,865
Increase (decrease) in pension obligation (net)	(534,914)
Increase (decrease) in deferred inflows	314,342
Non-operating expenses	(211,947)
Non-operating revenues	598,802
Total adjustments	10,080,757
Net cash from operating activities	$ 1,493,952
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES	
Contributions of capital assets from developers or governments	11,015,461
Increase (decrease) in fair value of investments	47,144
Issuance (receipt) of capital contract receivable	123,236
Noncash capital financing	196,844
Change in capital related accounts payable	2,134,444
Gain (loss) on sale or disposition of capital assets	(228,256)

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

Note 1 – General Description of the District and Summary of Significant Accounting Policies

The financial statements of the District have been prepared in conformity with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The significant accounting policies are described below.

Reporting Entity – The Hazel Dell Sewer District (District) was incorporated on May 22, 1958, and operates under the laws of the state of Washington applicable to Special Purpose Districts in order to provide sanitary sewers in the collection, transport and treatment of wastewater within its legal boundaries. The District changed its legal name to Clark Regional Wastewater District effective January 1, 2006. The District operates under an independent, three-member elected Board of Commissioners as provided by Revised Code of Washington (RCW) Title 57, with the General Manager responsible for the daily management of operational and administrative activities of the District.

As required by GAAP, management has considered all potential component units in defining the reporting entity. Utilizing the criteria set forth by GASB for component units, the District has evaluated all legal entities that would potentially qualify as a component unit and be included in the financial statements of the District. The District concludes it has no component units. The District's financial statements include the financial position and results of operation of a single enterprise that the District manages and has custodial responsibility over the assets and liabilities therein.

Basis of Accounting and Presentation – The accounting records of the District are maintained in accordance with methods prescribed by the State Auditor under authority chapter 43.09. The District uses the Uniform Chart of Accounts as prescribed within the Budgeting, Accounting and Reporting System (BARS) Manual for Special Purpose Districts reporting in conformity with GAAP.

The District accounts for its operations within a proprietary fund, which is similar to a private business enterprise. The District's statements are reported using the economic resources measurement focus and full-accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when liability is incurred regardless of the timing of the cash flows.

The District distinguishes between operating revenues and expenses from non-operating ones. Operating revenues are derived from the sewer services provided to the ratepayers of the District. Operating expenses include the cost of providing sewer services (i.e. maintenance, engineering, treatment and administration), as well as depreciation and amortization of capital assets. All revenues and expenses not meeting the above criteria are reported as non-operating revenues and expenses, such as interest income and expense.

Deposits and Investments – For the purposes of the Statements of Net Position and Cash Flows, the District considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. All amounts held in the Local Government Investment Pool (LGIP) and Clark County Investment Pool (CCIP) accounts are considered to be cash equivalents. Investments purchased with an original maturity of more than three months are classified as investments. See Note 5 on pages 35 through 38 for detailed information about the District's deposits and investments.

Investments – Certain investments are reported at fair value in accordance with GASB Statement No. 72, *Fair Value Measurement and Application*, on quoted market prices for securities purchased by the

Note 1 – General Description of the District and Summary of Significant Accounting Policies (Continued)

District. All investments held have readily available market prices. The change in fair value is reported in the Statement of Revenues, Expenses and Changes in Net Position as an increase or decrease to investment assets and investment income. Realized gains or losses on the maturity or disposition of securities are not separately disclosed. Likewise, some investments are reported at amortized cost. See Note 5 on pages 35 through 38 for detailed information about the District's investments.

Receivables – Customer accounts receivable represent user charges owed from private individuals or organizations for sewer services, which are recognized as earned. All accounts receivables are due from users within the service area of the District. Since the District records liens on the property served and, ultimately, may foreclose on such property, payments on delinquent accounts are eventually received.

Contracts receivables are related to construction costs, as well as any applicable financing costs corresponding to such sanitary sewer construction for a particular property or group of properties. Contracts are provided under state statutes and direct the process in which the District extends sanitary sewer services to properties. Contracts are recorded as an enforceable lien on the property when they are levied. These receivables consist of current, delinquent and deferred billed principal with related interest and penalties.

Due from Other Governments – The District is contracted by the Alliance to provide Administrative Lead services. The District invoices the Alliance monthly for Administrative Lead services provided, which includes staff time and expense for professional consulting, IT support and various utilities expenses.

Prepaid Expenses – The District uses the consumption method to account for prepaid expenses.

Restricted Assets – The District maintains reserves for debt service. Reserves set aside for the repayment of revenue bonds are classified as restricted assets on the Statement of Net Position because their use is limited by applicable bond covenants. Specific debt service reserve requirements are described in Note 3, Long-Term Liabilities (pages 31-33).

Capital Assets – Capital assets, which include property, plant, equipment and infrastructure assets (e.g. collection and transmission system and pumping stations), are reported at historical cost. Capital assets are defined by the District as assets with an initial cost of more than $5,000 and a useful life of more than one year. Donated capital assets are recorded at acquisition value at the date of donation.

Costs for additions or improvements to capital assets are capitalized when they increase the effectiveness or efficiency of the asset. Major outlays for capital assets and improvements are capitalized as projects are constructed. The costs for normal maintenance and repairs are not capitalized.

In 2018, the District began to use group depreciation for its collection and transmission system, where previously the collection and transmission system was depreciated using the straight-line method. Sewer pipe is grouped by size and depreciated as a whole. Property, plant and equipment of the District is depreciated using the straight-line method over the following estimated useful lives:

Note 1 – General Description of the District and Summary of Significant Accounting Policies (Continued)

Buildings	50 years
Pumping station components	10 - 50 years
Collection and transmission system	75 years
Machinery, furniture and equipment	5 - 20 years
Intangible assets	5 - 20 years

See Note 4 on page 34 for detailed information about the District's capital assets.

Intangible Assets – The District currently recognizes its future treatment capacity rights in the Alliance's Salmon Creek Treatment Plant as a component of the District's net capital assets, in compliance with GASB Statement No. 51, "Accounting and Financial Reporting for Intangible Assets."

Payables – Accounts payable and other current liabilities consist of amounts owed to private individuals or organizations for goods and services and employees for amounts for which checks have not yet been prepared.

SDC Credits – Prior to transferring its collection system to the District, the City of Ridgefield issued System Development Charge (SDC) credits to developers. The developers retain these credits that are available to be used upon connecting to the District's collection system.

Compensated Absences – Accumulated but unpaid compensated absences (vacation and sick leave) are recorded as liabilities as earned. Vacation may accumulate up to a maximum of 360 hours or, for those restricted to contracts, the contract amount, although the maximum compensable payout allowed is 240 hours. Sick leave earned, vested and unused by District employees is compensable at 50% of its value upon voluntary termination, retirement or death and is also recorded as a District liability. Sick leave may accumulate beyond 960 hours for an employee; however, 50% of 960 hours is the maximum payout allowed. Total accrued unpaid compensated absences (vacation and sick leave) amounted to $486,669 at December 31, 2018.

Long-Term Debt – See Note 3, Long-Term Liabilities (pages 31-33) for detailed information about the District's long-term debt.

Pensions and Deferred Inflows / Outflows of Resources – 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. Amounts relating to pensions are further detailed in Note 7 – Pension Plans, pages 42 through 48.

Note 2 – Accounting and Reporting Changes

Other Postemployment Benefits Liability

The District implemented GASB 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. This statement requires state and local governments to report the full actuarially determined present value of projected benefits to be provided to current active and inactive employees attributable to past periods of service, less the amount of the plan's fiduciary net position. The effect of implementation on beginning net position has been presented as a Change in Accounting Principle in the Statement of Revenues, Expenses and Changes in Fund Net Position in the amount of $831,952. See Note 10 – Other Postemployment Benefits.

Note 3 – Long-Term Liabilities

Revenue Bonds – Revenue bonds are authorized and adopted by the Board of Commissioners for construction of capital additions. Sewer revenues of the District provide the security for repayment of District debt. The District issued sewer revenue bonds totaling $5,417,645 in November 2012. Debt service on the bonds for 2018 totaled $600,000 ($546,402 principal and $53,598 interest). These bonds have an interest rate of 1.98%. Proceeds were used to reimburse the District for reserves used to retire Clark County's 2001 sewer revenue bonds. The annual debt service requirements for these 2012 sewer revenue bonds are as follows:

	2012 Sewer Revenue Bonds		
Year	Principal	Interest	Total Debt Service
2019	$ 557,274	$ 42,726	$ 600,000
2020	568,362	31,638	600,000
2021	579,672	20,328	600,000
2022	591,207	8,793	600,000
Total	$ 2,296,515	$ 103,485	$ 2,400,000

The District must meet reserve requirements for the bonds. The lesser of (1) maximum annual debt service, (2) 1.25 times the average annual debt service, or (3) 10% of original bond proceeds, in the debt service account in compliance with bond covenants. At December 31, 2018, $541,765 has been set aside to meet this requirement.

The District is also required by bond covenants to maintain debt service coverage of its revenue bonded debt of a minimum of the sum of: (1) 1.10 times the annual debt service on all outstanding bonds during the fiscal year, and (2) any amount required to be deposited in the debt service reserve account during that year. Debt service coverage requirements for the year ended December 31, 2018 were met.

The Tax Recovery Act of 1986 established regulations for rebate of arbitrage earning to the federal government on certain local government bonds. Issuing governments must calculate and remit annually any rebate due at least every five years. The District has a cumulative negative rebate amount for its bonds. No liability was recorded at December 31, 2018.

Loans – The State of Washington has a low-cost financing program that allows public entities in the state to finance public works (i.e. collection transmission facilities). This program is administered by the State of Washington Public Works Trust Fund (PWTF) Board, who has approved three loans to the District through December 31, 2018. Remaining loans from the state PWTF will be repaid over a period not to exceed twenty (20) years at the stated interest rates.

Construction was funded through use of these loans as follows:

- Gee Creek Trunk Sewer project with loans, issued notices of completion and final draws were executed by the City of Ridgefield in 2008. This loan was transferred to the District on January 1, 2014, as part of the collection system transfer of operations.

Note 3 – Long-Term Liabilities (Continued)

- Discovery Corridor Wastewater Transmission System was completed in 2016. The District and the City of Ridgefield were each directly approved for $10,000,000 loans. The total $20,000,000 of approved loans funded design and substantial construction activities. The initial loan draws were made in June 2013 and July 2013, respectively. On January 1, 2014, the City's loan was transferred to the District as part of the transfer of its collection system operations. As of December 31, 2018, the District is fully drawn on both the loan directly issued to the District and the loan transferred from Ridgefield.

Below is a schedule of loans containing a description of each loan, its use, and outstanding balance as of December 31, 2018:

Public Works Trust Fund Loans	Loan Number	Notice of Completion	Approved Loan Amount	Balance	Interest Rate
Gee Creek Trunk Sewer	PW-05-691-047	February 2008	$ 1,597,606	$ 587,886	1.0%
Discovery Corridor Wastewater Transmission System	PC-12-951-034	March 2017	10,000,000	7,608,761	0.5%
Discovery Corridor Wastewater Transmission System	PC-13-961-040	March 2017	10,000,000	7,782,452	0.5%
				$15,979,099	

For 2018, the District paid $1,314,544 ($1,225,163 principal and $89,381 interest) on the PWTF loans the District is carrying an outstanding balance on as of December 31, 2018.

The annual debt service requirements for the outstanding PWTF loans payable are as follows:

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Note 3 – Long-Term Liabilities (Continued)

Changes in long-term liabilities as a summary for the year ended December 31, 2018:

	Balance Jan. 1, 2018	Additions	Reductions	Balance Dec. 31, 2018	Due Within One Year
Compensated absences	$ 495,892	$ 466,318	$ 475,541	$ 486,669	$ 43,800
Other post employment benefits*	2,333,182	69,751	-	2,402,933	-
Pension liability	2,509,400	-	534,914	1,974,486	-
SDC credits	1,608,410	-	-	1,608,410	75,500
Loans payable	17,204,262	-	1,225,163	15,979,099	1,225,162
2012 sewer revenue bonds	2,842,917	-	546,402	2,296,515	557,274
Total long-term liabilities	$ 26,994,063	$ 536,069	$ 2,782,020	$ 24,748,112	$ 1,901,736

* Beginning balance adjusted for implementation of GASB 75

Note 4 – Capital Assets

The District records project costs, as well as construction disbursements, in a construction work-in-progress account (CWIP) until final completion is determined before transferring these costs to a utility plant in service account.

The following schedule of capital assets is recorded at historical costs with any related additions due to purchases or utility plant brought into service. In 2018, the District incurred $11,713,162 in CWIP project costs (i.e. pump stations, pump station improvements, and force mains) of which $2.5 million was for the construction of the 78th Street Trunk, $1.7 million was for the 10th Avenue Pump Station and $1.8 million was for the Kennedy Farms Pump Station. The District transferred $14,498,557 from CWIP into service in 2018.

The District and the City of Battle Ground, through an Interlocal Agreement, own 100% of the treatment capacity rights of the Salmon Creek Treatment Plant, owned by the Alliance, with the District having the majority share. This intangible asset, per GASB Statement No. 51, "*Accounting and Financial Reporting for Intangible Assets,*" is recognized in our capital assets as "future treatment capacity rights," at a net value at December 31, 2018 of $19,064,290.

Capital assets activity for the year ended December 31, 2018, is as follows:

	Balance Jan. 1, 2018	Additions & Transfers	Retirements & Transfers	Balance Dec. 31, 2018
CAPITAL ASSETS - NONDEPRECIABLE:				
Land and land rights	$ 578,745	$ -	$ -	$ 578,745
Construction work-in-progress	6,208,347	11,713,162	14,498,557	3,422,952
Total capital assets - nondepreciable	6,787,092	11,713,162	14,498,557	4,001,697
CAPITAL ASSETS - DEPRECIABLE:				
Collection and transmission system	165,580,427	19,047,607	255,979	184,372,055
Buildings	3,822,689	177,937	-	4,000,626
Pumping stations	29,801,474	4,988,380	396,795	34,393,059
Machinery, furniture and equipment	3,494,313	388,588	405,722	3,477,179
Intangible assets, including future treatment capacity rights	85,763,587	-	36,380,066	49,383,521
Total capital assets - depreciable	288,462,490	24,602,512	37,438,562	275,626,440
LESS ACCUMULATED DEPRECIATION:				
Collection and transmission system	(39,150,505)	(2,966,838)	(255,979)	(41,861,364)
Buildings	(1,493,913)	(84,940)	-	(1,578,853)
Pumping stations	(7,100,191)	(2,215,462)	(144,755)	(9,170,898)
Machinery, furniture and equipment	(2,474,339)	(195,305)	(404,024)	(2,265,620)
Intangible assets, including future treatment capacity rights	(61,662,029)	(5,037,268)	(36,380,066)	(30,319,231)
Total accumulated depreciation	(111,880,977)	(10,499,813)	(37,184,824)	(85,195,966)
Total capital assets - depreciable, Net	176,581,513	14,102,699	253,738	190,430,474
Total capital assets, Net	$ 183,368,605	$ 25,815,861	$ 14,752,295	$ 194,432,171

Note 5 – Deposits and Investments

The District is legally authorized to invest in the types of investments included in the Revised Code of Washington (RCW) 36.29.020. All of the investments and deposits held at December 31, 2018, comply with the provisions of that code section and with the District's investment policy adopted by Board Resolution. The District's deposits and investments are managed daily by the District Finance Director/Treasurer.

Deposits – Cash on hand at December 31, 2018 was $2,271,507, held entirely in a checking account and as cash on hand.

Custodial Credit Risk: Custodial credit risk for deposits is the risk that, in the 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 has an adopted policy that addresses deposit custodial risk; however, the District's deposits and certificates of deposit are mostly 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) or through the Securities Investor Protection Corporation (SIPC). No bank balances are exposed to custodial credit risk.

Investments – The District's investment policy provides that whenever there are more than sufficient funds or cash balances to meet current expenses payable, a portion of such funds or balances as deemed expedient may be invested as either short term or long term investments.

It is the District's policy to invest funds in a manner that:

1. Provides maximum security that the investment proceeds will be returned upon maturity;

2. Provides adequate liquidity to meet cash needs; and

3. Provides the greatest return on investment.

Investments are subject to the following risks:

Interest Rate Risk: Interest rate risk is the risk the District may face should interest rate variances affect the fair value of investments. The District's investment policy requires that investments be matched to anticipated cash flow requirements to the extent possible. Unless matched to a specified time period with regard to cash flows, investments in securities shall be five (5) years or less from the date of purchase providing that the average maturity of the portfolio shall not exceed two and one-half (2-1/2) years. This policy assists the District in limiting its exposure to changes in the fair value of its investments.

Note 5 – Deposits and Investments (Continued)

		Investment Maturities (in Years)	
Investment Type	Fair Value	Less than 1	1 - 5
Clark County Investment Pool	$ 14,682,237	$ 14,682,237	$ -
Federal National Mortgage Association	2,011,220	-	2,011,220
Federal Farm Credit Bank	6,017,580	989,110	5,028,470
Federal Home Loan Bank	6,995,850	1,986,260	5,009,590
U.S. Treasury Notes	2,982,090	998,570	1,983,520
Federal Home Loan Mortgage Corporation	5,950,850	2,984,510	2,966,340
	$ 38,639,827	$ 21,640,687	$ 16,999,140
Maximum investment by maturity	100%	56%	44%

In addition to the interest rate risk disclosed above, the District includes investments with fair value highly sensitive to interest rate changes.

Credit Risk: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The District's investment policy states the Finance Director is empowered to invest in the security instruments authorized in Washington RCW 36.29.020. The District invests in no more than 25.0% of any one type of issuer except as stated above. All investments held by the District at year-end 2018 had a credit quality rating of AA+ by Standard and Poor's.

Concentration of Credit Risk: Concentration of credit risk is the risk of loss attributable to the magnitude of an investment in a single issuer. The District's investment policy limits to 25.0% any one type of issuer of security, but excludes this limitation in relation to obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government, as well as the Washington State Local Government Investment Pool (LGIP) and Clark County Investment Pool. Investments in securities issued by U.S. government-sponsored enterprises, repurchase agreements, banker's acceptances, certificates of deposits and notes of designated public depositories are held to this limitation.

Investments in Local Government Investment Pool (LGIP) - The District is a participant in the Local Government Investment Pool was authorized by Chapter 294, Laws of 1986, and is managed and operated by the Washington State Treasurer. The State Finance Committee is the administrator of the statute that created the pool and adopts rules. The State Treasurer is responsible for establishing the investment policy for the pool and reviews the policy annually and proposed changes are reviewed by the LGIP advisory Committee.

Investments in the LGIP, a qualified external investment pool, are reported at amortized cost which approximates fair value. The LGIP is an unrated external investment pool. The pool portfolio is invested in a manner that meets the maturity, quality, diversification and liquidity requirements set forth by the GASBS 79 for external investments pools that elect to measure, for financial reporting purposes, investments at amortized cost. The LGIP does not have any legally binding guarantees of share values. The LGIP does not impose liquidity fees or redemption gates on participant withdrawals.

The Office of the State Treasurer prepares a stand-alone LGIP financial report. A copy of the report is available from the Office of the State Treasurer, PO Box 40200, Olympia, Washington 98504-0200, online at http://www.tre.wa.gov.

Note 5 – Deposits and Investments (Continued)

Investments in Clark County Investment Pool (CCIP) - The District is a participant in the Clark County Investment Pool (CCIP), an external investment pool. The District reports its investment in the Pool at the fair value amount, which is the same as the value of the Pool per share. The responsibility for managing the pool resides with the County Treasurer. The Pool is established from the RCW 36.29 which authorizes the County Treasurer to invest the funds of participants. Regulatory oversight is provided by the finance committee which, by statute, consists of the county treasurer, the county auditor and the chair of the Board of County Commissioners. The CCIP is an unrated fund.

Investments Measured at Fair Value - The District measures and records its investments within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. These guidelines recognize a three-tiered fair value hierarchy, as follows:

- Level 1: Quoted process in active markets for identical assets.
- Level 2: These are quoted market prices for similar assets, quoted prices for identical or similar assets in markets that are not active, or other than quoted prices that are observable.
- Level 3: Unobservable inputs for an asset.

At December 31, 2018, the District had the following recurring fair value measurements:

		Fair Value Measurement Using:		
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investment by Fair Value Level				
Clark County Investment Pool	$ 14,682,237	$ 14,682,237	$ -	$ -
Investment Securities				
Federal National Mortgage Association	2,011,220	-	2,011,220	-
Federal Farm Credit Bank	6,017,580	-	6,017,580	-
Federal Home Loan Bank	6,995,850	-	6,995,850	-
U.S. Treasury Notes	2,982,090	2,982,090	-	-
Federal Home Loan Mortgage Corporation	5,950,850	-	5,950,850	-
Total Investments measured at fair value	$ 38,639,827	$ 17,664,327	$ 20,975,500	$ -

Investments Measured at Amortized Cost	
Washington State Local Government Investment Pool	$ 3,579,606
Total Investments measured at amortized cost	$ 3,579,606

Note 5 – Deposits and Investments (Continued)

Summary of Deposit and Investment Balances - A reconciliation of deposits and investment balances as of December 31, 2018 is as follows:

	2018
Cash on Hand	$ 1,250
Amount of Deposits with Private Financial Institutions	2,270,257
Deposits with State LGIP	3,579,606
Deposits with CCIP	14,682,237
Non-Pooled Investments	23,957,590
Total Deposits and Investments	$ 44,490,940
Deposits	
Current:	
Cash and Cash Equivalents	$ 19,991,585
Noncurrent	
Restricted Cash and Cash Equivalents	541,765
Total Deposits	$ 20,533,350
Investments	
Current:	
Short-term Investments	$ 7,020,237
Noncurrent	
Long-term Investments	16,937,353
Total Investments	$ 23,957,590
Total Deposits and Investments	$ 44,490,940

Note 6 – Risk Management

Clark Regional Wastewater District is a member of the Water and Sewer Risk Management Pool (Pool). Chapter 48.62 RCW authorizes the governing body of any one or more governmental entities to form together into or join a pool or organization for the joint purchasing of insurance, and/or joint self-insuring, and/or joint hiring or contracting for risk management services to the same extent that they may individually purchase insurance, self-insurance, or hire or contract for risk management services. An agreement to form a pooling arrangement was made pursuant to the provisions of Chapter 39.34 RCW, the Interlocal Cooperation Act. The Pool was formed in November 1987 when water and sewer districts in the State of Washington joined together by signing an Interlocal Governmental Agreement to pool their self-insured losses and jointly purchase insurance and administrative services. The Pool currently has 68 members. The Pool's fiscal year is November 1st through October 31st.

The Pool allows members to jointly purchase insurance coverage, establish a plan of self-insurance coverage, and provide related services, such as risk management and loss prevention. The Pool provides the following forms of group purchased insurance coverage for its members: Property (including Building, Electronic Data Processing, Boiler and Machinery, and Mobile Equipment); General Liability; Automotive Liability; Excess Liability, Crime; Public Officials Liability; Identity Fraud Reimbursement Program; Deadly Weapon/Active Shooter Response Program; and bonds of various types. Most coverages are on an "occurrence" basis.

Members make an annual contribution to fund the Pool. The Pool purchases insurance policies from unrelated underwriters as follows:

Note 6 – Risk Management (Continued)

TYPE OF COVERAGE	MEMBER DEDUCTIBLE	SELF-INSURED RETENTION/GROUP	EXCESS LIMITS
Property Loss:			
Buildings and Contents	$1,000 - $25,000 and See (C) below	$25,000	$1,000,000,000
Flood	See (A) below	See (A) below	$50,000,000
Earthquake	See (B) below	See (B) below	$110,000,000 ($75,000,000 shared by all members, $25,000,000 dedicated to Alderwood, $5,000,000 dedicated to Sammamish Plateau, and $5,000,000 dedicated to Cascade Water Alliance)
Terrorism	$1,000 - $25,000	$25,000 Primary layer	$700,000,000 Primary layer
Boiler & Machinery	$1,000 - $350,000 depending on object	$25,000 - $350,000 depending on object	$100,000,000
Auto - Physical Damage	$1,000-$25,000	$25,000	$15,000,000
Liability:			
Commercial General Liability	$1,000 - $25,000	$200,000, subject to $150,000 Corridor Deductible	$15,000,000
Auto Liability	$1,000 - $25,000	Same as above	$15,000,000
Public Officials Errors and Omissions	$1,000 - $25,000	Same as above	$15,000,000
Employment Practices	$1,000 - $25,000	Same as above	$15,000,000
Other:			
Cyber Liability	$100,000	N/A	$2,000,000
Deadly Weapon/Active Shooter	$10,000	N/A	$500,000
Public Officials Bonds	Various	N/A	Various
Crime	$1,000 - $25,000	$25,000	$2,000,000
Identity Fraud	$0	$0	$25,000
A. $100,000 member deductibles, per occurrence, in Flood zones except Zones A&V; $250,000 member deductible per occurrence, in Flood Zones A&V.			
B. Member deductible for earthquakes is 5% subject to $100,000 minimum Earthquake Shock. The deductible will apply per occurrence on a per unit basis, as defined in the policy form, subject to the stated minimum.			
C. Member deductible for Cyber liability is $100,000 and where applicable the dollar amount of the business interruption loss during the policy's required 8 hour waiting period			

Pool members are responsible for a deductible on each coverage and the Pool is responsible for the remainder of the self-insured retention listed in the table above except where noted as follows. The insurance carriers then cover the loss to the maximum limit of the policy. Each member is responsible for the full deductible applicable to the perils of earthquake and flood (the Pool is not responsible for any deductible or self-insured retention for earthquake and flood claims). Each member is also responsible for the full deductible applicable to the Cyber Liability, and that part of a Boiler & Machinery deductible, which exceeds $25,000.

Note 6 – Risk Management (Continued)

Upon joining, the members contract to remain in the Pool for one full policy period. Following completion of one full policy period, members must give six months' notice before terminating participation (e.g. to withdraw from the Pool on November 1, 2019, written notice must be in possession of the Pool by April 30, 2019). The Interlocal Governmental Agreement is renewed automatically each year. Even after termination of relationship with the Pool, a member is still responsible for contributions to the Pool for any unresolved, unreported, and in process claims, for the period that the District was a signatory to the Interlocal Governmental Agreement.

The Pool is fully funded by its member participants. Claims are filed by members with the Pool who determines coverage and performs claims adjustment in consultation with Arcadia Claims Services and Adjusters Northwest.

The Pool is governed by a Board of Directors, which is comprised of one designated representative from each participating member. An Executive Committee is elected at the annual meeting, and is responsible for overseeing the business affairs of the Pool and providing policy direction to the Pool's Executive Director.

The following schedule depicts the property claims filed by the District with the Pool for the years 2018, 2017 and 2016 and the amounts covered by insurance.

Years	Claims Settlements	Insurance Coverage	Excess of Claim Cost Over Coverage
2018	$ 9,056	$ 7,056	$ 2,000
2017	32,783	29,783	3,000
2016	19,510	17,510	2,000

The District is self-insured for employee unemployment claims as allowed by Washington state law for a reimbursable employer and has set aside funds to cover the actual cost of unemployment insurance.

Note 7 – Pension Plans

The following table represents the aggregate pension amounts for all plans for the year 2018:

Aggregate Pension Amounts – All Plans	
Pension liabilities	$ 1,974,486
Deferred outflows of resources	476,724
Deferred inflows of resources	862,094
Pension expense/expenditures	235,856

State Sponsored Pension Plans

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

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

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

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

Public Employees' Retirement System (PERS)

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

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

Contributions

The **PERS Plan 1** member contribution rate is established by State statute at 6 percent. The employer contribution rate is developed by the Office of the State Actuary and includes an administrative expense component that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates. The PERS Plan 1 required contribution rates (expressed as a percentage of covered payroll) for 2018 were as follows:

PERS Plan 1 **Actual Contribution Rates:**	**Employer**	**Employee**
January – August 2018		
PERS Plan 1	7.49%	6.00%
PERS Plan 1 UAAL	5.03%	
Administrative Fee	0.18%	
Total	**12.70%**	**6.00%**
September - December 2018		
PERS Plan 1	7.52%	6.00%
PERS Plan 1 UAAL	5.13%	
Administrative Fee	0.18%	
Total	**12.83%**	**6.00%**

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

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

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

Note 7 – Pension Plans (Continued)

3 members are vested in the defined benefit portion of their plan after ten years of service; or after five years of service if 12 months of that service are earned after age 44.

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

Contributions

The **PERS Plan 2/3** employer and employee contribution rates are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. The Plan 2/3 employer rates include a component to address the PERS Plan 1 UAAL and an administrative expense that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 2 employer and employee contribution rates and Plan 3 contribution rates. The PERS Plan 2/3 required contribution rates (expressed as a percentage of covered payroll) for 2018 were as follows:

PERS Plan 2/3 **Actual Contribution Rates:**	**Employer 2/3**	**Employee 2**
January – August 2018		
PERS Plan 2/3	7.49%	7.38%
PERS Plan 1 UAAL	5.03%	
Administrative Fee	0.18%	
Employee PERS Plan 3		varies
Total	**12.70%**	**7.38%**
September - December 2018		
PERS Plan 2/3	7.52%	7.41%
PERS Plan 1 UAAL	5.13%	
Administrative Fee	0.18%	
Employee PERS Plan 3		varies
Total	**12.83%**	**7.41%**

The District's actual PERS plan contributions were $214,397 to PERS Plan 1 and $317,585 to PERS Plan 2/3 for the year ended December 31, 2018.

Actuarial Assumptions

The total pension liability (TPL) for each of the DRS plans was determined using the most recent 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*.

Additional assumptions for subsequent events and law changes are current as of the 2017 actuarial valuation report. The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2018. Plan liabilities were rolled forward from June 30, 2017, to June 30, 2018, 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.

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

- Lowered the valuation interest rate from 7.70% to 7.50% for all systems except LEOFF 2.
- Lowered the assumed general salary growth from 3.75% to 3.50% for all systems.
- Lowered assumed inflation from 3.00% to 2.75% for all systems.

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.

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.

Note 7 – Pension Plans (Continued)

Estimated Rates of Return by Asset Class

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2018, 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.

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

Sensitivity of Net Pension Liability

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

	1% Decrease (6.4%)	Current Discount Rate (7.4%)	1% Increase (8.4%)
PERS 1	$ 1,629,858	$ 1,326,233	$ 1,063,233
PERS 2/3	2,965,123	648,253	(1,251,322)

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, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2018, the District reported a total pension liability of $1,974,486 for its proportionate share of the net pension liabilities as follows:

	Liability
PERS 1	$ 1,326,233
PERS 2/3	648,253

Note 7 – Pension Plans (Continued)

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

	Proportionate Share 6/30/17	Proportionate Share 6/30/18	Change in Proportion
PERS 1	0.027234%	0.029696%	0.002462%
PERS 2/3	0.035030%	0.037967%	0.002937%

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

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

Pension Expense

For the year ended December 31, 2018, the District recognized pension expense as follows:

	Pension Expense
PERS 1	$ 239,617
PERS 2/3	(3,761)
TOTAL	$ 235,856

Deferred Outflows of Resources and Deferred Inflows of Resources

At December 31, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

PERS 1	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual investment earnings on pension plan investments	$ -	$ (52,704)
Contributions subsequent to the measurement date	112,548	-
TOTAL	112,548	(52,704)

Note 7 – Pension Plans (Continued)

PERS 2/3	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 79,459	$ (113,499)
Net difference between projected and actual investment earnings on pension plan investments	-	(397,798)
Changes of assumptions	7,583	(184,487)
Changes in proportion and differences between contributions and proportionate share of contributions	111,326	(113,606)
Contributions subsequent to the measurement date	165,808	
TOTAL	364,176	(809,390)

Total	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 79,459	$ (113,499)
Net difference between projected and actual investment earnings on pension plan investments	-	(450,502)
Changes of assumptions	7,583	(184,487)
Changes in proportion and differences between contributions and proportionate share of contributions	111,326	(113,606)
Contributions subsequent to the measurement date	278,356	
TOTAL	476,724	(862,094)

Deferred outflows of resources related to pensions resulting from the District's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2019. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31:	PERS 1	PERS 2/3
2019	$ 2,306	$ (61,912)
2020	(11,521)	(135,543)
2021	(34,572)	(247,080)
2022	(8,917)	(93,757)
2023		(36,965)
Thereafter		(35,765)

Note 8 – Deferred Compensation Plan

The District offers its employees two deferred compensation plans created in accordance with Internal Revenue Code Section 457. The International City Managers Association (ICMA) and the Washington Department of Retirement Services (DRS) each administer one of the two plans. The plans are available to all District employees, which allow a deferral of a portion of their taxable wages until future years. A distribution from the deferred compensation plans to an employee is allowed at termination of employment, retirement, death, or under certain emergencies. The District does not administer or manage the deferred compensation plans but instead all amounts are the property of the employee.

Note 9 – Construction and Other Significant Commitments

The District has construction commitments resulting from active consultant and construction projects, including restoration and replacement projects, as of December 31, 2018 exceeding $100,000 as follows:

Project	Total Awarded Contract Commitment	Spent to Date	Remaining on Contract
Pleasant Valley North Pump Station	$ 515,330	$ 422,914	$ 92,416
NE 119th St CRP (NE 87th to NE 112th Ave)	668,828	12,404	656,424
St. Johns Woods Pump Station	838,145	623,525	214,620
Sierra Vista / Hunter's Glen Pump Station Removals	109,396	17,287	92,109
	$ 2,131,699	$ 1,076,130	$ 1,055,569

There are no other significant commitments as of December 31, 2018.

Note 10 – Defined Benefit Other Postemployment Benefit (OPEB) Plan

The following table represents the aggregate OPEB amounts for all plans subject to the requirements of GASB Statement 75 for the year 2018:

Aggregate OPEB Amounts - All Plans	
OPEB liabilities	$ 2,402,933
Deferred outflow of resources	3,486
OPEB expenses/expenditures	73,770

Plan Description – The District participates in a single-employer defined benefit Other Postemployment Benefit (OPEB) plan. This plan is administered by the Health Care Authority (HCA) per RCW 41.05.065. The Public Employees Benefits Board (PEBB), created within the HCA, is authorized to design benefits and determine the terms and conditions of employee and retired employee participation and coverage, including establishment of eligibility criteria for both active and retired employees. PEBB programs include medical, dental, life and long-term disability. Benefits are offered to retirees at a subsidized rate.

The benefits are provided in accordance with a substantive plan, in which the plan terms are understood by the employers and plan member, but not formalized in a contract or plan document. The PEBB retiree OPEB plan is available to employees who elect to continue coverage and pay the administratively established premiums at the time they retire under the provisions of the retirement system to which they belong. The plan is funded on a pay-as-you-go basis and there are no assets accumulated in a qualifying trust.

Employees Covered by Benefit Terms – All full-time employees are covered by these benefit terms. At December 31, 2018, membership in the plan consisted of the following:

Inactive employees or beneficiaries currently receiving benefits	2
Active employees	56
Total	58

Benefits Provided – Employees that retire from the District are eligible to continue participation in the PEBB health insurance plan on a self-pay basis. Retirees participating in the plan receive an implicit subsidy. The implicit subsidy exists because retired members pay a premium based on a claims experience for active employees and other retirees. The subsidy is valued using the difference between the age-based claims cost and the premium. In 2018, the District's estimated monthly implicit rate subsidy was $581 per month.

Assumptions and Other Inputs – The actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Examples include assumptions about retirement ages, mortality and the healthcare cost trend. The actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.

The District's total OPEB lability of $2,402,933 was measured as of June 30, 2018 with a valuation date of June 30, 2018. The alternative method permitted under GASB 75 was used to calculate the liability instead of an actuarial valuation. The Entry Age actuarial cost method and the recognized immediately

Note 10 – Defined Benefit Other Postemployment Benefit (OPEB) Plan (Continued)

amortization method were used in this calculation. There are no assets in this plan, therefore, no asset valuation method was used. The total OPEB liability was determined using the following methodologies:

Actuarial valuation date	6/30/2018
Actuarial measurement date	6/30/2018
Actuarial cost meathod	Entry Age
Amortization method	Recognized Immediately
Asset Valuation method	N/A (No Assets)

The total OPEB liability was determined using the following actuarial assumptions:

Inflation rate	3%
Projected salary changes	3.75% + Service-Based Increases
Discount rates	3.87%
Healthcare trend rates	Initial rate is approximately 7%, trends down to about 5% in 2080.
Post-retirement participation percentage	65%
Percentage with spouse coverage	45%

Actuarial assumptions are developed from the 2007-2012 Experience Study performed by the Office of the State Actuary. Discount rates are established by the Bond Buyer GO 20-Bond Municipal Index. Mortality rates were based on the RP-2000 Combined Healthy Table and Combined Disabled Table published by the Society of Actuaries. The Office of the State Actuary applied offsets to the base table and recognized future improvements in mortality by projecting the mortality rates using 100 percent Scale BB. Mortality rates are applied on a generational basis, meaning members are assumed to receive additional mortality improvements in each future year throughout their lifetime. Other specific assumptions are as follows:

It was assumed that two thirds of members will select a Uniform Medical Plan (UMP) and one third will select a Group Health Plan. The specific assumptions are as follows:

- UMP pre and post Medicare costs and premiums are equal to the Uniform Medical Plan.
- The Group Health pre-Medicare costs and premiums are 50/50 blend of GH classic and GH value.
- The Group Health post-Medicare costs and premiums are equal to GH Medicare.

The estimated retirement service for each active cohort was based on the average entry age of 35. For example, an age 47 member is assumed to have 12 years of service. Service is a component of benefit eligibility. Assumptions for retirement, disability, termination and mortality are based on the 2017 Actuarial Valuation Report. For simplicity, all employees were assumed to be retirement eligible at age 55. The valuation relies on retirement rates for member with less than 30 years of services and assumed a rate of retirement at age seventy. Each cohort is assumed to be a 50/50 male/female split. It was further assumed that eligible spouses are the same age as the primary member. Generally, males are

Note 10 – Defined Benefit Other Postemployment Benefit (OPEB) Plan (Continued)

older than females, however for purposes of the alternative method tool we believe this simplification is reasonable.

Sensitivity of the Total Liability to Changes in the Healthcare Cost Trend Rates - The following presents the total OPEB liability of the District calculated using the current healthcare cost trend rate of 6.8 percent, as well as what the OPEB liability would be if it were calculated using a discount rate that is 1-percentage point lower (5.8 percent) or 1-percentage point higher (7.8 percent) that the current rate.

	1% Decrease (5.8%)	Current Healthcare Cost Trend Rate (6.8%)	1% Increase (7.8%)
Total OPEB Liability	$ 1,901,861	$ 2,402,933	$ 3,069,173

Sensitivity of the Total Liability to Changes in the Discount Rate - The following presents the total OPEB liability of the District calculated using the discount rate of 3.87 percent, as well as what the OPEB liability would be if it were calculated using a discount rate that is 1-percentage point lower (2.87 percent) or 1-percentage point higher (4.87 percent) that the current rate.

	1% Decrease (2.87%)	Current Discount Rate (3.87%)	1% Increase (4.87%)
Total OPEB Liability	$ 2,975,033	$ 2,402,933	$ 1,958,660

Changes in the Total OPEB Liability - The following table presents the change in the total OPEB liability during 2018:

Total OPEB Liability at 1/1/2018	$ 2,333,182
Service cost	141,364
Interest	88,517
Changes in benefit terms	-
Differences in experience data and assumptions	(156,111)
Benefit payments	(4,019)
Other changes	-
Total OPEB Liability at 12/31/2018	2,402,933

OPEB Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources Related to OPEB – For the year ending December 31, 2018, the District recognized OPEB expense of $73,770.

On December 31, 2018, the District reported deferred outflows of resources related to OPEB from the following sources:

Note 10 – Defined Benefit Other Postemployment Benefit (OPEB) Plan (Continued)

	Deferred Outflows of Resources	Deferred Inflows of Resources
Payments subsequent to the measurement date	$ 3,486	$ -
Total	$ 3,486	$ -

Deferred outflows of resources of $3,486 resulting from payments subsequent to the measurement date will be recognized as reduction of the total OPEB liability in the year ended December 31, 2019.

Note 11 – Capital Contributions

Capital contributions – Capital contributions recognized annually included in changes in net position include assets constructed by developers then donated to the District, connections fees charged for capital improvements and reimbursement for local facility improvements previously funded by the District.

	2018
Capital contributions from developers, governments and other sources	$ 11,015,461
Capital contributions from system development charges	9,977,924
Capital contributions from local facility reimbursements	104,909
Total	$ 21,098,294

Note 12 – Joint Venture/Related Party Transactions

Discovery Clean Water Alliance (Alliance) – In 2012, Clark County, Clark Regional Wastewater District (District) and the Cities of Battle Ground and Ridgefield reached agreement on the optimum structure for a regional wastewater transmission and treatment utility to meet the needs of the agencies and community for the next generation. The Interlocal Formation Agreement (IFA), signed on September 27, 2012, represents the culmination of five years of study, and provided the foundation to create a new regional utility entity, the Alliance, under the empowerment of Chapter 39.106 RCW – the Joint Municipal Utility Services Act (JMUSA). The Alliance was incorporated with the Washington Secretary of State on January 4, 2013. The Alliance is governed by a four member board, one elected official from each entity, and was established to provide wastewater transmission and treatment services to the citizenry of the respective participating members.

As the managing partner or "Administrative Lead" for the Alliance, the task of implementing steps to fulfill the vision of the partner agencies fell largely to the District. A two year transition work program was initiated in 2013 and continued through 2014. As of July 1, 2018, the District also manages and operates two Regional Assets, the Ridgefield Treatment Plant and the Regional Biofilter.

Regional Service Charges, fees paid by Members to the Alliance, are consistent with the Financial Policies of the Alliance. The basic principle of the Finance Policies is that each Member's responsibility for Regional Asset operating costs will be based on actual use of the regional services during the previous year or years, as measured by Average Annual Flow in the Regional Assets, and that each Member's responsibility for capital costs will be based on agreed-upon Allocated Capacity in the Regional Assets. With all wastewater flows and allocated capacities in Regional Assets currently coming from two Members, the District and City of Battle Ground, these two Members now fund all operating and capital costs of the Alliance.

Each Member, as pledged through the IFA adoption, also agrees to establish, maintain and collect rates, fees or other charges for wastewater or other services, facilities and commodities related to the services it receives from the Alliance and its own wastewater utility, and maintain reserves to provide revenues sufficient for the Member to make all payments required under this Agreement.

During 2018, the District paid $9,087,008 to the Alliance for Regional Service Charges, as budgeted by the District and Alliance. The District billed the Alliance $573,060 for Administration Lead services provided, which includes both staff time and expenses for professional consulting, IT support, insurance and various utilities expenses. Additionally, the District billed the Alliance $350,541 for operations of Regional Assets. More information about the Alliance, including the 2018 Comprehensive Annual Financial Report, can be can be found on their website at http://www.discoverycwa.org/.

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGES IN TOTAL OPEB LIABILITY AND RELATED RATIOS
PUBLIC EMPLOYEES BENEFITS BOARD (PEBB)
FOR THE YEAR ENDED DECEMBER 31
THIS FISCAL YEAR*

Fiscal Year Ended	Total OPEB Liability - Beginning	Service Cost	Interest	Changes in Benefit Terms	Differences Between Expected and Actual Experience	Benefit Payments	Other Changes	Total OPEB Liability - Ending	Covered-Employee Payroll	Total OPEB Liability as a Percentage of Covered Payroll
12/31/18	$2,333,182	141,364	88,517	-	(156,111)	(4,019)	-	2,402,933	4,233,472	56.76%

Notes to Schedule:

Until a full 10-year trend is compiled, only information for those years available is presented. No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB 75.

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
PERS 1
AS OF JUNE 30
LAST FIVE FISCAL YEARS

Year Ended June 30,	Employer's proportion of the net pension liability (asset)	Employer's proportionate share of the net pension liability	Covered payroll	Employer's proportionate share of the net pension liability as a percentage of covered payroll	Plan fiduciary net position as a percentage of the total pension liability
2014	0.029187%	$ 1,470,309	$ 3,188,944	46.11%	61.19%
2015	0.029695%	1,553,325	3,403,683	45.64%	59.10%
2016	0.030163%	1,619,895	3,586,324	45.17%	57.03%
2017	0.027234%	1,292,275	3,744,045	34.52%	61.24%
2018	0.029696%	1,326,233	4,000,682	33.15%	63.22%

See notes to Required Supplementary Information.

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
PERS 2/3
AS OF JUNE 30
LAST FIVE FISCAL YEARS

Year Ended June 30,	Employer's proportion of the net pension liability (asset)	Employer's proportionate share of the net pension liability	Covered payroll	Employer's proportionate share of the net pension liability as a percentage of covered payroll	Plan fiduciary net position as a percentage of the total pension liability
2014	0.037579%	$ 759,607	$ 3,188,944	23.82%	93.29%
2015	0.038359%	1,370,589	3,403,683	40.27%	89.20%
2016	0.038699%	1,948,464	3,586,324	54.33%	85.82%
2017	0.035030%	1,217,126	3,744,045	32.51%	90.97%
2018	0.037967%	648,253	4,000,682	16.20%	95.77%

See notes to Required Supplementary Information.

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF EMPLOYER CONTRIBUTIONS
PERS 1
AS OF DECEMBER 31
LAST FIVE FISCAL YEARS

Year Ended December 31,	Statutorily or contractually required contributions	Contributions in relation to the statutorily or contractually required contributions	Contribution deficiency (excess)	Covered payroll	Contributions as a percentage of covered payroll
2014	$ 132,731	$ (132,731)	$ -	$ 3,289,190	4.04%
2015	153,801	(153,801)	-	$ 3,503,486	4.39%
2016	174,276	(174,276)	-	$ 3,653,591	4.77%
2017	189,985	(189,985)	-	$ 3,875,441	4.90%
2018	214,397	(214,397)	-	$ 4,233,472	5.06%

See notes to Required Supplementary Information.

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF EMPLOYER CONTRIBUTIONS
PERS 2/3
AS OF DECEMBER 31
LAST FIVE FISCAL YEARS

Year Ended December 31,	Statutorily or contractually required contributions	Contributions in relation to the statutorily or contractually required contributions	Contribution deficiency (excess)	Covered payroll	Contributions as a percentage of covered payroll
2014	$ 164,282	$ (164,282)	$ -	$ 3,289,190	4.99%
2015	197,516	(197,516)	-	3,503,486	5.64%
2016	227,619	(227,619)	-	3,653,591	6.23%
2017	266,283	(266,283)	-	3,875,441	6.87%
2018	317,585	(317,585)	-	4,233,472	7.50%

See notes to Required Supplementary Information.

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - PENSION

Note 1 – Information Provided

The District implemented GASB 68 for the year ended December 31, 2015; therefore, there is no data available for years prior to 2014. The pension schedules included in the required supplementary information are intended to show information for ten years, and that additional years' information will be displayed as it becomes available.

Note 2 – Significant Factors

There were no changes of benefit terms, significant changes in the employees covered under the benefit terms or in the use of different assumptions.

Note 3 – Covered Payroll

Covered payroll is the payroll on which a contribution to a pension plan is based.

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.

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