



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

**Financial Statements Audit Report**  
**Lake Whatcom Water and Sewer**  
**District**

**Whatcom County**

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

**Published October 12, 2017**

**Report No. 1020032**





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

October 12, 2017

Board of Commissioners  
Lake Whatcom Water and Sewer District  
Bellingham, Washington

**Report on Financial Statements**

Please find attached our report on the Lake Whatcom Water and Sewer District's financial statements.

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

Sincerely,

Pat McCarthy  
State Auditor  
Olympia, WA

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**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 Whatcom Water and Sewer District  
Whatcom County  
January 1, 2016 through December 31, 2016**

Board of Commissioners  
Lake Whatcom Water and Sewer District  
Bellingham, 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 Whatcom Water and Sewer District, Whatcom County, Washington, as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the District's financial statements, and have issued our report thereon dated October 5, 2017.

We issued an unmodified opinion on the fair presentation of the District's financial statements in accordance with its regulatory basis of accounting. We issued an adverse opinion on the fair presentation with regard to accounting principles generally accepted in the United States of America (GAAP) because the financial statements are prepared by the District using accounting practices prescribed by Washington State statutes and the State Auditor's *Budgeting, Accounting and Reporting System* (BARS) manual described in Note 1, which is a basis of accounting other than GAAP. The effects on the financial statements of the variances between the basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

**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.

A handwritten signature in black ink that reads "Pat McCarthy". The signature is written in a cursive style with a large, sweeping initial "P".

Pat McCarthy

State Auditor

Olympia, WA

October 5, 2017

# INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

## Lake Whatcom Water and Sewer District Whatcom County January 1, 2016 through December 31, 2016

Board of Commissioners  
Lake Whatcom Water and Sewer District  
Bellingham, Washington

### REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the Lake Whatcom Water and Sewer District, Whatcom County, Washington, for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the District's financial statements, as listed on page 11.

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

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the financial reporting provisions of Washington State statutes and the *Budgeting, Accounting and Reporting System* (BARS) manual prescribed by the State Auditor described in Note 1. This includes determining that the basis of accounting is acceptable for the presentation of the financial statements in the circumstances. Management is also responsible for 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 opinions.

### **Unmodified Opinion on Regulatory Basis of Accounting (BARS Manual)**

As described in Note 1, the Lake Whatcom Water and Sewer District has prepared these financial statements to meet the financial reporting requirements of Washington State statutes using accounting practices prescribed by the State Auditor's *Budgeting, Accounting and Reporting System* (BARS) manual. Those accounting practices differ from accounting principles generally accepted in the United States of America (GAAP). The differences in these accounting practices are also described in Note 1.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position and results of operations of the Lake Whatcom Water and Sewer District, for the year ended December 31, 2016, on the basis of accounting described in Note 1.

### **Basis for Adverse Opinion on U.S. GAAP**

Auditing standards issued by the American Institute of Certified Public Accountants (AICPA) require auditors to formally acknowledge when governments do not prepare their financial statements, intended for general use, in accordance with GAAP. The effects on the financial statements of the variances between GAAP and the accounting practices the District used, as described in Note 1, although not reasonably determinable, are presumed to be material. As a result, we are required to issue an adverse opinion on whether the financial statements are presented fairly, in all material respects, in accordance with GAAP.



## **Adverse Opinion on U.S. GAAP**

The financial statements referred to above were not intended to, and in our opinion they do not, present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Lake Whatcom Water and Sewer District, as of December 31, 2016, or the changes in financial position or cash flows for the year then ended, due to the significance of the matter discussed in the above “Basis for Adverse Opinion on U.S. GAAP” paragraph.

## **Other Matters**

### ***Supplementary and Other Information***

Our audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. The Schedule of Liabilities is presented for purposes of additional analysis, as required by the prescribed BARS manual. This schedule is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated October 5, 2017 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.

A handwritten signature in cursive script that reads "Pat McCarthy".

Pat McCarthy

State Auditor

Olympia, WA

October 5, 2017

## **FINANCIAL SECTION**

**Lake Whatcom Water and Sewer District  
Whatcom County  
January 1, 2016 through December 31, 2016**

### **FINANCIAL STATEMENTS**

Fund Resources and Uses Arising from Cash Transactions – 2016  
Notes to Financial Statements – 2016

### **SUPPLEMENTARY AND OTHER INFORMATION**

Schedule of Liabilities – 2016

**Lake Whatcom Water and Sewer District  
Fund Resources and Uses Arising from Cash Transactions  
For the Year Ended December 31, 2016**

**Beginning Cash and Investments**

30810	Reserved	576,111
30880	Unreserved	2,561,577
388 / 588	Prior Period Adjustments, Net	-

**Revenues**

310	Taxes	-
320	Licenses and Permits	-
330	Intergovernmental Revenues	1,064,741
340	Charges for Goods and Services	6,045,677
350	Fines and Penalties	84,137
360	Miscellaneous Revenues	78,698
Total Revenues:		7,273,252

**Expenditures**

530	Utilities	4,103,639
Total Expenditures:		4,103,639
Excess (Deficiency) Revenues over Expenditures:		3,169,614

**Other Increases in Fund Resources**

391-393, 596	Debt Proceeds	7,338,843
397	Transfers-In	-
385	Special or Extraordinary Items	-
386 / 389	Custodial Activities	-
381, 395, 398	Other Resources	-
Total Other Increases in Fund Resources:		7,338,843

**Other Decreases in Fund Resources**

594-595	Capital Expenditures	1,770,174
591-593, 599	Debt Service	6,968,016
597	Transfers-Out	-
585	Special or Extraordinary Items	-
586 / 589	Custodial Activities	62,890
Total Other Decreases in Fund Resources:		8,801,080

**Increase (Decrease) in Cash and Investments:** **1,707,377**

**Ending Cash and Investments**

5081000	Reserved	861,673
5088000	Unreserved	3,983,391
<b>Total Ending Cash and Investments</b>		<b>4,845,064</b>

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

**LAKE WHATCOM WATER AND SEWER DISTRICT  
NOTES TO SPECIAL-PURPOSE SCHEDULES**

December 31, 2016

**NOTE 1. NATURE OF BUSINESS**

The Lake Whatcom Water and Sewer District (the District) reports financial activity using the revenue and expenditure classifications, statements, and schedules contained in the *Cash Basis Budgeting, Accounting and Reporting System* (BARS) manual. This basis of accounting and reporting is an other comprehensive basis of accounting (OCBOA) that is prescribed by the State Auditor's Office under authority of Washington State Law, Chapter 43.09 RCW.

The District was incorporated in 1968 and operates under the laws of the state of Washington applicable to a water-sewer district. The District is a general purpose government and provides water and sewer services. The District uses single-entry, cash basis accounting, which is a departure from accounting principles generally accepted in the United States of America.

**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

a. Fund Accounting

The accounts of the District are organized on the basis of funds, each of which is considered a separate accounting entity. Each fund is accounted for with a separate set of single-entry accounts that comprises its cash, investments, revenues, and expenditures, as appropriate. The District's resources are allocated to and accounted for in individual funds depending on their intended purposes. The District uses a proprietary fund type:

Enterprise Fund

This fund accounts for operations that provide goods and services to the general public and is supported primarily through user charges.

b. Basis of Accounting

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Revenues are recognized only when cash is received, and expenditures are recognized when paid, including those properly chargeable against the reporting year budget appropriations as required by state law.

Purchases of capital assets are expensed during the year of acquisition. There is neither capitalization of capital assets nor allocation of depreciation expense. Inventory, if any, is expensed when purchased.

The basis of accounting described above represents a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

c. Cash

It is the District's policy to invest all temporary cash surpluses, which are included in the fund balances shown on the Statement of Fund Resources and Uses Arising from Cash Transactions. The interest earned on these investments is posted to the enterprise fund.

**LAKE WHATCOM WATER AND SEWER DISTRICT  
NOTES TO SPECIAL-PURPOSE SCHEDULES**

December 31, 2016

**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES. (continued)**

d. Deposits

The District's deposits and certificates of deposit are insured by the Federal Deposit Insurance Corporation and the Washington Public Deposit Protection Commission. At times, these balances may exceed insured limits. The District has not experienced any losses related to such accounts.

e. Investments

See Note 3, *Investments*.

f. Capital Assets

Capital assets are assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. The capital assets of the District are recorded as expenditures when purchased.

g. Compensated Absences

Vacation leave may be accumulated up to 80 hours and is payable upon separation or retirement.

Sick leave may be accumulated up to 720 hours. If an employee terminates with at least ten years of service, the employee will be paid for sick leave balances up to 720 hours at one-quarter of the employee's final hourly pay rate.

h. Long-Term Debt

See Note 4, *Debt Service Requirements*.

i. Risk Management

The District is a member of the Water and Sewer Risk Management Pool (Pool). Chapter 48.62 RCW authorizes the governing body of any one or more governmental entities to form together into or join a pool or organization for the joint purchasing of insurance, and/or joint self-insuring, and/or joint hiring or contracting for risk management services to the same extent that they may individually purchase insurance, self-insurance, or hire or contract for risk management services. An agreement to form a pooling arrangement was made pursuant to the provisions of Chapter 39.34 RCW, the Interlocal Cooperation Act. The Pool was formed in November 1987, when water and sewer districts in the State of Washington joined together by signing an Interlocal Governmental Agreement to pool their self-insured losses and jointly purchase insurance and administrative services. The Pool currently has 62 members. The Pool's fiscal year is November 1<sup>st</sup> through October 31<sup>st</sup>.

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

**LAKE WHATCOM WATER AND SEWER DISTRICT  
NOTES TO SPECIAL-PURPOSE SCHEDULES**

December 31, 2016

**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (continued)**

i. Risk Management, (continued)

Pool members, including the District, make an annual contribution to fund the Pool. The Pool purchases insurance policies from unrelated underwriters as follows:

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

**LAKE WHATCOM WATER AND SEWER DISTRICT  
NOTES TO SPECIAL-PURPOSE SCHEDULES**

December 31, 2016

**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (continued)**

i. Risk Management, (continued)

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

Upon joining, the members contract to remain in the Pool for one full policy period. Following completion of one full policy period, members must give six months notice before terminating participation (e.g. to withdraw from the Pool on November 1, 2017, written notice must be in possession of the Pool by April 30, 2017). The Interlocal Governmental Agreement is renewed automatically each year. Even after termination of relationship with the Pool, a member is still responsible for contributions to the Pool for any unresolved, unreported, and in process claims for the period that the District was a signatory to the Interlocal Governmental Agreement.

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

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

j. Reserved Fund Balance

In accordance with bond resolutions (and certain related agreements), separate restricted funds are required to be established. The assets held in these funds are restricted or have been reserved for specific uses, including debt service and other special reserve requirements. Restricted funds totaled \$861,673 as of December 31, 2016.

**NOTE 3. INVESTMENTS**

As required by state law, all investments of the District's funds are obligations of the U.S. Government or deposits with Washington State banks and savings and loan institutions, or other investments allowed by Chapter 39.59 RCW.



**LAKE WHATCOM WATER AND SEWER DISTRICT  
NOTES TO SPECIAL-PURPOSE SCHEDULES**

December 31, 2016

**NOTE 3. INVESTMENTS. (continued)**

Investments by type at December 31, 2016, are as follows :

Investment Type	Total	Investment Maturities			
		Less Than 6 Months	6 Months to 1 Year	1-5 years	More Than 5 Years
Local Government Investment Pool	\$ 4,058	\$ 4,058	\$ -	\$ -	\$ -
Financing Corporation Strip Bond	499,311	-	-	499,311	-
Financing Corporation Strip Bond	599,018	-	-	599,018	-
Federal Home Loan Bank Bonds	<u>1,254,245</u>	<u>502,839</u>	<u>-</u>	<u>751,406</u>	<u>-</u>
	<u>\$ 2,356,632</u>	<u>\$ 506,897</u>	<u>\$ -</u>	<u>\$ 1,849,735</u>	<u>\$ -</u>

The District's Federal Home Loan Bank Bonds and Financing Corporation Strip Bonds have maturity dates ranging from March 2017 to August 2020. The securities have 0-1.32% interest rates.

Credit Risk - The District's investment policy limits investments to those authorized by state of Washington statutes governing the investment of public funds. As of December 31, 2016, the District's investments in Federal Home Loan Bank Bonds were rated Aaa by Moody's Rating Service.

**NOTE 4. DEBT SERVICE REQUIREMENTS**

Debt Refunding - The District issued \$6,415,000 par value and \$923,843 original issue premium for a total of \$7,388,843 of revenue refunding bonds in 2016 to retire \$3,540,000 of existing 2009 revenue refunding bonds as well as \$2,228,161 of the 2015 Post Point loan from the City of Bellingham. This refunding was undertaken to reduce total debt service payments over the next 19 years by \$1,207,092 for the District, which is an annual savings of \$63,531. The Fund Resources and Uses Arising from Cash Transactions reflects other financing uses of \$1,620,682 pertaining to this transaction.

Drinking Water State Revolving Fund (DWSRF) Loans - The District was approved by the U.S. Environmental Protection Agency (EPA) and the Washington State Public Works Board (PWB) to receive loans through the DWSRF program in order to improve its drinking water system.

The currently outstanding debt is as follows:

Project	Original Amount	Interest Rate	Amount Outstanding
2009 Refunding Bonds	\$ 6,080,000	3.0% - 4.0%	\$ 825,000
2016 Refunding Bonds	6,415,000	2.0% - 4.0%	6,415,000
2002 SV / Geneva Intertie Loan PW-02-691-064	893,683	2.0%	283,512
DWSRF Loan DM 13-952-137	<u>2,398,750</u>	1.5%	<u>2,278,812</u>
Totals	<u>\$ 15,787,433</u>		<u>\$ 9,802,324</u>

**LAKE WHATCOM WATER AND SEWER DISTRICT**  
**NOTES TO SPECIAL-PURPOSE SCHEDULES**  
December 31, 2016

**NOTE 4. DEBT SERVICE REQUIREMENTS, (continued)**

The annual debt service requirements to maturity for revenue debts are as follows:

<u>Fiscal Year Ending December 31</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 557,190	\$ 297,927	\$ 855,117
2018	572,190	282,083	854,273
2019	582,190	266,770	848,960
2020	592,190	249,795	841,985
2021-2025	3,014,190	1,007,249	4,021,439
2026-2030	2,964,687	479,813	3,444,500
2031-2035	<u>1,519,687</u>	<u>128,386</u>	<u>1,648,073</u>
Totals	<u>\$ 9,802,324</u>	<u>\$ 2,712,023</u>	<u>\$ 12,514,347</u>

Total Debt - The accompanying Schedule of Liabilities (Schedule - 09) provides further detail on the outstanding debt and liabilities of the District and summarizes the District's debt transactions for the year ended December 31, 2016. There is \$861,673 in restricted assets of the District as of December 31, 2016; these represent sinking funds and reserve requirements as contained in the various indentures.

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

**NOTE 5. PENSION PLANS**

Substantially all the District's full-time and qualifying part-time employees participate in the Public Employees' Retirement System (PERS) Plans 1, 2, and 3 administered by the Washington State Department of Retirement Systems (DRS) under cost-sharing, multiple-employer public employee defined-benefit and defined-contribution retirement plans (the Plans).

The State Legislature establishes, and amends, laws pertaining to the creation and administration of all public retirement systems.

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

Department of Retirement Systems  
Communications Unit  
PO Box 48380  
Olympia, WA 98504-8380

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

**LAKE WHATCOM WATER AND SEWER DISTRICT  
NOTES TO SPECIAL-PURPOSE SCHEDULES**

December 31, 2016

**NOTE 5. PENSION PLANS, (continued)**

At June 30, 2016 (the measurement date of the Plans), the District's proportionate share of the collective net pension liabilities, as reported on Schedule 09, was as follows:

	<b>Allocation %</b>	<b>Liability (Asset)</b>
PERS 1 UAAL	0.012666%	\$ 680,224
PERS 2 and 3	0.016188%	\$ 815,053
	Total Net Pension Liability (Sch. 09)	\$ 1,495,277

**NOTE 6. DEFERRED COMPENSATION PLANS**

The District offers its employees deferred compensation plans created in accordance with Internal Revenue Code Section 457. One plan is with the state of Washington, Committee for Deferred Compensation. The District also offers a deferred compensation plan with ICMA RC. These plans, available to eligible employees, permit them to defer a portion of their salary to future years.

The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. In June 2004, the state of Washington Deferred Compensation Plan assets were placed into trust for the exclusive benefit of participants and their beneficiaries. Pursuant to Governmental Accounting Standards Board (GASB) Statement 32, since the District is no longer the owner of these assets, as of December 31, 1998, the plan assets and liabilities are no longer considered to be property/debt of the District.

**NOTE 7. CAPITAL ASSET ACTIVITY**

In addition to protecting against variations in the timing of operating costs and revenues, it is prudent to maintain a capital contingency amount to meet unexpected emergency capital outlays. While it would be impractical to reserve against major system-wide failures as a result of a catastrophic event, it is reasonable to identify and quantify possible failures of individual system components. The District utilizes an estimate of replacement costs to derive the targeted contingency dollar amount. The District's estimated replacement costs of capital assets as of December 31, 2016, totals \$124,000,000. This investment in capital assets includes water collection and transmission lines, pumping stations and equipment, sewage collection and transmission lines, service pipes from the distribution mains to customers' meters, administration and operation facilities, and transportation and office equipment. The District currently has \$1,327,000 (approximately 1.1% of replacement value) for capital contingency.

**Lake Whatcom Water and Sewer District  
Schedule of Liabilities  
For the Year Ended December 31, 2016**

ID. No.	Description	Due Date	Beginning Balance	Additions	Reductions	Ending Balance
<b>Revenue and Other (non G.O.) Debt/Liabilities</b>						
263.92	SV / Geneva Intertie Loan PW-02-691-064- Issued 2002	7/1/2022	330,764	-	47,252	283,512
252.11	Refunding Bonds - Issued 2009	11/1/2029	4,615,000	-	3,790,000	825,000
252.11	Refunding Bonds - Issued 2016	11/1/2035	-	6,415,000	-	6,415,000
259.12	Compensated absences	12/31/2020	101,787	-	11,199	90,588
263.92	Latecomer fees and other deferred credits	12/31/2099	18,500	-	1,500	17,000
263.82	Interlocal City of Bellingham Post Point Improvements	7/1/2034	2,292,804	-	2,292,804	-
264.30	Pension liability		1,204,407	290,870	-	1,495,277
263.88	DWSRF DM13-952-137 Geneva Mains	10/1/2035	2,398,750	-	119,938	2,278,812
<b>Total Revenue and Other (non G.O.) Debt/Liabilities:</b>			<b>10,962,012</b>	<b>6,705,870</b>	<b>6,262,693</b>	<b>11,405,189</b>
<b>Total Liabilities:</b>			<b>10,962,012</b>	<b>6,705,870</b>	<b>6,262,693</b>	<b>11,405,189</b>

## ABOUT THE STATE AUDITOR'S OFFICE

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

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

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

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

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

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

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

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