



# Washington State Auditor's Office

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## Financial Statements Audit Report **Lake Stevens Sewer District** Snohomish County

**For the period January 1, 2014 through December 31, 2014**

**Published November 12, 2015**

**Report No. 1015498**





## Washington State Auditor's Office

November 12, 2015

Board of Commissioners  
Lake Stevens Sewer District  
Lake Stevens, Washington

### Report on Financial Statements

Please find attached our report on the Lake Stevens Sewer District's financial statements.

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

Sincerely,

JAN M. JUTTE, CPA, CGFM  
ACTING STATE AUDITOR  
OLYMPIA, WA

## TABLE OF CONTENTS

Independent Auditor’s Report On Internal Control Over Financial Reporting And On Compliance And Other Matters Based On An Audit Of Financial Statements Performed In Accordance With Government Auditing Standards .....	4
Independent Auditor’s Report On Financial Statements .....	6
Financial Section.....	9
About The State Auditor’s Office.....	27

**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**

**Lake Stevens Sewer District  
Snohomish County  
January 1, 2014 through December 31, 2014**

Board of Commissioners  
Lake Stevens Sewer District  
Lake Stevens, 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 Lake Stevens Sewer District, Snohomish County, Washington, as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated October 26, 2015.

**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.



JAN M. JUTTE, CPA, CGFM  
ACTING STATE AUDITOR  
OLYMPIA, WA

October 26, 2015

# INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

## **Lake Stevens Sewer District Snohomish County January 1, 2014 through December 31, 2014**

Board of Commissioners  
Lake Stevens Sewer District  
Lake Stevens, Washington

### **REPORT ON THE FINANCIAL STATEMENTS**

We have audited the accompanying financial statements of the Lake Stevens Sewer District, Snohomish County, Washington, as of and for the year ended December 31, 2014, 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 Lake Stevens Sewer District, as of December 31, 2014, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

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

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 10 through 12 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated October 26, 2015 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.



JAN M. JUTTE, CPA, CGFM  
ACTING STATE AUDITOR  
OLYMPIA, WA

October 26, 2015



## **FINANCIAL SECTION**

**Lake Stevens Sewer District  
Snohomish County  
January 1, 2014 through December 31, 2014**

### **REQUIRED SUPPLEMENTARY INFORMATION**

Management's Discussion and Analysis – 2014

### **BASIC FINANCIAL STATEMENTS**

Statement of Net Position – 2014

Statement of Revenues, Expenses and Changes in Net Position – 2014

Statement of Cash Flows – 2014

Notes to Financial Statements – 2014

# **Lake Stevens Sewer District Management's Discussion and Analysis For the Year Ended December 31, 2014**

The following discussion and analysis of the financial performance of the Lake Stevens Sewer District (the District) provides an overall review of the District's financial activities for the year ended December 31, 2014. This discussion is designed to be read in conjunction with the financial statements and notes, which follow this section.

## **OVERVIEW**

The District was incorporated in 1957 and operates under the laws of the State of Washington. All financial reporting is based on twelve months of operations.

In 2014, the District had a positive operating income and met all debt obligations. As of December 31, 2014, the District had a total net position of \$83,240,119.

With the completion of the Southwest Interceptor project and the downgrade of Lift Station #11, the District passed Resolution No. 899: Rescinding Lift Station #11 Moratorium on January 22, 2015. The area north of 20<sup>th</sup> street has now been opened up for potential development.

The Board of Commissioners hired Michael S. Bowers as the new General Manager, effective September 29, 2014. Michael comes to The District from Multnomah County, Oregon where he served as the Director of Operations, Real Estate and Facilities for 2 years. Michael has a Master of Science in Civil Engineering & Construction Management from the University of Washington, and a Bachelor of Science in Systems Engineering with studies in Economics, Public Policy and Leadership from the United States Naval Academy. Michael's background includes water and sewer utilities, public policy, law, economics, sustainability, business, civil engineering and construction, public works, environmental studies, real estate, redevelopment, transportation, disaster preparedness, and detailed budgeting and financial analysis.

## **FINANCIAL STATEMENTS**

This section of the annual report explains the purpose of the District's basic financial statements and the notes to these financial statements.

### **Basic Financial Statements**

The financial statements of the District are designed to provide readers with a broad overview of the District's finances similar to a private-sector business. They have been prepared using the accrual basis of accounting in accordance with generally accepted accounting principles. Under this basis of accounting, revenues are recognized in the period they are earned and expenses are recognized when incurred, regardless of the timing of related cash flows. These statements offer short and long-term financial information about the District's activities.

The Statement of Net Position presents the District's assets and liabilities, with the difference between the two reported as Net Position. The Statement of Net Position provides information about the nature and amount of investments in resources (assets), and deferred outflows, and the obligations to creditors (liabilities) and deferred inflows. Net Position increases when revenues exceed expenses. The Statement of Revenues, Expenses, and Changes in Net Position reports the revenues and expenses during the periods indicated. The Statement of Cash Flows provides information about the District's cash receipts and payments for operations, as well as funds provided and used in investing and financing activities.

### **Notes to the Financial Statements**

The notes to the financial statements provide additional information that is essential to gain a full understanding of the figures provided in the financial statements.

**FINANCIAL ANALYSIS****Condensed Financial Information for  
Years Ending**

	<b><u>Dec. 31, 2014</u></b>	<b><u>Dec. 31, 2013</u></b>
Current Assets	\$ 25,655,092	\$ 26,971,189
Net Capital Assets	174,095,313	177,389,381
Deferred Outflow of Resources	12,061	13,835
Total Assets	<u>\$ 199,762,466</u>	<u>\$ 204,374,405</u>
Current Liabilities	\$ 6,747,990	\$ 6,878,212
Long-Term Liabilities	109,711,654	115,416,568
Deferred Inflows of Resources	62,703	91,524
Total Liabilities	<u>\$ 116,522,347</u>	<u>\$ 122,386,304</u>
Net Investment in Capital Assets	\$ 63,878,927	\$ 61,549,622
Restricted for Debt Service & Const	17,581,715	21,752,139
Unrestricted	1,779,477	(1,313,660)
Total Net Position	<u><u>\$ 83,240,119</u></u>	<u><u>\$ 81,988,101</u></u>
Utility Operating Revenue	\$ 11,248,502	\$ 10,840,783
Non-operating Revenue	159,487	172,800
Total Revenue	<u>11,407,989</u>	<u>11,013,583</u>
Operating Expenses	10,772,037	11,694,216
Non-operating Expenses	2,974,729	3,494,335
Total Expenses	<u>13,746,766</u>	<u>15,188,551</u>
Excess (Deficiency)	(2,338,777)	(4,174,968)
Capital Contributions	3,590,795	1,853,163
Change in Net Position	1,252,018	(2,321,805)
Net Position – Beg of Year	81,988,101	84,309,906
Net Position – End of Year	<u><u>\$ 83,240,119</u></u>	<u><u>\$ 81,988,101</u></u>

## Overview

For the twelve months ending December 31, 2014, the total assets of the District decreased by approximately \$4.6 million or approximately 2.3%, and total liabilities decreased by approximately \$5.8 million or approximately 4.8%. As a result, Net Position increased approximately \$1.2 million and the District's overall financial position improved.

Operating Revenues increased approximately 3.8% as expected due to an increase in District customers during 2014 and the \$2.00 per month, per Equivalent Residential Unit (ERU) rate increase that took effect January 1, 2014. Operating Revenues are expected to increase in 2015 due to a \$3.00 per month, per ERU rate increase, that took effect on January 1, 2015, and an increase in District customers.

Operating Expenses decreased approximately 7.9% due to the staff operating the District more efficiently and without the salary costs of the General Manager position.

Change in Net Position increased approximately \$1.2 million when compared to December 31, 2013. This increase is a result of the staff operating the District more efficiently and an increase in connection fees paid by developments.

The District has restrictions on the use of funds which are listed on the previous page.

## Capital Assets

The District had a total net Capital Asset Value of \$174,095,313 as of December 31, 2014. This was a decrease of approximately \$3.3 million and is due to the increased STP#2 depreciation expense. Capital Assets consisted of \$2,629,552 in assets not being depreciated including land, and construction in process; \$204,981,890 in depreciable assets with a total accumulated depreciation of \$33,516,129 for a net value of depreciable assets of \$174,095,313.

Please refer to Note 4 to the Financial Statements for more information.

## Long-Term Debts

During the year, the District decreased its long-term debt by \$5,623,373, leaving a balance of \$110,216,386, including current portion of long-term debt.

Please refer to Note 5 to the Financial Statements for more information.

## **REQUESTS FOR INFORMATION**

The District's financial statements, notes and management discussion and analysis are designed to provide a general overview of the District's finances. Questions concerning any of the information presented in this report should be directed to the District at:

Lake Stevens Sewer District  
1106 Vernon Rd #A  
Lake Stevens, WA 98258  
(425) 334-8588

**MGAG No. 2176**  
**LAKE STEVENS SEWER DISTRICT**  
**STATEMENT OF NET POSITION**  
**DECEMBER 31, 2014**

**Assets**

Current Assets:

Cash and Cash Equivalents	\$	7,517,251
Restricted Cash and Cash Equivalents		17,581,715
Receivables, net		386,434
Assessments Receivable		64,871
Prepayments		104,821

Total Current Assets		25,655,092
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Noncurrent Assets:

Capital Assets Not Being Depreciated		
Land		1,290,722
Construction Works in Progress		1,338,830
Capital Assets Being Depreciated		
Plant and Buildings		177,494,814
Machinery, Equipment and Furniture		27,487,076
		207,611,442
Less accumulated depreciation		(33,516,129)
Total Noncurrent Assets		174,095,313

Deferred Outflow of Resources		12,061
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Total Assets and Deferred Outflows	\$	199,762,466
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**Liabilities**

Current Liabilities:

Accounts Payable	\$	283,700
Compensated Absences		137,621
Developer Extension Deposits		83,500
Interest Accrued		538,437
Current Portion of Bonds, Notes and Loans Payable		5,704,732
Total Current Liabilities		6,747,990

Noncurrent Liabilities:

Bonds, Notes and Loans Payable, net of current portion		104,511,654
Accrued STP #1 Remediation Costs		5,200,000
Total Noncurrent Liabilities		109,711,654

Deferred Inflows of Resources		62,703
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Total Liabilities and Deferred Inflows		116,522,347
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**Net Position**

Net Investment in Capital Assets		63,878,927
Restricted for Debt Service & Construction		17,581,715
Unrestricted		1,779,477
Total Net Position		83,240,119

Total Liabilities and Net Position	\$	199,762,466
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The notes to the financial statements are an integral part of this statement

**MGAG No. 2176**  
**LAKE STEVENS SEWER DISTRICT**  
**STATEMENT OF REVENUE, EXPENSES & CHANGES IN**  
**NET POSITION**  
**FOR YEAR ENDED DECEMBER 31, 2014**

<b>Operating Revenue</b>	
Utility Revenue	\$ 11,248,502
Total Operating Revenue	<u>11,248,502</u>
<b>Operating Expenses:</b>	
General Operations	3,611,639
Maintenance Expense	772,972
Depreciation Expense	5,918,702
Taxes	468,724
Total Operating Expenses	<u>10,772,037</u>
<b>Operating Income (Loss)</b>	<u>476,465</u>
<b>Nonoperating Revenues (Expenses):</b>	
Interest Revenue	137,340
Interest on Long-Term Debt	(2,957,906)
Amortization Deferred Outflows & Inflows of Resources	27,047
Gain (Loss) on Capital Asset Disposition	(43,870)
Net Rental Income	22,147
Total Nonoperating Revenues (Expenses)	<u>(2,815,242)</u>
<b>Income Before Capital Contributions</b>	<u>(2,338,777)</u>
<b>Capital Contributions:</b>	
Developer Donated Facility	1,449,009
Connection Fees	2,141,786
Total Capital Contributions	<u>3,590,795</u>
<b>Change in Net Position</b>	1,252,018
<b>Total Net Position, January 1, 2014</b>	<u>81,988,101</u>
<b>Total Net Position, December 31, 2014</b>	<u><u>\$ 83,240,119</u></u>

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

**MGAG No. 2176**  
**LAKE STEVENS SEWER DISTRICT**  
**STATEMENT OF CASH FLOWS**  
**FOR YEAR ENDED DECEMBER 31, 2014**

<b>Cash Flows from Operating Activities:</b>	
Receipts from customers	\$ 11,228,408
Payments to suppliers	(3,060,836)
Payments to employees	(1,878,134)
Net Cash Provided by Operating Activities	<u>6,289,438</u>
<b>Cash Flows from Capital and Related Financing Activities:</b>	
Capital contributions - Connection fees	2,141,786
Cash purchase of capital assets	(1,340,471)
Principal paid on long-term debt	(5,623,372)
Interest paid on long-term debt	(2,980,458)
Principal received on ULID assessments	22,680
Interest received on ULID assessments	2,701
Net Cash Provided (Used) for Capital Financing Activities	<u>(7,777,134)</u>
<b>Cash Flows from Investing Activities:</b>	
Interest received on investments	134,639
Net rental income	22,147
Net Cash Provided (Used) by Investing Activities	<u>156,786</u>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	(1,330,910)
<b>Cash and Cash Equivalents at January 1, 2014</b>	<u>26,429,877</u>
<b>Cash and Cash Equivalents at December 31, 2014</b>	<u>\$ 25,098,967</u>
<b>Reconciliation of Operating Income to Net Cash provided by Operating Activities:</b>	
Operating Income (Loss)	\$ 476,465
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	5,918,702
Changes in assets and liabilities:	
Decrease (Increase) in accounts receivable	(24,094)
Decrease (Increase) in prepayments	(29,070)
Increase (Decrease) in operating accounts payable	169,569
Increase (Decrease) in compensated absences	(226,134)
Increase (Decrease) in developer deposits	4,000
<b>Net Cash Provided by Operating Activities</b>	<u>\$ 6,289,438</u>
<b>Noncash Investing, Capital, and Financing Activities:</b>	
Developer donated facility	\$ 1,449,009
Gain (Loss) on Capital Asset Disposition	(43,870)

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

**LAKE STEVENS SEWER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDING DECEMBER 31, 2014**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Lake Stevens Sewer District conform to generally accepted accounting principles (GAAP) as applicable to proprietary funds of governments. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the most significant policies (including identification of those policies which result in material departures from generally accepted accounting principles):

a. Reporting Entity / Nature of Business

The Lake Stevens Sewer District is a municipal corporation governed by a three-member board elected by the voters located in the service area of the Lake Stevens Sewer District. The District provides a sewage system for collection, transportation and treatment of sanitary sewage for the unincorporated area around Lake Stevens, WA and for the City of Lake Stevens. As required by generally accepted accounting principles, management has considered all potential component units in defining the reporting entity. The Lake Stevens Sewer District has no component units.

b. Basis of Accounting and Presentation

The accounting records of the District are maintained in accordance with methods prescribed by the State Auditor under the authority of Chapter 43.09 RCW.

The District uses the full accrual basis of accounting where revenues are recognized when earned and expenses are recognized when incurred. Capital asset purchases are capitalized and long-term liabilities are accounted for in the appropriate funds. All activities of the District are accounted for within a single proprietary fund.

The District distinguishes between operating revenues and expenses from non-operating ones. Operating revenues and expenses result from providing services, producing and delivering goods in connection with the District's principal ongoing operations. The principal operating revenues of the district are charges to customers for wastewater treatment. Operating expenses for the District include the cost of maintenance & operations, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Effective December 15, 2013, the District implemented Governmental Accounting Standard Series (GASB) Statement No. 65, Items Previously Reported as Assets and Liabilities. The cumulative effect of GASB No. 65 has been included in the financial statements ending December 31, 2013.

All utility services are billed monthly and recorded as revenues.

c. Cash and Cash Equivalents

For purposes of the Statement of Cash Flows, the District considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

d. Utility Plant and Depreciation

Utility plant in service and other capital assets are recorded at cost. Donations by developers and customers are recorded at actual construction cost plus engineer estimated allied cost; and depreciated over the appropriate life of the assets.

The original cost of operating property retired, sold, or otherwise disposed of is removed from the utility plant accounts, accumulated depreciation is charged with the accumulated depreciation related to the property sold, and the net gain or loss on disposition is credited or charged to income.

Depreciation is computed on the straight-line method with useful lives of five to fifty years.



**LAKE STEVENS SEWER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDING DECEMBER 31, 2014**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

d. Utility Plant and Depreciation (continued)

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

Please see Note 4.

e. Restricted Cash

In accordance with bond resolutions (and certain related agreements) separate restricted cash accounts are required to be established. The assets held in these accounts are restricted for specific uses, including construction, debt service and other special reserve requirements. Restricted accounts at December 31, 2014 include the following:

Bond/Loan Reserve Funds:	\$	5,299,050
Construction Funds:		879,359
Debt Service Funds:		<u>11,394,827</u>
	\$	<u><u>17,573,236</u></u>

f. Receivables

Uncollectible accounts are written off to expense; however, few accounts are uncollectible because of the lien and foreclosures rights provided by the Revised Codes of Washington (RCW). Chapters 56.16.100/110 provide that the payment of delinquent charges for service may be enforced by establishing a lien against the property for which the charge is delinquent. If a lien is established against the property in question, such lien would be superior to all other liens except those established for the payment of general taxes and special assessments. Foreclosure rights are by civil action in the Snohomish County Superior Court.

g. Investments

All investments of the District are in the form of time certificates of deposit, U.S. Government Securities, State Treasurer's Investment Pool and County Treasurer's Investment Pool pursuant to the requirements of Chapter 39.58 RCW. Investments are stated at cost. Interest income is accrued at year-end. As a general policy, investments are held until maturity.

h. Compensated Absences

Compensated absences are absences for which employees will be paid, such as vacation pay, holiday pay, comp time, and sick leave. The District accrues unpaid compensated absences as an expense and liability when incurred. The Lake Stevens Sewer District Board of Commissioners adopted Resolution #827 on 1/28/2011, stating that upon termination, 100% of the employee's accrued sick leave, which may be accumulated up to 1200 hours, is paid out to their VEBA account, previously only 50% of the employee's accrued sick leave was paid out to their VEBA account. Vacation pay, which may be accumulated up to 240 hours; comp time, which may be accumulated up to 40 hours; and holiday pay, which may be accumulated up to 8 hours; are payable upon termination, resignation, retirement or death. The total liability for compensated absences at December 31, 2014 was \$137,621.

**LAKE STEVENS SEWER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDING DECEMBER 31, 2014**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

i. Accumulated Amortization Debt Discount and Expense

The District implemented GASB 65, Items Previously Reported as Assets and Liabilities. This standard states in part, "Debt issuance costs, except any portion related to prepaid insurance costs, should be recognized as an expense in the period incurred."

Implementation of the standard reclassified the City Bond, 2010 Build America Bond and 2010 Tax Exempt Bond applicable unamortized bond issuance costs from an asset account to change the application of accounting principle in the amount of \$394,975 and a reduction of \$135,314 in 2014 amortization expense.

j. Deferred Inflows and Outflows

The December 31, 2014 deferred outflows are as follows:

Debt Discount & Expense	\$ 21,663
Amortized Debt Discount & Expense	<u>(9,602)</u>
	<u>\$ 12,061</u>

The December 31, 2014 deferred inflows are as follows:

Debt Premium	\$ 180,517
Amortized Debt Premium	<u>(117,814)</u>
	<u>\$ 62,703</u>

k. Construction contract and financing

In 2014 the District applied for and was approved for a Department of Ecology, State Revolving Fund Loan, in the amount of \$4,025,000, to Decommission Former LSSD WWTP Site: Phase 2A, Biosolids Removal. The loan agreement was signed by Department of Ecology on 3/13/2015. The District expects to go out to bid for the project in April or May of 2015.

NOTE 2: DEPOSITS AND INVESTMENTS

The District's deposits and certificates of deposits are covered by Federal Depository Insurance (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (PDPC). The District's cash funds and investments are processed or maintained by the Snohomish County Treasurer's Department in the name of the District. Snohomish County has all District deposits and investments in local banks short-term certificates of deposit, the County Treasurer's Investment Pool, or in the State of Washington Treasurer's Investment pool. As of December 31, 2014 the credit rating for the District's investment in the State Pool and County Pool were not available.

As of December 31, 2014 the District had the following deposits and investments:

	Balance 12/31/2014
Checking and Cash Accounts	\$ 1,879,783
County Treasury Investment Pool	17,177,834
State Treasury Investment Pool	<u>6,041,350</u>
Total Deposits and Investments	<u>\$ 25,098,967</u>

Deposits and investments are stated at cost, which approximates fair value, on the statement of net position.

**LAKE STEVENS SEWER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDING DECEMBER 31, 2014**

NOTE 3: CONSTRUCTION IN PROGRESS

Construction in progress is composed of the following at December 31, 2014:

<u>Project Name</u>	<u>Project Authorization</u>	<u>Expended 12/31/2014</u>	<u>Committed</u>	<u>Required Future Financing</u>
Other Capital Projects	\$ 175,000	\$ 30,586	\$ 144,414	\$ None
SWI Ph II B	1,074,129	1,040,479	33,650	None
Biosolids Old Treatment Plant	165,000	31,977	133,023	None
Downtown Regional Lift Station	40,000	10,217	29,783	None
Comprehensive Plan	232,500	176,906	55,594	None
Capital Computer Systems	100,000	48,665	51,335	None
	<u>\$ 1,786,629</u>	<u>\$ 1,338,830</u>	<u>\$ 447,799</u>	<u>\$ None</u>

NOTE 4: CAPITAL ASSETS

Capital assets are defined by the District as assets with initial individual cost of more than \$5,000 and an estimated useful life of five years or more.

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

Utility plant in service and other capital assets are recorded at cost. Donations by developers and customers are recorded at actual construction cost plus engineer estimated allied cost; and depreciated over the appropriate life of the assets.

	<u>Balance 1/1/2014</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance 12/31/2014</u>
Utility plant not being depreciated				
Land	\$ 1,290,722	\$ 0	\$ 0	\$ 1,290,722
Construction in progress	929,141	1,226,712	(817,023)	1,338,830
Total plant not being depreciated	2,219,863	1,226,712	(817,023)	2,629,552
Utility plant being depreciated				
Plant in service	174,564,425	2,223,300	(61,573)	176,726,152
Buildings	768,662	0	0	768,662
Machinery, equipment & furniture	27,630,192	35,515	(178,631)	27,487,076
Total plant being depreciated	202,963,279	2,258,815	(240,204)	204,981,890
Plant in service	(24,123,610)	(4,069,533)	17,961	(28,175,182)
Buildings	(190,709)	(19,217)	0	(209,926)
Machinery, equipment & furniture	(3,479,442)	(1,829,952)	178,373	(5,131,021)
Total accumulated depreciation	(27,793,761)	(5,918,702)	196,334	(33,516,129)
Total plant being depreciated, net	175,169,518	(3,659,887)	(43,870)	171,465,761
Total utility plant, net	<u>\$ 177,389,381</u>	<u>\$ (2,433,175)</u>	<u>\$ (860,893)</u>	<u>\$ 174,095,313</u>

**LAKE STEVENS SEWER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDING DECEMBER 31, 2014**

NOTE 4: CAPITAL ASSETS (continued)

Capital assets are depreciated over the straight-line method over the following estimated lives:

<u>Assets</u>	<u>Years</u>
Buildings	20-50
Building Improvements	20-50
Vehicles	5-7
Equipment	5-20
Utility Plant	5-50

NOTE 5: LONG-TERM DEBT

As security for Sewer Revenue Bonds and Debt the District is required to maintain a reserve account and pledge gross revenue less operation and maintenance expenses for payment of these debts. The revenue debt reserve at December 31, 2014 was \$5,299,050.

Construction loan (PWTF & SRF) agreements require that borrowed funds be used for the construction of designated construction projects.

The VBC / Office Building mortgage is secured by the administrative building used by the District.

There are a number of other limitations and restrictions contained in the various debt indentures. The District is in compliance with all significant limitations and restrictions.

General obligation debt currently outstanding are as follows:

Description / Purpose	Maturity Range	Interest Rate	Original Amount	12/31/2014 Balance	Current Portion
2008 City GO Bonds	2008-2022	3% - 4%	\$ 1,508,553	\$ 910,798	\$ 95,121
VBC / Office Bldg	2002-2021	4.50%	700,000	295,146	47,634
			<u>\$ 2,208,553</u>	<u>\$ 1,205,944</u>	<u>\$ 142,756</u>

Revenue debt currently outstanding are as follows:

Description	Maturity Range	Interest Rate	Original Amount	12/31/2014 Balance	Current Portion
2010A Bonds / STP2	2011-2039	4.2% - 7.0%	\$ 30,595,000	\$ 30,595,000	0
2010B Bonds / STP2	2011-2016	2% - 3%	4,520,000	1,785,000	880,000
PWTF Loan / Lift Station 12	1996-2015	1.00%	1,080,000	61,241	61,241
PWTF Loan / STP1 Design	1999-2018	1.00%	236,250	68,266	17,067
PWTF Loan / STP1 Const	2001-2020	1.00%	3,288,600	960,363	160,061
PWTF Loan / City 2002 Cap Imp	2003-2022	0.50%	1,608,255	685,530	85,691
PWTF Loan / Lundeen Bypass	2003-2022	0.50%	4,083,400	1,735,445	216,931
PWTF Loan / STP2 Design	2006-2025	0.50%	1,000,000	578,947	52,632
PWTF Loan / STP2 Design	2006-2025	0.50%	1,000,000	578,947	52,632
PWTF Loan / STP2 Design	2006-2025	2.00%	1,000,000	586,988	53,363
PWTF Loan / STP2 Design	2009-2028	0.50%	1,000,000	736,842	52,632
PWTF Loan / STP2 Const	2007-2026	0.50%	7,000,000	5,135,067	395,005
PWTF Loan / STP2 Const	2008-2027	0.50%	7,000,000	4,914,474	409,539
PWTF Loan / STP2 Const	2009-2028	0.50%	10,000,000	7,744,518	553,180
PWTF Loan / STP2 Const	2009-2028	0.50%	10,000,000	7,744,518	553,180
SRF Loan / STP2 Const	2013-2032	3.10%	13,969,445	14,433,990	631,159
SRF Loan / STP2 Const	2013-2032	2.70%	25,970,567	25,687,490	1,164,241
SRF Loan / STP2 Const	2013-2032	2.80%	5,262,417	4,977,816	223,606
			<u>\$ 128,613,934</u>	<u>\$ 109,010,442</u>	<u>\$ 5,562,158</u>
			<u>\$ 130,822,487</u>	<u>\$ 110,216,386</u>	<u>\$ 5,704,914</u>

**LAKE STEVENS SEWER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDING DECEMBER 31, 2014**

NOTE 5: LONG-TERM DEBT (continued)

The annual debt service requirements for general obligation and revenue debts at 12/31/14, are as follows:

Year Ending December 31,	General Obligation Debt		Revenue Debt		Total Debt	
	Principle	Interest	Principle	Interest	Principle	Interest
2015	\$ 142,756	\$ 50,266	\$ 5,562,158	\$ 3,475,365	\$ 5,704,914	\$ 3,525,631
2016	147,903	46,818	5,583,932	3,375,653	5,731,835	3,422,471
2017	153,043	43,058	5,588,621	3,274,130	5,741,664	3,317,188
2018	162,634	38,842	5,675,032	3,162,570	5,837,666	3,201,412
2019	162,634	34,242	5,746,149	3,046,291	5,908,783	3,080,533
2020-2024	436,975	48,138	28,993,725	13,248,210	29,430,700	13,296,348
2025-2029	0	0	27,080,495	9,423,754	27,080,495	9,423,754
2030-2034	0	0	15,405,330	5,216,372	15,405,330	5,216,372
2035-2039	0	0	9,375,000	2,016,078	9,375,000	2,016,078
Totals	\$ <u>1,205,945</u>	\$ <u>261,364</u>	\$ <u>109,010,442</u>	\$ <u>46,238,423</u>	\$ <u>110,216,387</u>	\$ <u>46,499,787</u>

NOTE 6: CHANGES IN LONG-TERM LIABILITIES

During the year ended December 31, 2014, the following changes occurred in long-term liabilities:

	Balance 1/1/2014	Additions	Reductions	Balance 12/31/2014	Due Within One Year
City 2008 GO Bonds	\$ 1,005,766	\$ 0	\$ 94,968	\$ 910,798	\$ 95,121
Build America Bonds	30,595,000	0	855,000	29,740,000	880,000
Revenue Bonds	2,640,000	0	0	2,640,000	0
State Revolving Fund	47,061,914	0	1,962,619	45,099,295	2,019,007
City Public Works Trust	15,024,510	0	1,101,042	13,923,468	1,101,042
Public Works Trust	19,169,786	0	1,562,109	17,607,677	1,562,109
Vernon Business Center	342,782	0	47,634	295,148	47,634
	\$ <u>115,839,758</u>	\$ <u>0</u>	\$ <u>5,623,372</u>	\$ <u>110,216,386</u>	\$ <u>5,704,914</u>

NOTE 7: PENSION PLAN

On October 9, 2003, the District's Board of Commissioners passed a resolution authorizing and approving participation in the Washington Public Employees Retirement System (PERS). Membership in PERS commenced on January 1, 2004.

Substantially all Lake Stevens Sewer 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 retirement plans. 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 98504-8380; or it may be downloaded from the DRS website at [www.drs.wa.gov](http://www.drs.wa.gov).

**LAKE STEVENS SEWER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDING DECEMBER 31, 2014**

NOTE 7: PENSION PLAN (continued)

Public Employees' Retirement System (PERS) Plans 1, 2, and 3

Plan Description

The Legislature established PERS in 1947. Membership in the system includes: elected officials; state employees; employees of the Supreme, Appeals, and Superior courts; employees of legislative committees; employees of district and municipal courts; and employees of local governments. Membership also includes higher education employees not participating in higher education retirement programs. Approximately 49 percent of PERS salaries are accounted for by state employment. PERS retirement benefit provisions are established in Chapters 41.34 and 41.40 RCW and may be amended only by the State Legislature.

PERS is a cost-sharing multiple-employer retirement system comprised of three separate plans for membership purposes: Plans 1 and 2 are defined benefit plans and Plan 3 is a defined benefit plan with a defined contribution component.

PERS members who joined the system by September 30, 1977 are Plan 1 members. Those who joined on or after October 1, 1977 and by either, February 28, 2002 for state and higher education employees, or August 31, 2002 for local government employees, are Plan 2 members unless they exercised an option to transfer their membership to Plan 3. PERS members joining the system on or after March 1, 2002 for state and higher education employees, or September 1, 2002 for local government employees have the irrevocable option of choosing membership in either PERS Plan 2 or Plan 3. The option must be exercised within 90 days of employment. Employees who fail to choose within 90 days default to Plan 3.

PERS is comprised of and reported as three separate plans for accounting purposes: Plan 1, Plan 2/3, and Plan 3. Plan 1 accounts for the defined benefits of Plan 1 members. Plan 2/3 accounts for the defined benefits of Plan 2 members, and the defined benefit portion of benefits for Plan 3 members. Plan 3 accounts for the defined contribution portion of benefits for Plan 3 members. Although members can only be a member of either Plan 2 or Plan 3, the defined benefit portions of Plan 2 and Plan 3 are accounted for in the same pension trust fund. All assets of this Plan 2/3 may legally be used to pay the defined benefits of any of the Plan 2 or Plan 3 members or beneficiaries, as defined by the terms of the plan. Therefore, Plan 2/3 is considered to be a single plan for accounting purposes.

PERS Plan 1 and Plan 2 retirement benefits are financed from a combination of investment earnings and employer and employee contributions. Employee contributions to the PERS Plan 1 and Plan 2 defined benefit plans accrue interest at a rate specified by the Director of DRS. During DRS' Fiscal Year 2013, the rate was five and one-half percent compounded quarterly. Members in PERS Plan 1 and Plan 2 can elect to withdraw total employee contributions and interest thereon, in lieu of any retirement benefit, upon separation from PERS-covered employment.

PERS Plan 1 members are vested after the completion of five years of eligible service.

PERS Plan 1 members are eligible for retirement from active status at any age with at least 30 years of service, at age 55 with 25 years of service, or at age 60 with at least 5 years of service. Plan 1 members retiring from inactive status prior to the age of 65 may receive actuarially reduced benefits.

The monthly benefit is 2 percent of the average final compensation (AFC) per year of service, but the benefit may not exceed 60 percent of the AFC. The AFC is the monthly average of the 24 consecutive highest-paid service credit months.

PERS Plan 1 retirement benefits are actuarially reduced to reflect the choice, if made, of a survivor option.

Plan 1 members may elect to receive an optional COLA that provides an automatic annual adjustment based on the Consumer Price Index. The adjustment is capped at 3 percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

**LAKE STEVENS SEWER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDING DECEMBER 31, 2014**

NOTE 7: PENSION PLAN (continued)

PERS Plan 1 provides duty and non-duty disability benefits. Duty disability retirement benefits for disablement prior to the age of 60 consist of a temporary life annuity. The benefit amount is \$350 a month, or two-thirds of the monthly AFC, whichever is less. The benefit is reduced by any workers' compensation benefit and is payable as long as the member remains disabled or until the member attains the age of 60, at which time the benefit is converted to the member's service retirement amount.

A member with five years of covered employment is eligible for non-duty disability retirement. Prior to the age of 55, the benefit amount is 2 percent of the AFC for each year of service reduced by 2 percent for each year that the member's age is less than 55. The total benefit is limited to 60 percent of the AFC and is actuarially reduced to reflect the choice of a survivor option. Plan 1 members may elect to receive an optional COLA amount (based on the Consumer Price Index), capped at 3 percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

PERS Plan 2 members are vested after the completion of five years of eligible service. Plan 2 members are eligible for normal retirement at the age of 65 with five years of service. The monthly benefit is 2 percent of the AFC per year of service. The AFC is the monthly average of the 60 consecutive highest-paid service months. There is no cap on years of service credit; and a cost-of-living allowance is granted (based on the Consumer Price Index), capped at 3 percent annually.

PERS Plan 2 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 reduced benefit. The benefit is reduced by an early retirement factor (ERF) that varies according to age, for each year before age 65.

PERS Plan 2 members who have 30 or more years of service credit and are at least 55 years old can retire under one of two provisions, if hired prior to May 1, 2013:

- With a benefit that is reduced by 3 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 members hired on or after May 1, 2013 have the option to retire early by accepting a reduction of 5 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.

PERS Plan 2 retirement benefits are actuarially reduced to reflect the choice, if made, of a survivor option.

PERS Plan 3 has a dual benefit structure. Employer contributions finance a defined benefit component and member contributions finance a defined contribution component. As established by Chapter 41.34 RCW, employee contribution rates to the defined contribution component range from 5 percent to 15 percent of salaries, based on member choice. Members who do not choose a contribution rate default to a 5 percent rate. There are currently no requirements for employer contributions to the defined contribution component of PERS Plan 3.

PERS Plan 3 defined contribution retirement benefits are dependent upon the results of investment activities. Members may elect to self-direct the investment of their contributions. Any expenses incurred in conjunction with self-directed investments are paid by members. Absent a member's self-direction, PERS Plan 3 contributions are invested in the Retirement Strategy Fund that assumes the member will retire at age 65.

For DRS' Fiscal Year 2013, PERS Plan 3 employee contributions were \$99.0 million, and plan refunds paid out were \$69.4 million.

The defined benefit portion of PERS Plan 3 provides members a monthly benefit that is 1 percent of the AFC per year of service. The AFC is the monthly average of the 60 consecutive highest-paid service months. There is no cap on years of service credit, and Plan 3 provides the same cost-of-living allowance as Plan 2.



**LAKE STEVENS SEWER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDING DECEMBER 31, 2014**

NOTE 7: PENSION PLAN (continued)

Effective June 7, 2006, PERS 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 twelve months of that service are earned after age 44; or after five service credit years earned in PERS Plan 2 by June 1, 2003. Plan 3 members are immediately vested in the defined contribution portion of their plan.

Vested Plan 3 members are eligible for normal retirement at age 65, or they may retire early with the following conditions and benefits:

- If they have at least ten service credit years and are 55 years old, the benefit is reduced by an ERF that varies with age, for each year before age 65.
- If they have 30 service credit years and are at least 55 years old, and were hired before May 1, 2013, they have the choice of a benefit that is reduced by 3 percent for each year before age 65; or a benefit with a smaller (or no) reduction factor (depending on age) that imposes stricter return-to-work rules.
- If they have 30 service credit years, are at least 55 years old, and were hired after May 1, 2013, they have the option to retire early by accepting a reduction of 5 percent for each year before age 65.

PERS Plan 3 benefits are actuarially reduced to reflect the choice, if made, of a survivor option.

PERS Plan 2 and Plan 3 provide disability benefits. There is no minimum amount of service credit required for eligibility. The Plan 2 monthly benefit amount is 2 percent of the AFC per year of service. For Plan 3, the monthly benefit amount is 1 percent of the AFC per year of service. These disability benefit amounts are actuarially reduced for each year that the member's age is less than 65, and to reflect the choice of a survivor option. There is no cap on years of service credit, and a cost-of-living allowance is granted (based on the Consumer Price Index) capped at 3 percent annually.

PERS members meeting specific eligibility requirements have options available to enhance their retirement benefits. Some of these options are available to their survivors.

A one-time duty-related death benefit is provided to the beneficiary or the estate of a PERS member who dies as a result of injuries sustained in the course of employment, or if the death resulted from an occupational disease or infection that arose naturally and proximately out of the member's covered employment, if found eligible by the Department of Labor and Industries.

From January 1, 2007 through December 31, 2007, judicial members of PERS were given the choice to elect participation in the Judicial Benefit Multiplier (JBM) Program enacted in 2006. Justices and judges in PERS Plan 1 and Plan 2 were able to make an irrevocable election to pay increased contributions that would fund a retirement benefit with a 3.5 percent multiplier. The benefit would be capped at 75 percent of AFC. Judges in PERS Plan 3 could elect a 1.6 percent of pay per year of service benefit, capped at 37.5 percent of AFC.

Newly elected or appointed justices and judges who chose to become PERS members on or after January 1, 2007, or who had not previously opted into PERS membership, were required to participate in the JBM Program.

There are 1,176 participating employers in PERS. Membership in PERS consisted of the following as of the latest actuarial valuation date for the plans of June 30, 2013:

Retirees and Beneficiaries Receiving Benefits	85,328
Terminated Plan Members Entitled to But Not Yet Receiving Benefits	31,047
Active Plan Members Vested	150,706
Terminated Plan Members Nonvested	101,191
<b>Total</b>	<b>368,272</b>



**LAKE STEVENS SEWER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDING DECEMBER 31, 2014**

NOTE 7: PENSION PLAN (continued)

Funding Policy

Each biennium, the state Pension Funding Council adopts PERS Plan 1 employer contribution rates, PERS Plan 2 employer and employee contribution rates, and PERS Plan 3 employer contribution rates. Employee contribution rates for Plan 1 are established by statute at 6 percent for state agencies and local government unit employees, and at 7.5 percent for state government elected officials. The employer and employee contribution rates for Plan 2 and the employer contribution rate for Plan 3 are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. Under PERS Plan 3, employer contributions finance the defined benefit portion of the plan and member contributions finance the defined contribution portion. The Plan 3 employee contribution rates range from 5 percent to 15 percent.

As a result of the implementation of the Judicial Benefit Multiplier Program in January 2007, a second tier of employer and employee rates was developed to fund, along with investment earnings, the increased retirement benefits of those justices and judges that participate in the program

The methods used to determine the contribution requirements are established under state statute in accordance with Chapters 41.40 and 41.45 RCW.

The required contribution rates expressed as a percentage of current-year covered payroll, as of December 31, 2014, are as follows:

Members Not Participating in JBM:

	<b>PERS Plan 1</b>	<b>PERS Plan 2</b>	<b>PERS Plan 3</b>
Employer*	9.21%**	9.21%**	9.21%***
Employee	6.00%****	4.92%****	*****

\* The employer rates include the employer administrative expense fee currently set at 0.18%.

\*\* The employer rate for state elected officials is 13.73% for Plan 1 and 9.21% for Plan 2 and Plan 3.

\*\*\* Plan 3 defined benefit portion only.

\*\*\*\* The employee rate for state elected officials is 7.50% for Plan 1 and 4.92% for Plan 2.

\*\*\*\*\* Variable from 5.0% minimum to 15.0% maximum based on rate selected by the PERS 3 member.

Members Participating in JBM:

	<b>PERS Plan 1</b>	<b>PERS Plan 2</b>	<b>PERS Plan 3</b>
Employer-State Agency*	11.71%	11.71%	11.71%**
Employer-Local Gov't Units*	9.21%	9.21%	9.21%**
Employee-State Agency	9.76%	9.80%	7.50%***
Employee-Local Gov't Units	12.26%	12.30%	7.50%***

\* The employer rates include the employer administrative expense fee currently set at 0.18%.

\*\* Plan 3 defined benefit portion only.

\*\*\* Minimum rate.

**LAKE STEVENS SEWER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDING DECEMBER 31, 2014**

NOTE 7: PENSION PLAN (continued)

Both the District and the employees made the required contributions. The District's required contributions for the years ended December 31 were as follows:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
2014	\$0	\$156,561	\$8,104
2013	\$0	\$139,005	\$5,660
2012	\$0	\$133,082	\$4,327

NOTE 8: RISK MANAGEMENT

In August of 2014, the Lake Stevens Sewer District changed to Travelers for its insurance coverage. There was a significant premium savings with Travelers over Enduris, so the District chose not to renew their membership in the Enduris Insurance Risk Pool.

Travelers Insurance is the market leader in public entity property and liability insurance. Since 1991, Travelers Insurance Public Sector Services business group has been dedicated exclusively to addressing the needs of local governments.

The Travelers Insurance policy provides liability coverage of \$1,000,000, per occurrence, \$2,000,000 aggregate limit. The Property coverage is written on a blanket basis using current Statement of Values with a \$1,000 deductible.

Insurance coverage exceeded settlements paid in the years ended December 31, 2014, 2013 and 2012.

NOTE 9: CITY OF LAKE STEVENS AGREEMENT

The City of Lake Stevens and the Lake Stevens Sewer District entered into a Unified Sewer Services and Annexation Agreement on the 23<sup>rd</sup> day of May, 2005 that was subsequently implemented January 1, 2006. This agreement called for a transfer of the City System to the District after which the District shall own, operate and maintain the entire wastewater collection conveyance, treatment and discharge system in the UGA (the Urban Growth Area). The agreement also provides for the ultimate transfer of the Unified Sewer System from the District to the City.

As part of this agreement, the District agreed to transfer to the City all funds necessary for the Public Work Trust Fund Loan No. PW-02-691-029 and the City Sewer utility's share of the 1997 General Obligation Bonds. The City has refunded these bonds with the City 2008 GO Bonds.

The agreement also calls for certain payments from the District for a Franchise Fee and a Utility Agreement Fee for the City liabilities or costs associated with the implementation and maintenance of the Agreement. As of May 27, 2014 there is no Franchise Fee, and the Utility Agreement Fee amounted to \$85,600 for the year ended December 31, 2014.

The effect of the transfer of assets and obligations are as follows:

City - Utility Plant in Service	\$ 12,192,905
City - Sewer Equipment	139,000
Less Accumulated Depreciation	(2,885,908)
Cash from City Sewer Reserve Funds	808,218
Assumption of City 2002 Cap Imp Debt	(1,456,750)
Assumption of City 1997 GO Bonds	(1,545,000)
	<u>\$ 7,252,465</u>

## ABOUT THE STATE AUDITOR'S OFFICE

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

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

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

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

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

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

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

<b>Contact information for the State Auditor's Office</b>	
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