Office of the Washington State Auditor
Pat McCarthy

Financial Statements Audit Report

Public Utility District No. 1 of Asotin County

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

Published January 14, 2019

Report No. 1022975

Office of the Washington State Auditor
Pat McCarthy

January 14, 2019

Board of Commissioners
Public Utility District No. 1 of Asotin County
Clarkston, Washington

Report on Financial Statements

Please find attached our report on Public Utility District No. 1 of Asotin County's financial statements.

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

Sincerely,

Pat McCarthy

State Auditor

Olympia, WA

TABLE OF CONTENTS

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

Public Utility District No. 1 of Asotin County
January 1, 2017 through December 31, 2017

Board of Commissioners
Public Utility District No. 1 of Asotin County
Clarkston, 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 Public Utility District No. 1 of Asotin County, as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated December 11, 2018. As discussed in Note 8 to the financial statements, the District has elected to change its method of accounting for determining the useful lives of certain capital assets and capitalizing water meter costs in the 2017 financial statements. Our opinion is not modified with respect to this matter.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

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

COMPLIANCE AND OTHER MATTERS

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

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

PURPOSE OF THIS REPORT

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

Pat McCarthy

Pat McCarthy

State Auditor

Olympia, WA

December 11, 2018

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Public Utility District No. 1 of Asotin County
January 1, 2017 through December 31, 2017

Board of Commissioners
Public Utility District No. 1 of Asotin County
Clarkston, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of Public Utility District No. 1 of Asotin County, as of and for the year ended December 31, 2017, 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 Public Utility District No. 1 of Asotin County, as of December 31, 2017, 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 – Change in Accounting Principle

As discussed in Note 8 to the financial statements, the District has elected to change its method of accounting for determining the useful lives of certain capital assets and capitalizing water meter costs in the 2017 financial statements. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated December 11, 2018 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Pat McCarthy

State Auditor

Olympia, WA

December 11, 2018

FINANCIAL SECTION

Public Utility District No. 1 of Asotin County
January 1, 2017 through December 31, 2017

REQUIRED SUPPLEMENTARY INFORMATION

BASIC FINANCIAL STATEMENTS

REQUIRED SUPPLEMENTARY INFORMATION

Management Discussion and Analysis

The following Management Discussion and Analysis is designed to provide an overview of the Asotin County Public Utility District's (District) financial activities for the year ended December 31, 2017. This discussion should be read in conjunction with the District's financial statements and notes to the financial statements.

The District owns and operates a public water system with approximately 7,200 connections to customers in Asotin County covering twenty square miles. The District also owns and operates the Port of Wilma water system in Whitman County which serves approximately thirty commercial and industrial customers. The District provides sanitary sewer collection to over 1,300 customers. The District's office and main shop are located in Clarkston, Washington.

Basic Financial Statements

The Statement of Net Position presents the District's assets, deferred outflows, liabilities, and deferred inflows, with the balance reported as net position. The Statement of Net Position provides information about the nature and amount of investment in resources (assets), and the obligations to creditors (liabilities). The net position increases when revenues exceed expenses. The Statement of Revenue, Expenses and Changes in Fund Net Position reports the revenues and expenses during the periods indicated. The Statement of Cash Flow provides information about the District's cash receipts and payments from operations, as well as funds provided in investing and financing activities. The notes to the financial statements provide additional information that is essential to fully understanding the figures provided in the financial statements.

Financial Analysis and Summary

The District's overall financial condition remains stable. The District has been very careful with the resources that have been provided by rate revenue because there is very little growth potential projected for revenues from new customers. The reduction of costs in a number of areas have provided revenue stability for the District and rate stability for customers while allowing the District to meets its obligations and provide for capital improvement.

The District had a $1 base meter charge increase during 2017 and is continuing to use current rates to fund asset expansion. This plan is possible because significant amounts of debt have been retired and the combined revenues between the water and wastewater system will be adequate to cover identified improvements.

Total net position may serve as a useful indicator of the District's financial position. At the end of 2017, the District's net position was $19.2 million as compared with $19.1 million at the end of 2016. This represents an increase of $127,000 which is due to an increase in operating income, offset by prior period adjustments and special item both related to capital assets. The following condensed financial information provides an overview of the District's financial position for the fiscal year ended December 31, 2017 and 2016.

NET POSITION
December 31, 2017 and 2016
(In thousands)

	2017	2016	Change
Assets			
Current and other assets	$ 2,459	$ 2,645	$ (186)
Capital assets, net of depreciation	18,452	18,346	106
Total Assets	20,911	20,991	(80)
Deferred outflows of resources	138	201	(63)
Liabilities			
Other liabilities	152	255	(103)
Long-term liabilities	1,535	1,821	(286)
Total Liabilities	1,687	2,076	(389)
Deferred inflows of resources	140	20	120
Net Position			
Net investment in capital assets	18,217	18,032	185
Restricted	39	61	(22)
Unrestricted	967	1,003	(36)
Total net position	$ 19,223	$ 19,096	$ 127

Long-term liabilities decreased by 16% between 2016 and 2017. Net Pension liability decreased by $231,000 in 2017 because of the decrease of the overall PERS liability.

The largest portion of the District's net position is the classification net investment in capital assets. This classification reflects the District's investment in capital assets (land, intangible assets such as easements and water rights, buildings, plant, and equipment) less any remaining related debt. The District uses its capital assets to provide services to its customers. The classification net investment in capital assets increased by approximately $185,000 in 2017 due to the following: acquisition of assets greater than depreciation expense, disposal of assets with a book value of $355,000, $1.7 million decrease to expense certain lower cost assets resulting from a change in accounting policy, and a $1.2 million increase from a prior period adjustment to correct accumulated depreciation.

An additional portion of the District's total net position is in restricted assets, which represents resources that are subject to external restrictions on how the funds may be used. The District's restricted net position are generally restricted for payments on debt. Restricted net position decreased in 2017.

The remainder of the District's net position is unrestricted assets, which may be used to meet the District's ongoing obligations to customers and creditors. Unrestricted net position decreased

$36,000 in 2017. The decrease is primarily due to expensing smaller assets because of a change in accounting policy.

CHANGES IN NET POSITION
For the year ended December 31, 2017 and 2016
(In thousands)

	2017	2016	Change
Operating revenues			
Metered and Wastewater sales	$ 4,588	$ 4,423	$ 165
Other non-operating	453	290	163
Non-operating revenues - other	6	63	(57)
Non-operating revenues -disposal of assets	(335)	(183)	(152)
Total revenues	4,712	4,593	119
Operating expenses			
Operation	1,948	1,571	377
Maintenance	557	752	(195)
Customer Services	481	470	11
General Administration	622	838	(216)
Depreciation	348	986	(638)
Excise and B&O Taxes	188	196	(8)
Non-operating expenses	4	11	(7)
Total expenses	4,148	4,824	(676)
Income before contributions and special item	564	(231)	795
Special item	(1,673)	-	(1,673)
Change in net position	(1,109)	(231)	(878)
Net Position, beginning of year	19,096	19,509	(413)
Prior period adjustment	1,236	(182)	1,418
Net Position, end of year	$ 19,223	$ 19,096	$ 127

Change in net position after non-operating revenues and expenses was an increase of $564,016 in 2017 as compared to a decrease of $230,786 in 2016. This increase resulted primarily from a decrease in depreciation expense, due to longer service lives of water infrastructure assets.

During 2017, the District's operating revenues were $5.0 million, an increase of seven percent compared to 2016. The major source of revenue for the District is metered water sales and sewer charges; increased base meter charges caused this increase.

In 2017, the District's operating expenses were $4.1 million. Operating Expenses in 2017 decreased $668,000 (or 14%) from 2016. The decrease in operating expenses is primarily attributed to a decrease in depreciation.

The net utility operating income before non-operating revenues and expenses was $895,616 as compared to net utility operating loss of $(100,170) in 2016. The increase in operating income was due primarily to an increase in service charges and decreased depreciation. The largest source of non-operating expense is interest on long-term debt, which decreased from 2016 to 2017 as debt was paid down.

The District recorded a special item of $(1,673,316) related to a change of accounting policy whereby meters are now expensed. See Note 8.

Capital Assets

The District's total capital assets as of December 31, 2017 were $18.5 million, net of depreciation. Funds for capital construction are provided for through a combination of installation charges and cash flow from revenues. In 2017 the District purchased and placed in to service $1.2 million worth of capital assets, most of which was water distribution system improvements and new services. See Note 3 of the accompanying notes to the financial statements for further detail related to capital asset activity.

Long-term Debt Activity

At year-end the District long term-debt obligation included a low interest 2000 Public Works Trust Fund loan used to fund water system capital improvements. At year-end the total of the capital improvement and property loans was $235,187 as compared to $313,584 in 2016. Debt was reduced $78,397 in 2017.

Funds for payment of Long-term Debt are provided for from the cash flow from revenues. See Note 4 of the accompanying notes to the financial statements for further detail related to long term debt activity.

Economic Outlook and Currently Known Facts

In 2018, the District base meter charge increased by $1 across all meter sizes and types, and the water consumptive rate increased from $0.97 to $1.00 per unit. The District has projected a 5% increase in rates over the next six years to fund future projects identified in the water system plan. The District continues to strive to reduce its capital debt and use current resources to fund capital acquisition.

Requests for Information

This financial report is designed to provide the District's customers and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have any questions about the report or need additional information, contact the District's General Manager at:

Public Utility District No. 1 of Asotin County
Attention: General Manager
P.O. Box 605
Clarkston, WA 99403

PUBLIC UTILITY DISTRICT NO.1 OF ASOTIN COUNTY
STATEMENT OF NET POSITION
DECEMBER 31, 2017

		2017
ASSETS		
Current Assets:		
Cash and Cash Equivalents	$	1,890,709
Accounts Receivable, net		326,923
Materials Inventory		202,620
Restricted Assets - Cash and Cash Equivalents		
2000 PWTF Sinking Fund		39,198
TOTAL CURRENT ASSETS		2,459,450
Noncurrent Assets:		
Workers Compensation Deposit		1,548
Capital Assets Not Being Depreciated		107,813
Capital Assets Being Depreciated		18,344,691
TOTAL NONCURRENT ASSETS		18,454,052
TOTAL ASSETS	$	20,913,502
DEFERRED OUTFLOWS OF RESOURCES		
Amounts Related to Pensions		137,531
TOTAL DEFERRED OUTFLOWS OF RESOURCES	$	137,531

The accompanying notes are an integral part of these financial statements

PUBLIC UTILITY DISTRICT NO.1 OF ASOTIN COUNTY
STATEMENT OF NET POSITION
DECEMBER 31, 2017

		2017
LIABILITIES		
Current Liabilities:		
Accounts Payable	$	8,079
Wages Payable		38,112
Customer Deposits		77,002
Compensated Absences - Current		26,252
Other Current Liabilities		27,814
Loans Payable - Current		78,396
Interest Payable		1,176
TOTAL CURRENT LIABILITIES		256,831
Noncurrent Liabilities:		
Loans Payable		156,791
Compensated Absences		236,264
Claims Liability Payable		73,804
Other Post Employment Benefits Payable		111,475
Net Pension Liability		852,154
TOTAL NONCURRENT LIABILITIES		1,430,488
TOTAL LIABILITIES	$	1,687,319
DEFERRED INFLOWS OF RESOURCES		
Amounts Related to Pensions		140,154
TOTAL DEFERRED INFLOWS OF RESOURCES	$	140,154
NET POSITION		
Net Investment in Capital Assets		18,217,317
Restricted for Debt Service		39,198
Unrestricted		967,045
TOTAL NET POSITION	$	19,223,560

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The accompanying notes are an integral part of these financial statements

PUBLIC UTILITY DISTRICT NO.1 OF ASOTIN COUNTY
STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN FUND NET POSITION
YEAR ENDED DECEMBER 31, 2017

		2017
OPERATING REVENUES		
Metered and Wastewater Sales	$	4,587,829
Other Operating Revenues		453,127
Total Operating Revenue		5,040,956
OPERATING EXPENSES		
Operation Expense		
General Operations		1,647,519
Power Purchased for Resale		14,937
Cost of Energy		285,728
Maintenance		556,861
Customer Services		481,306
General Administration		622,222
Depreciation		348,731
Excise and B&O Taxes		188,036
Total Operating Expenses		4,145,340
OPERATING INCOME (LOSS)		895,616
NONOPERATING REVENUES (EXPENSES)		
Interest Income		6,932
Gain (Loss) on Sale and/or Disposition Property		(335,004)
Interest Expense on Long-Term Debt		(3,528)
Total Nonoperating Revenues (Expenses)		(331,600)
Income before special item		564,016
Special item		(1,673,316)
CHANGE IN NET POSITION		(1,109,300)
TOTAL NET POSITION, January 1, 2017		19,096,404
Prior period adjustment		1,236,456
TOTAL NET POSITION, December 31, 2017	$	19,223,560

The accompanying notes are an integral part of these financial statements

PUBLIC UTILITY DISTRICT NO.1 OF ASOTIN COUNTY
STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2017

		2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from Customers	$	5,013,974
Payments to Suppliers		(2,281,788)
Payments to Employees		(1,449,491)
Payments for Taxes		(188,036)
NET CASH PROVIDED BY OPERATING ACTIVITIES		1,094,659
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and Construction of Capital Assets		(1,246,961)
Principal Paid on Long Term Debt		(78,397)
Proceeds from the Sale of an Asset		20,000
Interest Paid on Long Term Debt		(4,019)
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES		(1,309,377)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest and Dividends on Investments		6,932
NET CASH PROVIDED BY INVESTING ACTIVITIES		6,932
NET INCREASE IN CASH AND CASH EQUIVALENTS		(207,786)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		2,137,693
CASH AND CASH EQUIVALENTS AT END OF YEAR	$	1,929,907
RECONCILIATION TO NET POSITION		
Cash and Cash Equivalents		1,890,709
Restricted Cash		39,198
TOTAL CASH AND CASH EQUIVALENTS	$	1,929,907

The accompanying notes are an integral part of these financial statements

PUBLIC UTILITY DISTRICT NO.1 OF ASOTIN COUNTY
STATEMENT OF CASH FLOWS (CONTINUED)
YEAR ENDED DECEMBER 31, 2017

RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES

Utility Operating Income	$	895,616
Adjustments to Reconcile Net operating income (loss) to net cash provided by (used in) operating activities:		
Depreciation Expense		348,731
(Increase) Decrease in Receivables		(26,982)
(Increase) Decrease in Inventories		(13,800)
Increase (Decrease) in Current Payables		(96,822)
Increase (Decrease) in Accrued Payroll		841
Increase (Decrease) in Pension Items		(46,943)
Increase (Decrease) in Accrued Employee Benefits		34,018
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	$	1,094,659

The accompanying notes are an integral part of these financial statements

Notes to the Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Public Utility District No. 1 of Asotin County have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. 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. Public Utility District No. 1 of Asotin County was formed in 1984 and began operation in April, 1987, and operates under the laws of the state of Washington applicable to public utility districts. The District is a municipal corporation that provides residential and commercial water service, wastewater service and limited electrical service within Asotin County, Washington. A three-member board governs the District. As required by GAAP, management has considered all potential component units in defining the reporting entity. The District has no component units.

Basis of Accounting and Presentation. The accounting records of the District are maintained in accordance with methods prescribed by the State Auditor, under the authority of Chapter 43.09 RCW. The District uses the uniform system of accounts for Class A water utilities prescribed by the National Association of Regulatory Commissioners (NARUC).

The District utilizes the full-accrual basis of accounting where revenues are recognized when earned, and expenses are recognized when incurred.

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. Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District are derived from its charges to customers for water supply and distribution. Operating expenses include cost of providing services and maintenance, and administrative expenses. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Assets, Deferred Outflows, Liabilities, Deferred Inflows, Fund Balance, Net Position

Cash and Cash Equivalents. The District's cash and cash equivalents are considered to be cash on hand, certificates of deposit, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition. Cash resources of individual funds are invested directly into government securities with interest accruing for the benefit of the investing funds. The interest earned on these investments is prorated to the various funds. This policy covers all funds operated by the District.

For the purposes of the statement of cash flows, the District classifies the Washington State Local Government Investment Pool as cash. Investments in the State Investment Pool are classified as cash equivalents on the financial statements.

Investments Certain Investments for the District are reported at fair value in accordance with GASB statement No. 72, *Fair Value Measurement and Application*. Accordingly, the change in fair value of investments is recognized as an increase or decrease to investment assets and investment income. Likewise, some investments are reported at amortized cost.

Interest is recognized in non-operating revenues as earned. Changes in the fair value of investments are also included in non-operating revenues (expenses). Unrealized gains and losses are recognized on the books as of the statement of net position date. A detailed listing is shown in Note 2, Deposits & Investments.

Receivables. Accounts receivable includes current balances due on utility services billed and other receivables. An allowance for uncollectible accounts is provided based upon historical collection experience. The basis for Unbilled Accounts Receivable is accounts that were billed in January 2018 for service that was provided in December 2017.

Accounts receivable as of December 31, 2017, are as follows:

Receivables:	
Utility Service	$ 258,923
Unbilled Accounts Receivable	75,000
Allowance for Uncollectible Accounts	(7,000)
Total	$ 326,923

Materials Inventory. Inventories for the District consist of supplies held for consumption. The cost is recorded as an expenditure at the time individual inventory items are consumed. Plant materials and supplies are valued at the first-in, first-out average cost which approximates the market value.

Capital Assets and Depreciation. Capital Assets are defined by the District as assets with initial individual cost of more than $10,000 and an estimated useful life in excess of 3 years, and include property, plant equipment and infrastructure assets. Such assets are recorded at historical cost. Donations by developers 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. Normal maintenance and repairs are accounted for as expenses when incurred. Major outlays for capital assets and improvements are capitalized as projects are constructed.

The original cost of utility plant retired or otherwise disposed of is removed from the plant account; accumulated depreciation is charged with the accumulated depreciation relating to the asset sold, and the net gain or loss on disposal is credited or charged to income. The gain (loss) from disposition of utility property account is maintained so that the transactions and details underlying each gain or loss are readily identifiable. See Note 3, Capital Assets.

Depreciation is computed on the straight-line method over the estimated useful lives of the asset as follows:

	Useful Life
Organizational and franchise costs	5-50 years
Buildings and improvements	50 years
Wells and distribution system	50-100 years
Equipment	5+ years

Compensated Absences. Compensated absences are absences for which employees will be paid. All personal leave is accrued when incurred. Personal leave pay, which may be accumulated up to a maximum of 1,200 hours, is payable upon resignation, retirement or death. See Note 4, Long-term Debt.

Other Current Liabilities. Other accrued liabilities includes accrued payroll taxes and withholdings, and use taxes.

Long-term Debt. See Note 4, Long-term Debt.

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

2. DEPOSITS AND INVESTMENTS

Cash and Cash Equivalents

The District's deposits are entirely covered by the Federal Depository Insurance (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (PDPC).

As of December 31, 2017, the District's cash and cash equivalents are as follows:

Cash and cash equivalents:		
Bank depository and checking accounts	$	931,423
Petty Cash		450
Certificates of Deposit		451,582
Local Government Investment Pool		546,452
Total cash and cash equivalents	$	1,929,907

Deposits:

Custodial credit risk (deposits). Custodial risk for deposits is the risk that, in the event of a bank failure, the government's deposits may not be returned. The District has not adopted a policy that addresses deposit custodial risk; however, the District's deposits and certificates of deposit are entirely covered by the Federal Deposit Insurance Corporation (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (PDPC). In the event of a bank failure, claims for the District's deposits would be satisfied by the FDIC or from the sale of collateral held in the PDPC pool.

Amounts held in Washington State banks approved by the Public Deposit Protection Commission (PDPC) are covered by federal depository insurance up to $250,000 and by the PDPC for amounts over $250,000. The PDPC constitutes a multiple financial institution collateral pool that provides for additional assessments against participants of the pool on a pro rata basis. Accordingly, the deposits covered by PDPC are considered to be insured.

Investments

The District does not have a policy for custodial credit risk of investment securities. Further, the District is not subject to foreign currency risk or interest rate risk. The District is currently invested in the Washington State Local Government Investment Pool (LGIP).

Investments Measured at Amortized Cost

As of December 31, 2017, the District had the following investments at amortized cost:

Investment	Maturities	District's own investments
State Investment Pool (LGIP)	NA	$ 546,452
Total		$ 546,452

These are reported at amortized cost because the State Pool has elected to measure in this manner. The only restriction on withdrawals from the State Investment Pool is when a deposit is received by ACH. In this case, a five day waiting period exists.

The LGIP operates in accordance with appropriate state laws and regulations. The LGIP transacts with its participants at a stable net asset value per share and meets the portfolio maturity, quality, diversification, liquidity and shadow pricing requirements that allows it to report at amortized costs.

The weighted average maturities of the LGIP is less than three (3) months, with cash available to the District on demand. The on demand availability of these funds defines them as cash equivalent liquid investments and not subject to interest rate risk. Cash investments are not subject to interest rate risk or any market value reporting requirements. All LGIP investments are either obligations of the United States government, government-sponsored enterprises, or insured demand deposit accounts and certificates of deposits, meaning credit risk is very limited. The investments are either fully insured or fully held by a third party custody provider in the name of the LGIP. The LGIP is audited by the Washington State Auditor's Office and regulated by Washington RCWs and the LGIP Advisory Committee.

3. CAPITAL ASSETS

Utility plant activity for the year ended December 31, 2017 was as follows:

CAPITAL ASSETS	Beginning Balance Restated*	Increase	Decrease	Ending Balance
Utility plant not being depreciated				
Land	$ 107,813	$ -	$ -	$ 107,813
Total utility plant not being depreciated	107,813	-	-	107,813
Utility plant being depreciated				
Buildings and improvements	1,177,176	11,570	32,588	1,156,158
Wells, distribution system and infrastructure	24,764,574	1,030,798	365,330	25,430,042
Equipment	2,093,669	204,593	478,994	1,819,268
Total utility plant being depreciated	28,035,419	1,246,961	876,912	28,405,468
Less accumulated depreciation for:				
Buildings and improvements	630,635	18,103	13,058	635,680
Wells, distribution system and infrastructure	8,397,893	232,057	197,894	8,432,056
Equipment	1,205,426	98,571	310,956	993,041
Total accumulated depreciation	10,233,954	348,731	521,908	10,060,777
Total utility plant being depreciated, net	17,801,465	898,230	355,004	18,344,691
Total utility plant, net	$ 17,909,278	$ 898,230	$ 355,004	$ 18,452,504

* Beginning balances have been adjusted for a prior period adjustment to accumulated depreciation and the special item.

4. LONG-TERM DEBT

Long-term debt at December 31, 2017, comprises the following:

2000 Public Works Trust Fund The Washington State Department of Community Development provided a loan, not to exceed $1,620,000 to finance distribution system improvements, well upgrade, reservoir painting and SCADA upgrades. The District received advances in the amount of $1,458,000 which represents 90% of the approved loan. The loan will be repaid annually over 20 years at an interest rate of 3%.	$ 235,187
Current portion of long-term debt	(78,396)
Long-term debt due after one year	$ 156,791

Long-term Debt Maturities. The annual requirements to amortize all long-term debt outstanding as of December 31, 2017 are as follows:

Year	Principal	Interest	Annual Payment
2018	$ 78,396	$ 2,352	80,748
2019	78,396	1,568	79,964
2020	78,395	783	79,178
Total	$ 235,187	$ 4,703	$ 239,890

A summary of changes in long-term debt is as follows:

	Balance 1/1/2017	Increase	Decrease	Balance 12/31/2017	Due within one year
2000 Public Works Trust Fund	$ 313,584	$ -	$ 78,397	$ 235,187	78,396
Compensated Absences	231,247	31,269		262,516	26,252
Claims Liability	83,721		9,917	73,804	-
Other Post Employment Benefits	108,788	16,725	14,038	111,475	-
Pension Liability	1,083,216	-	231,062	852,154	-
Total long-term debt	$ 1,820,556	$ 47,994	$ 333,414	$ 1,535,136	$ 104,648

5. PENSIONS

The following table represents the aggregate pension amounts for all plans subject to the requirements of the GASB Statement 68, *Accounting and Financial Reporting for Pensions* for the year 2017:

Aggregate Pension Amounts - All Plans		
Pension liabilities	$	852,154
Deferred outflows of resources	$	137,531
Deferred inflows of resources	$	140,154
Pension expense/expenditures	$	93,484

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 2017 were as follows:

PERS Plan 1		
Actual Contribution Rates:	**Employer**	**Employee**
January-June 2017		
PERS Plan 1	6.23%	6.00%
PERS Plan 1 UAAL	4.77%	
Administrative Fee	0.18%	
Total	**11.18%**	**6.00%**
July – December 2017:		
PERS Plan 1	7.49%	6.00%
PERS Plan 1 UAAL	5.03%	
Administrative Fee	0.18%	
Total	**12.70%**	**6.00%**

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

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

PERS Plan 2/3 members hired on or after May 1, 2013 have the option to retire early by accepting a reduction of five percent for each year of retirement before age 65. This option is available only to those who are age 55 or older and have at least 30 years of service credit. PERS Plan 2/3 retirement benefits are also actuarially reduced to reflect the choice of a survivor benefit. Other PERS Plan 2/3 benefits include duty and non-duty disability payments, a cost-of-living allowance (based on the CPI), capped at three percent annually and a one-time duty related death benefit, if found eligible by the Department of Labor and Industries. PERS 2 members are vested after completing five years of eligible service. Plan 3 members are vested in the defined benefit portion of their plan after ten years of service; or after five years of service if 12 months of that service are earned after age 44.

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

<u>Contributions</u>

The **PERS Plan 2/3** employer and employee contribution rates are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. The Plan 2/3 employer rates include a component to address the PERS Plan 1 UAAL and an administrative expense that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 2 employer and employee contribution rates and Plan 3 contribution rates. The PERS Plan 2/3 required contribution rates (expressed as a percentage of covered payroll) for 2017 were as follows:

PERS Plan 2/3		
Actual Contribution Rates:	**Employer 2/3**	**Employee 2**
January – June 2017		
PERS Plan 2/3	6.23%	6.12%
PERS Plan 1 UAAL	4.77%	
Administrative Fee	0.18%	
Employee PERS Plan 3		varies
Total	**11.18%**	**6.12%**
July – December 2017:		
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%**

The District's actual PERS plan contributions were $58,505 to PERS Plan 1 and $81,923 to PERS Plan 2/3 for the year ended December 31, 2017.

Actuarial Assumptions

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

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

- **Inflation:** 3.0% total economic inflation; 3.75% salary inflation

- **Salary increases**: In addition to the base 3.75% salary inflation assumption, salaries are also expected to grow by promotions and longevity.

- **Investment rate of return:** 7.5%

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

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

- For all plans except LEOFF Plan 1, how terminated and vested member benefits are valued was corrected.
- How the basic minimum COLA in PERS Plan 1 is valued for legal order payees was improved.
- For all plans, the average remaining service lives calculation was revised.

Discount Rate

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

To determine that rate, an asset sufficiency test included an assumed 7.7 percent long-term discount rate to determine funding liabilities for calculating future contribution rate requirements. (All plans use 7.7 percent except LEOFF 2, which has assumed 7.5 percent). Consistent with the long-term expected rate of return, a 7.5 percent future investment rate of return on invested assets was assumed for the test. Contributions from plan members and employers are assumed to continue being made at contractually required rates (including PERS 2/3, PSERS 2, SERS 2/3, and

TRS 2/3 employers, whose rates include a component for the PERS 1, and TRS 1 plan liabilities). Based on these assumptions, the pension plans' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return of 7.5 percent was used to determine the total liability.

Long-Term Expected Rate of Return

The long-term expected rate of return on the DRS pension plan investments of 7.5 percent was determined using a building-block-method. 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 at various time horizons.

Estimated Rates of Return by Asset Class

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2017, are summarized in the table below. The inflation component used to create the table is 2.2 percent and represents the WSIB's most recent long-term estimate of broad economic inflation.

Asset Class	Target Allocation	% Long-Term Expected Real Rate of Return Arithmetic
Fixed Income	20%	1.70%
Tangible Assets	5%	4.90%
Real Estate	15%	5.80%
Global Equity	37%	6.30%
Private Equity	23%	9.30%
	100%	

Sensitivity of the Net Pension Liability/ (Asset)

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

	1% Decrease 6.50%	Current Rate 7.50%	1% Increase 8.50%
PERS 1	534,573	438,825	355,887
PERS 2/3	1,113,552	413,329	(160,400)

Pension Plan Fiduciary Net Position

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

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

At June 30, 2017, the District reported a total pension liability of $852,154 for its proportionate share of the net pension liabilities as follows:

Plan	Liability
PERS 1	438,825
PERS 2/3	413,329

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

	Proportionate Share 6/30/16	Proportionate Share 6/30/17	Change in Proportion
PERS 1	0.00917%	0.00925%	0.00008%
PERS 2/3	0.01173%	0.01190%	0.00016%

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

Pension Expense

For the year ended December 31, 2017, the District recognized pension expense as follows:

	Pension Expense
PERS 1	30,777
PERS 2/3	62,706

Deferred Outflows of Resources and Deferred Inflows of Resources

At December 31, 2017, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following:

PERS 1	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual investment earnings on pension plan investments	-	(16,376)
Contributions subsequent to the measurement date	30,117	-
TOTAL	$ 30,117	$ (16,376)

PERS 2/3	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 41,880	$ (13,594)
Net difference between projected and actual investment earnings on pension plan investments	-	(110,184)
Changes of assumptions	4,390	-
Changes in proportion and differences between contributions and proportionate share of contributions	16,297	-
Contributions subsequent to the measurement date	44,847	
TOTAL	$ 107,414	$ (123,778)

TOTAL ALL PLANS	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 41,880	$ (13,594)
Net difference between projected and actual investment earnings on pension plan investments	-	(126,560)
Changes of assumptions	4,390	-
Changes in proportion and differences between contributions and proportionate share of contributions	16,297	-
Contributions subsequent to the measurement date	74,964	-
TOTAL	$ 137,531	$ (140,154)

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, 2018. 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
2018	(11,069)	(37,298)
2019	3,495	16,745
2020	(811)	(8,030)
2021	(7,991)	(43,370)
2022	-	4,670
Thereafter	-	6,072

6. OTHER POST EMPLOYMENT BENEFITS

Plan Description:

In addition to the pension benefits described in Note 5, the District pays medical premiums under a single-employer defined benefit Other Post Employment Benefit (OPEB) plan. This plan pays medical premiums of qualified retirees for 3 years from the date of retirement. A retiree will only qualify for benefits if at the time of retirement at least 500 hours of sick leave remain in his/her bank. The District converted to a paid-time-off system in December 1997; there are no new entrants into the plan. These benefits were established by Resolution No. 2004-292 and amended by resolution 2015-423.

As of year-end, there are three District employees which may be eligible for these benefits, and one employee that had retired and was receiving these benefits.

This OPEB plan does not issue a stand-alone financial report.

Funding Policy:

This plan is not currently funded. The District was required to contribute $16,275 at December 31, 2017, but made $14,038 in contributions during the year. The amount contributed differs from the Annual Required Contribution (ARC) because the plan is financed on a pay-as-you-go-basis. The difference between the OPEB Costs and the required contribution is called the Net OPEB Obligation (NOO). This amount of $111,475 is the actuarial accrued liability recognized on the statement of net position at December 31, 2017.

The total unfunded actuarial liability (UAAL) is $164,719. The covered payroll (annual payroll of active employees covered by the plan) at December 31, 2017 was $218,958 and the ratio of the UAAL to the covered payroll was 75 percent.

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation is as follows:

Fiscal Year End	Annual OPEB Costs	Percentage of Annual OPEB Costs Contributed	Net OPEB Obligation
2017	$ 16,725	84%	$ 111,475
2016	16,382	36%	108,788
2015	16,382	0%	98,361

Annual OPEB Cost and Net OPEB Obligation

The District's annual other postemployment benefit (OPEB) cost (expense) is determined based on the annual required contribution of the employer (ARC), an amount actuarially determine in accordance with the Alternative measurement method parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the District's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the District's net OPEB obligation.

Actuarial Required Contribution (ARC)	$	23,061
Interest on Net OPEB Obligation (NOO)		1,393
Adjustment to NOO		(7,729)
Annual OPEB cost		16,725
Employer Contributions		(14,038)
Increase (Decrease) in NOO		2,687
Net OPEB obligation on January 1		108,788
Net OPEB obligation on December 31	$	111,475

Actuarial Methods and Assumptions:

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, inflation 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 required schedule of funding progress, presented as required supplementary information immediately following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Additionally, calculations are based on the types of benefits provided under the terms of the plan at the time of each valuation. Actuarial calculations reflect a long-term perspective.

The District used the alternative measurement method permitted under GASB Statement No. 45. A single retirement age of 62.0 was assumed for all active members to determine the AAL and normal cost. Retirement and termination rates were assumed to follow the rates given in tables 1 and 2 of GASB Statement 45. Healthcare costs and trends were determined by Milliman and used by OSA in the state-wide PEBB study performed in 2015. The results were based on data for the three employees potentially covered by the plan and the retiree receiving benefits. The specific actuarial methods and significant assumptions used to determine the ARC for the current year are as follows:

Valuation Date	1/1/2015
Actuarial Cost Method	Entry Age
Method used to determine the actuarial value of assets	N/A
Interest Rate for Discounting Future Liabilities	1.28%
Projected Payroll Growth	2.60%
Investment Return	N/A
Healthcare Cost Trend Rate - Initial	5.5%
Healthcare Cost Trend Rate - Ultimate	5.9%
Amortization Period - Closed	8

7. RISK MANAGEMENT

Self-Insurance Fund

The District is a member of the Public Utility Risk Management Services Self-Insurance Fund (PURMS). 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 service to the same extent that they may individually purchase insurance, self-insure, or hire or contract for risk management services. An agreement to form a pooling arrangement (Pool or Liability Pool) was made pursuant to the provisions of Chapter 54.16 RCW, and interlocal government agreements.
The Pool was formed on December 31, 1976, when certain Public Utility Districts (PUDs) in the State of Washington joined together by signing an Agreement to pool their self-insured losses and jointly purchase insurance and administrative services. As of December 31, 2017, there were nineteen, nineteen, and twelve members in the Liability, Property, and Health & Welfare pools, respectively. The Pool provides liability, property, and health and welfare insurance coverage for its members and their employees under an agreement entitled “PURMS Joint Self-Insurance Agreement” (SIA).

Liability Risk Pool

The Liability Pool is financed through assessments of its participating members (Liability Assessment) in accordance with the terms of the Liability General Assessment Formula. Liability Assessments are levied at the beginning of each calendar year to replenish the Liability Pool to the Designated Liability Pool Balance. In addition, Liability Assessments are levied at any time during the year that the actual Liability Pool Balance becomes $500,000 less than the Designated Liability Pool Balance.

For 2017, the Designated Liability Pool Balance was $3,350,000. As a result, during 2017, the Liability Pool maintained cash reserves between $2,850,000 and $3,350,000 to pay for operating expenses and liability claims. The Liability Coverage Limit was $1,000,000 per occurrence as of December 31, 2017.

As of December 31, 2017 there were 95 known incidents or unresolved Liability Claims pending against one or members or former members of the Liability Pool. The total risk posed by these claims to such members and to the Liability Pool itself is unknown but the reserves set by the Administrator for these claims were $263,434.

Property Risk Pool

PURMS provides property insurance coverage for its members participating in the Property Risk Pool in accordance with the terms of the SIA. Under the SIA, the Property Pool has had a self-insured retention (or Property coverage Limit) of $250,000 per property loss.

At all times, PURMS maintains Excess Property Insurance for its members in the Property Pool. For 2017, the amount of the Excess Property Insurance was $200 million, with excess coverage attaching at the $250,000 Property Coverage Limit for all Property Losses except those subject to increased retention levels for certain property risks.

In accordance with Washington State regulatory requirements applicable to public entity risk pools, on an annual basis, PURMS engages an independent qualified actuary to determine the claim financing levels and liabilities for unpaid claims and claims adjustments expense for the Liability Pool. A copy of the Liability Pool Actuarial Report is provided to the Washington State Risk Manager and made available to the Washington State Auditor's Office.

As of December 31, 2017 there were 8 known property claims pending from members of the property pool. The total risk posed by these claims to such members and to the Property Pool itself is unknown and can only be estimated. The reserves set by the Administrator for these claims were $99,204.

Health & Welfare Risk Pool

PURMS provides health and welfare insurance coverage for the employees of each of its members participating in the Health & Welfare Risk Pool (H&W Pool) in accordance with the terms of the SIA and the terms of each member's respective coverage booklet provided to its employees. The H&W Pool was established as one of PURMS' risk pools effective March 31, 2000.

Under the H&W assessment formula, each month, each member of the H&W Pool is assessed for (a) the cost the H&W Pool incurred during the preceding month for the H&W claims for such member's employees; and (b) for such member's share of Shared H&W Costs. Shared H&W Costs are administrative expenses incurred by the H&W Pool, premiums for stop-loss insurance, PPO charges, and Shared H&W Claims.

The exposure of each H&W Pool Member to the H&W Claims Costs of its employees is limited by two different stop-loss points. The first is established annually by the Excess Stop-Loss Insurance that the H&W Pool acquires and maintains for its members. For 2017 the H&W Pool Individual Stop Loss Point was $275,000 per employee and the H&W Pool Aggregate Stop Loss Point was $21,126,333 for the combined H&W Claims Costs of the employees of members of the H&W Pool.

As of December 31, 2017 reserves of $1,264,346 for prescription drug, dental and vision benefits was set aside by the Administrator of the pool to cover the actuarially estimated program liability of $1,062,706.

Each of PURMS risk pools is audited annually by the State Auditor's Office. In addition, as required by State regulations, PURMS provides quarterly financial reports to the State Risk Manager reflecting the claims and administrative expenses of the Risk Pools. Bi-annually, the State Risk Manager performs its own audit of PURMS' risk pools.

There has been no reduction in insurance coverage from the previous year and there have been no settlements in excess of the District's insurance coverage in any of the three preceding years.

8. OTHER DISCLOSURES

Prior Period Adjustment

The District recognized prior period adjustments in the amount of $1,236,456, for corrections to accumulated depreciation on some of its capital assets.

Special Item

A special item was recorded to reflect a change in District policy regarding capitalizing water meters. The District now expenses meters as they are purchased. The total net book value of meters removed from capital assets is $1,673,316.

ASOTIN COUNTY PUD
Required Supplementary Information
Other Post Employment Benefit
Schedule of Funding Progress
December 31, 2017

Actuarial Valuation Date	Actuarial Value of Assets **(a)**	Actuarial Accrued Liability **(b)**	Unfunded Actuarial Accrued Liabilities **(b-a)**	Funded Ratio **(a/b)**	Covered Payroll **(c)**	UAAL as a Percentage of Covered Payroll **((b-a)/c)**
1/1/2009	$ -	$ 114,152	$ 114,152	0%	$ 229,497	50%
1/1/2012	-	138,176	138,176	0%	259,635	53%
1/1/2015	-	164,719	164,719	0%	218,958	75%

ASOTIN COUNTY PUD
REQUIRED SUPPLEMENTARY INFORMATION - State Sponsored Plans
Schedule of Proportionate Share of the Net Pension Liability
PERS 1
As of June 30
Last Four Years

Year Ended June 30,	Employer's proportion of the net pension liability (asset)	Employer's proportionate share of the net pension liability	Employer's covered employee payroll	Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	Plan fiduciary net position as a percentage of the total pension liability
2017	0.009248%	$ 438,825	$ 1,165,547	37.65%	61.24%
2016	0.009169%	492,418	1,116,898	44.09%	57.03%
2015	0.008853%	463,094	1,014,362	45.65%	59.10%
2014	0.008660%	436,252	962,773	45.31%	61.19%

ASOTIN COUNTY PUD
REQUIRED SUPPLEMENTARY INFORMATION - State Sponsored Plans
Schedule of Proportionate Share of the Net Pension Liability
PERS 2/3
As of June 30
Last Four Years

Year Ended June 30,	Employer's proportion of the net pension liability (asset)	Employer's proportionate share of the net pension liability	Employer's covered employee payroll	Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	Plan fiduciary net position as a percentage of the total pension liability
2017	0.011896%	$ 413,329	$ 1,165,547	35.46%	90.97%
2016	0.011734%	590,798	1,116,898	52.90%	85.82%
2015	0.011428%	408,329	1,014,362	40.25%	89.20%
2014	0.011149%	225,362	962,773	23.41%	93.29%

ASOTIN COUNTY PUD

REQUIRED SUPPLEMENTARY INFORMATION - State Sponsored Plans

Schedule of Employer Contributions

PERS 1

As of December 31

Last Four Years

Year Ended December 31,	Statutorily or contractually required contributions	Contributions in relation to the statutorily or contractually required contributions	Contribution deficiency (excess)	Covered employer payroll	Contributions as a percentage of covered employee
2017	$ 58,505	$ (58,505)	$ -	$ 1,193,878	4.90%
2016	54,691	(54,691)	-	1,146,569	4.77%
2015	43,205	(43,205)	-	974,637	4.43%
2014	44,007	(44,007)	-	1,069,473	4.11%

ASOTIN COUNTY PUD

REQUIRED SUPPLEMENTARY INFORMATION - State Sponsored Plans

Schedule of Employer Contributions

PERS 2/3

As of December 31

Last Four Years

Year Ended December 31,	Statutorily or contractually required contributions	Contributions in relation to the statutorily or contractually required	Contribution deficiency (excess)	Covered employer payroll	Contributions as a percentage of covered employee
2017	$ 81,923	$ (81,923)	$ -	$ 1,193,878	6.86%
2016	71,431	(71,431)	-	1,146,569	6.23%
2015	55,388	(55,388)	-	974,637	5.68%
2014	54,491	(54,491)	-	1,069,473	5.10%

ASOTIN COUNTY PUD

Notes to Required Supplemental Information - Pension

As of December 31
Last Four Years

Note 1: Information Provided

GASB 68 was implemented for the year ended December 31, 2015, therefore there is no data available for years prior to 2014.

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 has been presented in accordance with GASB 82, *Pension Issues.* Covered payroll includes all payroll on which a contribution is based.

Note 4: Change in contribution rate

The employer contribution rates for both PERS 1 and PERS 2/3 plans increased from 11.18% to 12.70% for pay periods beginning July 2017.

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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