Office of the Washington State Auditor
Pat McCarthy

Financial Statements Audit Report

West Sound Utility District No. 1

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

Published December 27, 2018

Report No. 1022897

Office of the Washington State Auditor
Pat McCarthy

December 27, 2018

Board of Commissioners
West Sound Utility District No. 1
Port Orchard, Washington

Report on Financial Statements

Please find attached our report on West Sound Utility District No. 1'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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West Sound Utility District No. 1
January 1, 2016 through December 31, 2017

Board of Commissioners
West Sound Utility District No. 1
Port Orchard, 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 West Sound Utility District No. 1, as of and for the years ended December 31, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated December 18, 2018.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

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

COMPLIANCE AND OTHER MATTERS

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

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

PURPOSE OF THIS REPORT

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

Pat McCarthy

State Auditor

Olympia, WA

December 18, 2018

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

West Sound Utility District No. 1
January 1, 2016 through December 31, 2017

Board of Commissioners
West Sound Utility District No. 1
Port Orchard, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of West Sound Utility District No. 1, as of and for the years ended December 31, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed on page 9.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of West Sound Utility District No. 1, as of December 31, 2017 and 2016, and the changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

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

Pat McCarthy

State Auditor

Olympia, WA

December 18, 2018

FINANCIAL SECTION

West Sound Utility District No. 1
January 1, 2016 through December 31, 2017

REQUIRED SUPPLEMENTARY INFORMATION

BASIC FINANCIAL STATEMENTS

REQUIRED SUPPLEMENTARY INFORMATION

MANAGEMENT DISCUSSION and ANALYSIS

As Management of the West Sound Utility District (District), we offer readers of the financial statements this narrative overview and analysis of the District's financial activities for the fiscal year ended December 31, 2017. The intent of this discussion and analysis is to review the District's financial performance as a whole. This MD&A provide an overview of the District's financial records. The data in this financial report also identifies any material deviation from the financial plan and adopted annual budgets.

We encourage readers of this document to consider the information presented here in conjunction with the financial statements and notes to the financial statements, which immediately follow this discussion.

FINANCIAL INFORMATION

The District's Board of Commissioners adopted a biennial budget as a measure of monitoring revenues and controlling expenses. The Commissioners also use the budget as a financial planning tool for the District's future needs. Also, in 2012 the Board of Commissioners approved Resolution 403-12, "Financial Management Policies" and Resolution 337-12, "Capital Assets Policy." These Financial Management Policies, which are updated every two years with the adoption of the biennial budget, direct the decision-making process of the District's Board of Commissioners and District administration while operating to provide stability of changing services and financial conditions. These policies also provide guidelines for evaluating both current activities and proposals for future programs and direct the District's financial resources toward meeting the goals and programs identified in the District water and wastewater utility system's comprehensive plans. The implementation of wise fiscal policies enables the District officials to protect the public interest and ensure public trust and confidence in the District's management of water and wastewater operations. The Board approved new Capital Assets Policies since tracking and managing the District's capital assets is a critical accounting and financial management function. It is important for the District to have a comprehensive policy that provides proper control and accountability of capital assets and collects and maintains complete and accurate capital assets information required for the preparation of the District's financial statements in accordance with generally accepted accounting principles.

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

The District's Financial Statements were prepared on the full accrual basis of accounting in conformity with Generally Accepted Accounting Principles (GAAP). The District uses fund accounting to demonstrate and ensure compliance with finance-related legal requirements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities (i.e. potable water supply and sewer service). The District reports the activities of the water and sewer utilities as an e*nterprise fund*, which is a type of proprietary fund. Enterprise funds are used to report the same functions presented as business-type activities.

Financial Highlights

- The net position of the District at the close of the most recent fiscal year 2017 was $40,980,702. Of this amount, $14,784,430 may be used to meet the District's ongoing obligations to citizens and creditors.

- The District's total net position increased by $2,567,094 in 2017. The increase in 2017 was attributable to income from the operating income increase and non-operating revenue (Equity in income of Joint Venture and capital contributions) received during the year.

- The District's pension liabilities per GASB 68 implementation were $1,032,303.

- The District's total long-term debt decreased by $1,084,510 during the fiscal year. As of December 31, 2017, the total outstanding long-term debt was $6,453,554.

- The District's total cash and cash equivalents increased by $421,712 in 2017 due to increasing in operating activities.

OVERVIEW OF THE FINANCIAL STATEMENTS

The District's financial statements include two components: 1) the District's basic financial statements, and 2) the notes to the financial statements. This discussion and analysis are intended to serve as an introduction to the District's basic financial statements.

Condensed Financial Position Information

The statement of net position presents information concerning the District's assets, deferred outflows of resources, liabilities, deferred inflows of resources and net position. Net position is the difference between assets, deferred outflows of resources, liabilities, and deferred inflows of resources. Increases or decreases in net position may indicate, over time, if either the financial position of the District is improving or deteriorating.

The following condensed financial information provides an overview of the District's financial position for the fiscal years ended December 31, 2017 and 2016.

Net Position

December 31,	2017	2016
Current and other assets	17,400,052	16,541,247
Capital assets, net	31,820,947	31,231,250
Total Assets	$ 49,220,999	$ 47,772,497
Deferred Outflows of Resources	128,832	207,818
Current Liabilities	1,556,013	1,462,120
Non-current Liabilities	6,645,342	8,065,761
Total Liabilities	$ 8,201,355	$ 9,527,881
Deferred Inflows of Resources	167,774	38,826
Net Position:		
Net Invested in capital assets,	25,367,392	23,693,184
Restricted assets	828,880	744,406
Unrestricted	14,784,430	13,976,018
Total Net Position	$ 40,980,702	$ 38,413,608

The 2017 total net position was $41 million, which is an increase of 6.7% from 2016. At the end of 2017 and 2016, capital assets represent 64.6% and 65.4%, respectively, of total assets.

As of December 31, 2017 and 2016, the District had non-current liabilities of $6.6 million and $8.1 million, respectively. The decreases are due to the District scheduled debt payments. The District's investment in capital assets, less any related debt, was $25.4 million at December 31, 2016 and $23.7 million at December 31, 2016. This has increased over last year due to declining balance in debt service. Restricted cash for debt service represents debt service reserve, FCF reserve, customer lien satisfaction and developers' deposits.

The overall financial position of the District has not significantly changed from the prior years. There are no other restrictions, commitments or limitations that will significantly affect the availability of fund resources. The District reports positive balances in all three categories of net positions.

Summary of Operations and Changes in Net Position

The statement of revenues, expenses and changes in fund net positions shows how the District's net positions changed during the most recent fiscal year 2017. These changes are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, some revenues and expenses reported in this statement will only affect future period cash flows (e.g., uncollected receivables).

The following is a condensed version of the Statement of Changes in Net Position for the District:

	Change in Net Position	
Revenues	2017	2016
Operating Revenue		
Charges for services	7,162,195	6,707,689
Other revenue - interlocal service fees	211,890	212,834
Non-Operating revenues		
Equity in Income of Joint Venture Subsidiaries	446,143	239,727
Interest and Dividend Income	62,994	41,908
Other Non-operating Revenues	24,217	22,078
Total Revenues	$ 7,907,439	$ 7,224,236
Expenses		
Operating expenses	6,068,187	6,196,950
Non-Operating expenses	120,150	368,114
Total Expenses	$ 6,188,337	$ 6,565,064
Income Before Contributions	1,719,103	659,172
Capital Contributions	847,992	772,078
Change in Net Position	2,567,095	1,431,250
Net Position, Beginning of Year	38,413,608	36,982,358
Net Position, Ending of Year	$ 40,980,702	$ 38,413,608

Total operating revenues for the District in 2017 and 2016 were $7.4 million and $6.9 million, respectively. This was an increase of $453,562 from 2016 revenues.

The total contributions of $847,992 represent capital contributions from developers.

Total operating expenses for 2017 and 2016 were $6.1 million and $6.2 million, respectively, with a decrease of 2.1%.

The notes to the District's basic financial statements can be found on pages 13 - 32 of this report. These notes provide additional information that is essential to a full understanding of the basic financial statements.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The District's capital assets as of December 31, 2017, amounted to $31,820,947 (net of accumulated depreciation). The District's capital assets include land, property held for future use, construction in progress, plant, building, and machinery and equipment. A total increase of $1,674,208 in the District's net investment in capital assets for the current year was 7.1%. The change in capital assets is from accumulated depreciation.

	Capital Assets, Net	
	2017	2016
Property held for future use	156,091	156,091
Land	966,098	966,098
Construction in progress	1,936,370	1,123,054
Plant	41,646,220	40,779,535
Building	4,508,230	4,508,230
Machinery and Equipment	3,254,038	3,214,058
Less Accumulated Depreciation	(20,646,101)	(19,515,816)
Total Capital Assets	$ 31,820,947	$ 31,231,250

Additional information on the District's capital assets can be found in Note 5 of this report.

Long-Term Debt

The District's long-term debt is in the form of low interest Public Works Trust Fund (PWTF) loans, and Revenue Bonds and Compensated Absences. As of December 31, 2017, the District had total outstanding debt of $6,453,554. Of this debt, $3,648,606 is Revenue Bond debt, which is secured through sewer utility local improvement at Beach Drive and Watauga Beach, District assessments, rates charged to customers, and the full faith and credit of the District. The remaining debt of $2,804,949 consists of Public Works Trust Fund Loans, which are secured by revenue generated from rates.

Additional information on the District's long-term debt can be found in Note 6 of this report.

Economic Outlook

The District experienced a strong growth in 2017 due to the community's developing economy. There was an increase of 1.9% in water consumption in 2017. The District anticipated having 19 development projects ongoing, which will bring 592 new connections over next couple of years. During this economic growth, the District is continuing to refine its operational procedures and seek means to reduce operational expenses and minimize the need for future debt financing. Furthermore, the District's financial management policies recognize the need to review utility rates annually to ensure sufficient revenues and necessary adjustments are made to reflect inflation, construction needs, maintain bonds covenants and avoid major periodical increases. Meanwhile, the District works to maintain fund balances for each utility of no less than 15% (55 days) of total operating expenses to provide sufficient cash flow to meet daily operating expenses and cover debt service payments.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the District's finances for all those with an interest in the financial health of the District's water and wastewater utilities.

This financial report is prepared by the District's Finance Team:

Finance Manager, Joy Ramsdell
Accounting Specialist, Lori Nielsen
HR/Payroll Manager, Tracy Fantz
Accounting/Admin. Assistant, Heidi Hill

Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Finance Department, West Sound Utility District, 2924 SE Lund Ave., Port Orchard, WA 98366. Phone (360) 876-2545.

MANAGEMENT DISCUSSION and ANALYSIS

As Management of the West Sound Utility District (District), we offer readers of the financial statements this narrative overview and analysis of the District's financial activities for the fiscal year ended December 31, 2016. The intent of this discussion and analysis is to review the District's financial performance as a whole. This MD&A provide an overview of the District's financial records. The data in this financial report also identifies any material deviation from the financial plan and adopted annual budgets.

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FINANCIAL INFORMATION

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

The District's Financial Statements were prepared on the full accrual basis of accounting in conformity with Generally Accepted Accounting Principles (GAAP). The District uses fund accounting to demonstrate and ensure compliance with finance-related legal requirements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities (i.e. potable water supply and sewer service). The District reports the activities of the water and sewer utilities as an *Enterprise Fund*, which is a type of proprietary fund. Enterprise funds are used to report the same functions presented as business-type activities.

Financial Highlights

- The net position of the District at the close of the most recent fiscal year 2016 was $38,413,608. Of this amount, $13,976,018 may be used to meet the District's ongoing obligations to citizens and creditors.

- The District's total net position increased by $1,431,250 in 2016. The increase in 2016 was attributable to income from non-operating revenue (Equity in income of Joint Venture and capital contributions) received during the year.

- The District's pension liabilities per GASB 68 implementation was $1,320,627.

- The District's total long-term debt decreased by $847,446 during the fiscal year. As of December 31, 2016, the total outstanding debt was $7,538,066.

- The District's total cash and cash equivalents increased by $80,717 in 2016 due to increased in operating activities.

OVERVIEW OF THE FINANCIAL STATEMENTS

The District's financial statements include two components: 1) the District's basic financial statements, and 2) the notes to the financial statements. This discussion and analysis are intended to serve as an introduction to the District's basic financial statements.

Condense financial position information
The statement of net position presents information concerning the District's assets, deferred outflows of resources, liabilities, , deferred inflows of resources and net position. Net position is the difference between assets, deferred outflows of resources and liabilities, deferred inflows of resources. Increases or decreases in net position may indicate, over time, if either the financial position of the District is improving or deteriorating.

The following condensed financial information provides an overview of the District's financial position for the fiscal years ended December 31, 2016 and 2015.

Net Position

December 31,		2016		2015
Current and other assets		16,541,247		16,214,123
Capital assets, net		31,231,250		31,325,711
Total Assets	$	47,772,497	$	47,539,834
Deferred Outflows of Resources		207,818		120,531
Current Liabilities		1,462,120		1,613,378
Non-current Liabilities		8,065,761		8,893,317
Total Liabilities	$	9,527,881	$	10,506,695
Deferred Inflows of Resources		38,826		171,311
Net Position:				
Net Invested in capital assets,		23,693,184		22,940,200
Restricted assets		744,406		1,027,496
Unrestricted		13,976,018		13,014,662
Total Net Position	$	38,413,608	$	36,982,358

The 2016 total net position was $38.4 million, which is an increase of 3.9% from 2015. At the end of 2016 and 2015, capital assets represent 65% and 66% , respectively, of total assets.

As of December 31, 2016 and 2015, the District had non-current liabilities of $8.1 million and $8.9 million, respectively. The decreases are due to the District scheduled debt payments. The District's investment in capital assets, less any related debt, was $23.7 million at December 31, 2016 and $22.9 million at December 31, 2015. This has increased over last year due to declining balance in debt service. Restricted cash for debt service represents debt service reserve, FCF reserve, customer lien satisfaction and developers' deposits.

The overall financial position of the District has not significantly changed from the prior years. There are no other restrictions, commitments or limitations that will significantly affect the availability of fund resources. The District reports positive balances in all three categories of net positions.

Summary of operations and changes in net position

The statement of revenues, expenses and changes in fund net positions shows how the District's net positions changed during the most recent fiscal year 2016. These changes are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, some revenues and expenses reported in this statement will only affect future period cash flows (e.g., uncollected receivables).

The following is a condensed version of the Statement of Changes in Net Position for the District:

	Change in Net Position	
Revenues	2016	2015
Operating Revenue		
Charges for services	6,707,689	6,688,239
Other revenue - interlocal service fees	212,834	211,539
Non-Operating revenues		
Equity in Income of Joint Venture Subsidiaries	239,727	(46,764)
Interest and Dividend Income	41,908	39,248
Other Non-operating Revenues	22,078	5,446
Total Revenues	$ 7,224,236	$ 6,897,708
Expenses		
Operating expenses	6,196,950	6,028,157
Non-Operating expenses	368,114	212,587
Total Expenses	$ 6,565,064	$ 6,240,744
Income Before Contributions	659,172	656,964
Capital Contributions	772,078	837,633
Change in Net Position	1,431,250	1,494,597
Net Position, Beginning of Year	36,982,358	36,720,609
Change in Accounting Principle for GASB 68 Implementation	-	(1,232,848)
Net Position, Ending of Year	$ 38,413,608	$ 36,982,358

Total operating revenues for the District in 2016 and 2015 were both approximately $6.9 million. There was only a $20,745 increase over 2015 operation revenues.

The total contributions of $772,078 represent capital contributions from developers.

Total operating expenses for 2016 and 2015 were $6.2 million and $6.0 million, respectively, with an increase of 2.8%. The largest percentage increase were due to painting of the Powell tank and Fircrest Standpipe, replacement of LED Street Lights with Puget Sound Energy and depreciation.

The increase of $155,527 in non-operating expenses in 2016 was due to the expense of refunding the 2009 Revenue Bond.

The notes to the District's basic financial statements can be found on pages 13 - 31 of this report. These notes provide additional information that is essential to a full understanding of the basic financial statements.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The District's capital assets as of December 31, 2016, amounted to $31,231,250 (net of accumulated depreciation). The District's capital assets include land, property held for future use, construction in progress, plant, building, and machinery and equipment. A total increase of $752,984 in the District's net investment in capital assets for the current year was 3.3%. The change in capital assets were from plant, the installation of Villa Carmel and other projects in 2016 and from depreciation.

	Capital Assets, Net	
	2016	2015
Property held for future use	156,091	156,091
Land	966,098	966,098
Construction in progress	1,123,054	1,660,997
Plant	40,779,535	39,228,262
Building	4,508,230	4,495,570
Machinery and Equipment	3,214,058	3,217,814
Less Accumulated Depreciation	(19,515,816)	(18,399,121)
Total Capital Assets	$ 31,231,250	$ 31,325,711

Additional information on the District's capital assets can be found in Note 5 of this report.

Long-Term Debt

The District's long-term debt is in the form of low interest Public Works Trust Fund (PWTF) loans, and Revenue Bonds and Compensated Absences. As of December 31, 2016, the District had total outstanding debt of $7,538,065. Of this debt, $4,230,336 is Revenue Bond debt, which is secured through sewer utility local improvement at Beach Drive and Watauga Beach, District assessments, rates charged to customers, and the full faith and credit of the District. The remaining debt of $3,307,729 consists of Public Works Trust Fund Loans, which are secured by revenue generated from rates. Additionally, $363,170 is payable for accrued compensated absences at December 31, 2016 of this amount $291,579 is classified as long-term.

Additional information on the District's long-term debt can be found in Note 6 of this report.

Economic Outlook

The District experienced some growth in 2016 due to the community's recovering economy. The District anticipated having 9 development projects ongoing, which will bring 225 new connections over next couple of years. However there was a decrease of 6.4% in water consumption in 2016 due to water conservation. During this economic growth, the District is continuing to refine its operational procedures and seek means to reduce operational expenses and minimize the need for future debt financing. Furthermore, the District's financial management policies recognize the need to review utility rates annually to ensure sufficient revenues and necessary adjustments are made to reflect inflation, construction needs, maintain bonds covenants and avoid major periodical increases. Meanwhile, the District works to maintain fund balances for each utility of no less than 15% (55 days) of total operating expenses to provide sufficient cash flow to meet daily operating expenses and cover debt service payments.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the District's finances for all those with an interest in the financial health of the District's water and wastewater utilities.

This financial report is prepared by the District's Finance Team:

Accountant, Joy Ramsdell
Accounting Specialist, Erasma Elliott
Assistant Finance Manager, Tracy Fantz
Accounting/Admin. Assistant, Heidi Hill

Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Finance Department, West Sound Utility District, 2924 SE Lund Ave., Port Orchard, WA 98366. Phone (360) 876-2545.

West Sound Utility District

Statement of Net Position

As of December 31, 2017

		2017
ASSETS		
Current Assets:		
Cash, Cash Equivalents and Pooled Investments	$	6,705,856
Restricted Cash, Cash Equivalents and Investments		203,102
Accounts Receivable, net		747,882
Prepaid Assets		59,019
Total Current Assets		7,715,860
Noncurrent Assets:		
Reserve Cash for Debt Service		625,778
Investment in JWWTF		9,058,414
Capital Assets Not Being Depreciated:		
Property Held for Future Use		156,091
Land		966,098
Construction in Progress		1,936,370
Total capital, not being depreciated		3,058,559
Capital Assets Being Depreciated:		
Plant		41,646,220
Building		4,508,230
Machinery and Equipment		3,254,038
Less Accumulated Depreciation		(20,646,101)
		28,762,388
Total Capital Assets, net		31,820,947
Total Noncurrent Assets		41,505,139
TOTAL ASSETS	$	49,220,998
DEFERRED OUTFLOWS OF RESOURCES		
Deferred Outlows Related to Pensions	$	128,832

West Sound Utility District
Statement of Net Position
As of December 31, 2017

LIABILITIES		
Current liabilities		
Accounts payable	$	44,933
Debt interest payable		38,014
Deposits and other payables		376,283
Current Portion of Bonds Payable		591,990
Current Portion of loans payable to other governments		502,781
Current Portion of compensated absences		2,012
Total Current Liabilities		1,556,013
Noncurrent Liabilities:		
Bonds payable, net		3,056,616
Loans payable to other governments, net		2,302,168
Accrued compensated absences, net		254,255
Net Pension Liabilities		1,032,303
Total Noncurrent liabilities		6,645,342
TOTAL LIABILITIES	$	8,201,355
DEFERRED INFLOWS OF RESOURCES		
Deferred Inflows Related to Pensions	$	167,774
NET POSITION		
Net investment in capital assets		25,367,392
Restricted		828,880
Unrestricted		14,784,430
TOTAL NET POSITION	**$**	**40,980,702**

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

West Sound Utility District
Statement of Net Position
As of December 31, 2016

		2016
ASSETS		
Current Assets:		
Cash, Cash Equivalents and Pooled Investments	$	6,368,618
Restricted Cash, Cash Equivalents and Investments		202,157
Accounts Receivable, net		750,212
Prepaid Assets		65,740
Total Current Assets		7,386,727
Noncurrent Assets:		
Reserve Cash for Debt Service		542,249
Investment in JWWTF		8,612,271
Capital Assets Not Being Depreciated:		
Property Held for Future Use		156,091
Land		966,098
Construction in Progress		1,123,054
Total capital, not being depreciated		2,245,243
Capital Assets Being Depreciated:		
Plant		40,779,535
Building		4,508,230
Machinery and Equipment		3,214,058
Less Accumulated Depreciation		(19,515,816)
		28,986,007
Total Capital Assets, net		31,231,250
Total Noncurrent Assets		40,385,770
TOTAL ASSETS	$	47,772,497
DEFERRED OUTFLOWS OF RESOURCES		
Deferred Outlows Related to Pensions	$	207,818

West Sound Utility District
Statement of Net Position
As of December 31, 2016

LIABILITIES		
Current liabilities		
Accounts payable	$	21,009
Debt interest payable		46,671
Deposits and other payables		238,338
Current Portion of Bonds Payable		581,730
Current Portion of loans payable to other governments		502,781
Current Portion of compensated absences		71,591
Total Current Liabilities		1,462,120
Noncurrent Liabilities:		
Bonds payable, net		3,648,606
Loans payable to other governments, net		2,804,948
Accrued compensated absences, net		291,580
Net Pension Liabilities		1,320,627
Total Noncurrent liabilities		8,065,761
TOTAL LIABILITIES	$	9,527,881
DEFERRED INFLOWS OF RESOURCES		
Deferred Inflows Related to Pensions	$	38,826
NET POSITION		
Net investment in capital assets		23,693,184
Restricted		744,406
Unrestricted		13,976,018
TOTAL NET POSITION	**$**	**38,413,608**

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

West Sound Utility District
Statement of Revenues,
Expenses, and Changes in Fund Net Position
For the Year Ended December 31, 2017

		2017
OPERATING REVENUES:		
Water Sales and Service Fees	$	3,243,053
Other Charges for Services-Water		130,211
Sewer Sales and Service Fees		3,689,889
Other Charges for Services-Sewer		99,043
Other Revenue: Interlocal Service Fees		211,890
Total Operating Revenue		7,374,085
OPERATING EXPENSES:		
Operations:		
General Operations		1,249,494
Cost of Energy		250,354
Contracted Processing and Operations		1,518,210
Maintenance		150,062
Administration:		
General Administration		1,359,907
Depreciation and Amortization		1,208,760
Property, Excise and B&O Taxes		234,734
Other Operating Expenses		96,666
Total Operating Expenses		6,068,187
OPERATING INCOME	$	1,305,898
NONOPERATING REVENUES (EXPENSES):		
Equity in Income of Joint Venture Subsidiaries		446,143
Interest and Dividend Income		62,994
Interest Expense		(120,150)
Other Nonoperating Revenues		3,231
Gain on Capital Assets Disposition		20,986
Total Nonoperating Revenues (Expenses)		413,205
INCOME BEFORE CONTRIBUTION		1,719,103
Capital Contributions-Water		486,718
Capital Contributions-Wastewater		361,274
Total Capital Contributions		847,992
CHANGE IN NET POSITION	**$**	**2,567,095**
TOTAL NET POSITION, January 1	$	38,413,607
TOTAL NET POSITION, December 31	$	40,980,702

* The accompanying notes are an intergral part of this statement

West Sound Utility District
Statement of Revenues,
Expenses, and Changes in Fund Net Position
For the Year Ended December 31, 2016

		2016
OPERATING REVENUES:		
Water Sales and Service Fees	$	3,030,821
Other Charges for Services-Water		92,046
Sewer Sales and Service Fees		3,514,955
Other Charges for Services-Sewer		69,867
Other Revenue: Interlocal Service Fees		212,834
Total Operating Revenue		6,920,523
OPERATING EXPENSES:		
Operations:		
General Operations		1,208,812
Cost of Energy		348,029
Contracted Processing and Operations		1,506,120
Maintenance		365,410
Administration:		
General Administration		1,286,126
Depreciation and Amortization		1,191,376
Property, Excise and B&O Taxes		211,162
Other Operating Expenses		79,915
Total Operating Expenses		6,196,950
OPERATING INCOME	$	723,573
NONOPERATING REVENUES (EXPENSES):		
Equity in Income of Joint Venture Subsidiaries		239,727
Interest and Dividend Income		41,908
Interest Expense		(368,114)
Other Nonoperating Revenues		6,413
Gain on Capital Assets Disposition		15,665
Total Nonoperating Revenues (Expenses)		(64,401)
INCOME BEFORE CONTRIBUTION		659,172
Capital Contributions-Water		507,599
Capital Contributions-Wastewater		264,479
Total Capital Contributions		772,078
CHANGE IN NET POSITION	**$**	**1,431,250**
TOTAL NET POSITION, January 1	$	36,982,358
TOTAL NET POSITION, December 31	$	38,413,608

* The accompanying notes are an intergral part of this statement

West Sound Utility District
Statement of Cash Flows
For the Year Ended December 31, 2017

		2017
Cash Flows From Operating Activities:		
Receipts from customers	$	7,377,360
Payments to suppliers		(3,005,734)
Payments to employees		(1,981,817)
Net Cash Provided by Operating Activities		2,389,808
Cash Flows From Capital and Related Financing Activities:		
Proceeds from issuance of debt		
Principal paid on revenue bond and PWTF debt		(1,094,771)
Proceeds from sale of fixed assets		23,284
Acquisition and construction of capital assets		(1,617,961)
Debt issuance fees		
Interest paid on revenue bonds and PWTF debt		(127,908)
Contributions from Developers		786,266
Net Cash Used for Capital Financing Activities		(2,031,090)
Cash Flows from Investing Activities:		
Interest and dividends on investments		62,994
Net Cash Provided by Investing Activities		62,994
Net Increase in Cash and Cash equivalents	**$**	**421,713**
Cash and Cash Equivalents at Beginning of Year:	$	7,113,024
Cash and Cash Equivalents at The End of Year:	$	7,534,736

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

West Sound Utility District
Statement of Cash Flows
For the Year Ended December 31, 2017

RECONCILIATION		2017
Net Utility Operating (loss) Income	$	1,305,898
Adjustments to reconcile net utility operating income to net cash provided by operating activities:		
Depreciation and amortization		1,208,760
GASB 68 Implementation-Pension Expense		(80,390)
Change in Assets and Liabilities:		
Decrease (Increase) in Receivables		2,330
Decrease (Increase) in Prepaid Expenses		6,721
Increase (Decrease) in Accrued Compensated Absences		(106,903)
Increase (Decrease) in Payables		23,924
Increase (Decrease) in Contractor Retainage		28,524
Increase (Decrease) in Customer Deposits		945
Total adjustments		1,083,910
Net cash provided by operating activities	$	2,389,808
Noncash investing, capital and financing activities:		
Contributions of capital assets from developers		
Gain in equity of the Joint Venture - JWWTF		446,143
Gain on disposition of capital assets	$	(2,298)

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

West Sound Utility District
Statement of Cash Flows
For the Year Ended December 31, 2016

Cash Flows From Operating Activities:		2016
Receipts from customers	$	6,917,442
Payments to suppliers		(3,322,744)
Payments to employees		(1,990,019)
Net Cash Provided by Operating Activities		1,604,679
Cash Flows From Capital and Related Financing Activities:		
Proceeds from issuance of debt		2,067,677
Principal paid on revenue bond and PWTF debt		(2,792,202)
Proceeds from sale of fixed assets		22,078
Acquisition and construction of capital assets		(667,643)
Debt issuance fees		(342,676)
Interest paid on revenue bonds and PWTF debt		(201,739)
Contributions from Developers		348,635
Net Cash Used for Capital Financing Activities		(1,565,870)
Cash Flows from Investing Activities:		
Interest and dividends on investments		41,908
Net Cash Provided by Investing Activities		41,908
Net Increase in Cash and Cash equivalents	**$**	**80,717**
Cash and Cash Equivalents at Beginning of Year:	$	7,032,307
Cash and Cash Equivalents at The End of Year:	$	7,113,024

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

West Sound Utility District
Statement of Cash Flows
For the Year Ended December 31, 2016

RECONCILIATION		2016
Net Utility Operating (loss) Income	$	723,573
Adjustments to reconcile net utility operating income to net cash provided by operating activities:		
Depreciation and amortization		1,191,376
Change in Assets and Liabilities:		
Decrease (Increase) in Receivables		(3,081)
Decrease (Increase) in inventory		
Decrease (Increase) in Prepaid Expenses		(3,600)
Increase (Decrease) in Accrued Comp Absences		(122,165)
Increase (Decrease) in Payables		(9,577)
Increase (Decrease) in Customer Deposits		(171,847)
Total adjustments		881,106
Net Cash Provided by Operating Activities	**$**	**1,604,679**
Noncash investing, capital and financing activities:		
Contributions of capital assets from developers		772,078
Gain in equity of the Joint Venture - JWWTF		239,727
Gain (Loss) on disposition of capital assets		
Gain on disposition of capital assets	$	22,078

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING AND FINANCIAL POLICIES

The accounting policies of the District conform to generally accepted accounting principles (GAAP) as applicable to proprietary funds of governments. The following is a summary of the most significant policies (including identification of those policies, which result in material departures from the generally accepted accounting principles).

The following is a summary of the District's most significant policies:

A. Reporting Entity
West Sound Utility District is a municipal corporation formed on November 27, 2007, through a merger of Annapolis Water District and Karcher Creek Sewer District. The District was governed in 2017 by an elected three-member Board of Commissioners. As required by generally accepted accounting principles, management has considered all potential component units in defining the reporting entity.

The District's financial statements include the financial position and results of operations of all enterprise operations, which the District manages. (See Note 8). The financial statements include, as well, the assets and liabilities of all funds for which the District has a custodial responsibility.

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 *Uniform System of Accounts for Class B Utilities.*

The District's "proprietary funds" ("Enterprise Utilities" and "Internal Service" funds) are accounted for using 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.

The District distinguishes between operating revenues and expenses from non-operating items. Operating revenues and expenses result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District are charges to customers for water and sewer usage fees and other services. Operating expenses for the District include the cost of sales and services, administrative expenses, depreciation on capital assets, etc. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

C. Financial Management Policies:
The Board of Commissioners has adopted comprehensive financial management policies, which are reviewed and updated during the District's biennial budget process. The financial health and welfare of the District is highly dependent upon establishing and maintaining sound, financial-planning objectives and strategies of implementation. As a result, the implementation of these policies provides direction in the decision-making process of the District's Board of Commissioners and District administration while

operating to provide stability of changing service and financial conditions. Such policies enable District officials to protect the public interest and ensure trust and confidence in the District's management of water and wastewater operations and assets. The District's financial management policies include the following components: financial philosophies; budget process; basis of accounting and budgeting; accounting financial reporting, forecasting, information system integrity and auditing policies; operating budget policies: revenue and expenditure policies; capital improvement policies; utility fund policies; internal service fund policies; investment policies and cash management; and debt management policies.

D. Cash and Cash Equivalents

For purposes of the statement of cash flows, the District considers all highly liquid investments (including restricted assets) with a maturity of three months or less purchased to be cash equivalents.

E. Capital Assets

See Note 5.

F. Investments

Investments are stated at fair value. Interest on debt securities is recognized in non-operating revenues as earned. Changes in the fair value of investments are also included in non-operating revenues (expenses). The average interest rate earned from these investments was 1.35%. Noncurrent assets consist of reserve cash, assets, and real estate held for future use. It is displayed on the "Statement of Net Position" at historical cost.

G. Receivables

Customer accounts receivable consist of amounts owed from private individuals or organizations for goods and services, including amounts owed for which billings have not been prepared. The District files property liens after following prescribed procedures for collections. As a result, there are no billed accounts, which are considered not collectible.

H. Restricted Cash, Cash Equivalent and Investments

The assets held in these funds are restricted for specific uses, debt service and other special reserve requirements. Specific debt service requirements are described in Note 7.

	2017
Revenue Bond Reserve	$ 488,474
Facility Counstructiion Fund	337,304
Lien Deposit	102
Developers Deposits	3,000
Total	$ 828,880

I. Capital Assets and Depreciation

Major expenses of capital assets and major repairs that increase the useful lives are capitalized. The District capitalizes purchases that meet this criterion when the individual cost threshold exceeds $5,000, as set for in Resolution 337-12 "Capital Assets Policy". Maintenance, repairs and minor renewals are accounted for as expenses when incurred.

All capital assets are valued at acquisition value. Estimated costs are established where acquisition value is not known. Assets contributed by developers and customers are recorded at the construction cost.

Capital assets are depreciated using straight-line methods over the following estimated useful life:

Asset	Years
Buildings	35
Utility Infrastructure and Improvements	10/50/100
Machinery and Equipment	10

J. Compensated Absences

Compensated absences are absences for which employees will be paid, such as vacation and sick leave. Additionally, employees may accumulate up to twenty four (24) hours of comp time earned during the calendar year. The District records unpaid leave for compensated absences as an expense and liability when incurred.

Vacation pay may be accumulated up to a maximum accrual of two hundred forty (240) hours and may be carried over to the next calendar year. Accrued vacation pay is payable upon an employee taking a vacation or upon resignation, retirement, or death. Sick leave in excess of one thousand forty (1,040) hours of the current month shall be deposited into a VEBA account for the employee. Annual leave and sick leave are payable as follows:

Retirement (vacation)	100% of current balance, not to exceed 240 hours
Retirement (sick leave)	50% not to exceed of 1040 hours
Death (vacation)	100% of current balance
Death (sick leave)	50% not to exceed of 1040 hours
Voluntary Resignation (vacation)	100% of current balance
Voluntary Resignation (sick leave)	25%

K. Long-Term Debt

See Note 6.

L. Infrastructure

Governmental Accounting Standards Board Statement No. 34 allows for two methods of reporting for a local government. One is called the "modified approach" and the other is based upon "historical cost". The District has always reported its infrastructure on a historical cost basis with a corresponding offset as accumulated depreciation. The District will continue to use "historical cost" as the basis of reporting its infrastructure and use straight-line depreciation as the methods to depict the value of the asset being used over time.

M. Pensions

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

NOTE 2 – DEPOSITS AND INVESTMENTS

A. Deposits

Custodial credit risk (deposits). Custodial risk for deposits is the risk that, in the event of a bank failure, the government's deposits may not be returned. The District has not adopted a policy that addresses deposit custodial risk; however, Kitsap County is the Treasurer for the District' funds. The District's 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). In the event of a bank failure, claims for the District's deposits would be satisfied by FDIC or from the sale of collateral held in the PDPC pool.

B. Investments

As required by state law, all investments of the District's funds are obligations of the U.S Government, U.S. agency issues, obligations of the State of Washington, general obligations of Washington State municipalities, or certificates of deposit with Washington State banks and savings and loan institutions. Currently, all investments of the District are invested through the Kitsap County Treasurer's Office in the County's external investment pool. The District's investments in the pool are reported at fair value, which is the same as the value of the Pool per share. The responsibility for managing the pool resides with the County Treasurer. The Pool is established from the RCW 36.29, which authorizes the County Treasurer to invest the funds of participants. The County's investment policy is established by the Kitsap County Finance Committee (KCFC), which consists of the County Treasurer, County Auditor and Chair of the Board of County Commissioners. The objectives of the KCFC are preservation of capital, followed by liquidity and return. The County external investment pool does not have a credit rating and had a weighted average maturity of 0.82 years as of December 31, 2017.

The District does not have a policy for custodial credit risk of investment securities. Further, the District is not subject to foreign currency risk or interest rate risk.

As of December 31, 2017, the District has the following cash and investments:

	Cash	Investments	Total
Washington State Investment Pool		6,827,025	6,827,025
Kitsap County	677,111		677,111
Bank of America	30,000		30,000
Cash on Hand	600		600
Total	$ 707,711	$ 6,827,025	$ 7,534,736

NOTE 3 – CONSTRUCTION IN PROGRESS

The District had active construction projects as of December 31, 2017, as follows:

Project Description	Project Budget	Expended 12/31/2017	Required Future Financing
Well 9 (Drilling)	$ 150,000	$ 148,212	None
SCADA Improvements	$ 50,000	$ 6,528	None
Unexpected Distribution Sys Repair	$ 50,000	$ 6,703	None
Annual Well Rehabilitation	$ 60,000	$ 2,400	None
Replace Well #1 Reservoir	$ 850,000	$ 978,519	None
Construct Well #22 Pump House	$ 400,000	$ 748,102	None
Replace Main on Lidstrom	$ 325,000	$ 5,310	None
Lincoln Ave. Point Repairs	$ 25,000	$ 11,391	None
Construction Sewer SCADA System	$ 50,000	$ 9,312	None
Reline MH 162-162A, 194-195	$ 50,000	$ 19,893	None
Total Construction in Progress	$ 2,010,000	$ 1,936,370	

NOTE 4 – LEASE COMMITMENTS

The District is committed under various leases for land for future well site developers, postage meter and copier machines. These leases are considered operating leases for accounting purposes. Lease expense for the year ended December 31, 2017 amounted to $19,166. Future minimum rental commitments for these leases are as follow:

YEAR	AMOUNT
2018	19,166
2019	19,166
2020	17,866
2021	3,567
2022	3,567
Thereafter	24,969
Total	**88,301**

NOTE 5 – CAPITAL ASSETS

Capital Assets activity for the year ended December 31, 2017, was as follows:

	Beginning Balance 01/01/2017	Increases	Decreases	Transfers	Ending Balance 12/31/2017
Capital assets, not being depreciated:					
Property held for future use	156,091				156,091
Land	966,098				966,098
Construction in progress	1,123,054	1,714,790	(34,789)	(866,685)	1,936,370
Total capital assets, not being depreciated	$ 2,245,243	$ 1,714,790	$ (34,789)	$ (866,685)	$ 3,058,559
Capital Assets, being depreciated:					
Buildings	4,508,230				4,508,230
Utility Infrastructure and improvements	40,779,535			866,685	41,646,220
Machinery and equipment	3,214,058	120,754	(80,774)		3,254,038
Total capital assets being depreciated	$ 48,501,823	$ 120,754	$ (80,774)	$ 866,685	$ 49,408,488
Less accumulated depreciation for:					
Buildings	(1,727,249)	(129,135)			(1,856,384)
Utility infrastructure and improvements	(15,595,153)	(888,221)			(16,483,374)
Machinery and equipment	(2,193,414)	(152,317)	39,389		(2,306,342)
Total accumulated depreciation	$(19,515,816)	$(1,169,673)	$ 39,389		$(20,646,100)
Total capital assets being depreciated, net	$ 28,986,007	$(1,048,918)	$ (41,385)	$ 866,685	$ 28,762,388
Total capital assets, net	$ 31,231,250	$ 665,872	$ (76,174)		$ 31,820,947

NOTE 6 – LONG-TERM DEBT AND LIABILITIES

A. Long-Term Debt

The District issues three special revenue bonds and fifteen government loans to finance the purchase and construction of capital assets. The *2009 Revenue Bond* included the refinancing of the Beach Drive ULID and a number of capital projects (Converse/ Sedgwick water/sewer, Well 22, Salmonberry generator, and reclaimed water). The *2010 Revenue Bond* includes refinancing the 2001 water and sewer bonds used to fund the construction of the District's Administration facilities. The *2016 Refunded Water/Wastewater Revenue Bond* was initiated to refund *2009 Bonds* due to securing with better interest rate,

Long – Term debt instruments outstanding at year-end are as follows:

Name of Issuance-Purpose	Maturity Date	Original Issue	Current Debt Outstanding
2009 Revenue Bond - Water/Wastewater	4/11/2018	540,000	185,000
2010 Revenue Bond - Refunding Lund Ave.	4/2/2021	3,595,000	1,585,000
2016 Revenue Bond - Refunding 2009 Bond	11/1/2018	1,952,000	1,878,606
PWTF 99-791-002 - Greendale/Sieford	7/14/2019	438,376	46,145
PWTF 00-691-002 - Well 21	7/1/2020	669,870	104,229
PWTF 00-691-003 - Water Mains	7/1/2020	251,147	39,655
PWTF 01-691-003 - Storage Tank Painting	7/1/2021	99,719	20,256
PWTF 01-691-004 - Bethel Rd Water Sys Improvement	7/1/2021	939,573	197,805
PWTF 03-691-001 - Well 6 & 7 Decommission	7/1/2023	143,438	47,285
PWTF 07-962-002 - Salmonberry Reservoir Painting	7/1/2027	595,000	313,158
PWTF PC12-951-047 - Firmont Beach Water System	7/1/2031	311,496	229,333
PWTF 99-791-018 - Wastewater Pump St. Improvements	7/1/2019	1,005,615	105,854
PWTF 99-791-019 - Retsil Wartime Sewer Relacement	7/1/2019	1,007,640	106,067
PWTF 00-691-032 - Retsil Wartime Sewer Relacement	7/1/2020	1,005,210	137,395
PWFT 03-691-014 - Crownwood Lift Station	7/1/2023	189,091	59,713
PWFT 03-691-015 - Beach Drive Pump Station Collection	7/1/2023	148,750	49,583
PWTF 04-691-035 - Retsil Area A & B Improvements	7/1/2024	1,360,000	560,000
PWTF PC08-951-017 - Sedgwick Rd. Sewer System	7/1/2028	950,691	788,470
Total Long-Term Liabilities			**6,453,554**

The annual requirements to amortize all debts outstanding as of December 31, 2017, including interest, are as follows:

Year Ending December 31	Principal	Interest	Total
2018	1,094,771	180,324	1,275,095
2019	1,065,058	76,183	1,141,241
2020	947,026	55,624	1,002,650
2021	874,260	37,788	912,048
2022	410,745	27,829	438,574
2023-2027	1,730,265	81,205	1,811,470
2028-2031	331,430	4,536	335,965
Total	$ 6,453,554	$ 463,489	$ 6,917,043

B. Change in Long Term Liabilities

During the year ended December 31, 2017, the following changes occurred in long-term liabilities:

	Beginning Balance 1/1/2017	Additions	Reduction	Ending Balance 12/31/2017	Due Within One Year 2018
Revenue Bonds	4,230,336		581,730	3,648,606	591,990
Government Loans	3,307,730		502,781	2,804,948	502,781
Net Pension Liabilities	1,320,627	1,032,322	1,320,646	1,032,303	
Compensated absences	363,170	1,576	108,479	256,267	2,012
Total	9,221,863	1,033,898	2,513,635	7,742,125	1,096,783
Less Current Portion				$1,096,783	
Total Long-Term Liabilities, net				$6,645,342	

NOTE 7 – RESTRICTED CASH

The District's statement of net position reports, $828,880, at December 31, 2017 of restricted for revenue debt service, none of which are restricted by enabling legislation. These are restricted for Revenue Bonds reserve requirement, FCF reserve, customer lien satisfaction and Developers deposits.

NOTE 8 – INVESTMENT IN JOINT WASTEWATER TREATMENT FACILITY

In 1982, the District entered into an agreement with the City of Port Orchard to be included within the boundaries of a utility local improvement district (ULID). The purpose of the ULID was to fund the construction of a new Joint Wastewater Treatment Facility (JWWTF). Construction of the joint facility was completed in 1985.

In 2002, the District and City continued the expansion plans of the Facility. The cost of this expansion was $21.5 million. This project funding was approved for a $10 million Public Works Trust Fund (PWTF) loan in 2002 and a $6.8 million PWTF loan in 2004. The City of Port Orchard was the lead agency for the expansion project and funding, with the City being the borrowing governmental entity on the PWTF loans. Funds from the JWWTF operating budget are transferred to the City to pay for the two loans. The City transferred the related assets and liabilities to the Facility upon completion of the project. The City and District have approved using a part of the wastewater treatment capital fees collected by each entity to assist with the annual debt payments on the PWTF loans. This cost sharing formula was 50/50%, and in 2017, each entity contributed $200,000 from these capital fees.

The Joint Wastewater Treatment Facility is jointly owned by the City of Port Orchard and West Sound Utility District, (formerly known as Karcher Creek Sewer District) each having a fifty percent (50%) ownership interest in the JWWTF. In accordance with the generally accepted accounting principles, the proportional shares of the Joint Venture's results of operations are presented as a single operating account on the City's proprietary fund's operating statements – "Investment in JWWTF". In 2017, the change in the District's equity in the JWWTF was an increase of $446,143. The District's equity interest in the JWWTF as of December 31, 2017, was $9,058,414 (see JWWTF Financial Statements for further information).

In 1983, West Sound Utility District (known then as Karcher Creek Sewer District) and the City of Port Orchard entered into an interlocal cooperative agreement giving the District operation and management responsibilities for the JWWTF. In 2014, the District and City negotiated and executed a new interlocal agreement, which resulted in extending the responsibility of the District in managing and operating the JWWTF, in addition to resolving issues pertaining to property and asset ownership, liability and insurance.

The District accounts for its investment in the JWWTF on an equity method, whereby the District's share of the treatment plant's income or losses, assets and liabilities, are reflected as increases or decreases in its investment account balance.

The District's Finance Department maintains separate accounting records for the operating and maintenance expenses and revenues and prepares separate financial statements of the JWWTF. The City of Port Orchard maintains all accounting records regarding the expansion project. The District provides accounting, financial support services to the Facility, and accounting, and finance statements for the Facility can be obtained at the District office, 2924 SE Lund Ave., Port Orchard, WA, or the District's website at www.wsud.us.

The District does not anticipate that the joint venture will cause fiscal stress to the District in the future.

NOTE 9 – PENSION PLANS

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

Aggregate Pension Amounts – All Plans	
Pension liabilities	**$1,032,322**
Deferred outflows of resources	**$128,836**
Deferred inflows of resources	**$167,740**
Pension expense/expenditures	**$74,276**

State Sponsored Pension Plans

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

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

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

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

Public Employees' Retirement System (PERS)

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

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

Contributions

The **PERS Plan 1** member contribution rate is established by State stature at 6%. The employer contribution rate is developed by the Office of the State of Actuary and includes an administrative expense component that is currently set at 0.18%. Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates. The PERS Plan 1 required contribution rates (expressed as a percentage of covered payroll) for 2017 were as follows:

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

* For Employees participating in JBM, the contribution rate was 12.26%

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

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

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

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

<u>Contributions</u>

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

PERS Plan 2/3		
Actual Contribution Rates	**Employer 2/3**	**Employee 2***
January – June 2017:		
PERS Plan 2/3	**6.23%**	**6.12%**
PERS Plan 1 UAAL	**4.77%**	
Administrative Fee	**0.18%**	
Employee PERS Plan 3		**Varies**
Total	**11.18%**	**6.12%**
July – December 2017:		
PERS Plan 2/3	**7.49%**	**7.38%**
PERS Plan 1 UAAL	**5.03%**	
Administrative Fee	**0,18%**	
Employee PERS Plan 3		**Varies**
Total	**12.70%**	**7.38%**

* For employees participating JBM, the contribution rate was 15.30% for January – June 2017and 18.45% for July – December 2017.

The District's actual PERS plan contributions were $73,431 to PERS Plan 1 and $81,236 to PERS Plan 2/3 for the year ended December 31, 2017.

Actuarial Assumptions

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

Additional assumptions for subsequent events and law changes are current as of the 2016 actuarial valuation report. The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2017. Plan liabilities were rolled forward from June 30, 2016, to

June 30, 2017, reflecting each plan's normal cost (using the entry-age cost method), assumed interest and actual benefit payments.

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

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

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

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

Discount Rate

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

To determine that rate, an asset sufficiency test included an assumed 7.7% long-term discount rate to determine funding liabilities for calculating future contribution rate requirements. (All plans use 7.7% except LEOFF 2, which has assumed 7.5%). Consistent with the long-term expected rate of return, a 7.5% future investment rate of return on invested assets was assumed for the test. Contributions from plan members and employers are assumed to continue being made at contractually required rates (including PERS 2/3, PSERS 2, SERS 2/3, and TRS 2/3 employers, whose rates include a component for the PERS 1, and TRS 1 plan liabilities). Based on these assumptions, the pension plans' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return of 7.5% was used to determine the total liability.

Long-Term Expected Rate of Return

The long-term expected rate of return on the DRS pension plan investments of 7.5% was determined using a building-block-method. In selecting this assumption, the Office of the State Actuary (OSA) reviewed the historical experience data, considered the historical conditions that produced past annual investment returns, and considered capital market assumptions and simulated expected investment returns provided by the Washington State Investment Board (WSIB). The

WSIB uses the capital market assumptions and their target asset allocation to simulate future investment returns over various time horizons.

Estimated Rates of Return by Asset Class

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

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

Sensitivity of the Net Pension Liability

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

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
PERS 1	$721,164	$591,996	$480,109
PERS 2/3	$1,186,285	$440,326	$(170,876)

Pension Plan Fiduciary Net Position

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

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

At June 30, 2017, the District reported a total pension liability of $1,032,322 for its proportionate share of the net pension liabilities as follows:

	Liability
PERS 1	**$591,996**
PERS 2/3	**$440,326**

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

	Proportionate Share 6/30/16	Proportionate Share 6/30/17	Change in Proportion
PERS 1	**0.012645%**	**0.012476%**	**(0.000169%)**
PERS 2/3	**0.012742%**	**0.012673%**	**(0.000069%)**

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

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

Pension Expense

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

	Pension Expense
PERS 1	**$24,574**
PERS 2/3	**$49,702**
TOTAL	**$74,276**

Deferred Outflows of Resources and Deferred Inflows of Resources

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

PERS 1	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual investment earnings on pension plan investments		**$ (22,092)**

Contributions subsequent to the measurement date	**$36,258**	
TOTAL	**$36,258**	**$ (22,092)**
PERS 2/3	**Deferred Outflows of Resources**	**Deferred Inflows of Resources**
Differences between expected and actual experience	**$44,615**	**$ (14,482)**
Net difference between projected and actual investment earnings on pension plan investments		**$ (117,380)**
Changes of assumptions	**$4,677**	
Changes in proportion and differences between contributions and proportionate share of contributions		**$ (13,787)**
Contributions subsequent to the measurement date	**$43,285**	
TOTAL	**$92,578**	**$ (145,649)**

Deferred outflows of resources related to pensions resulting from the District's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2018. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions were recognized in pension expenses as follows:

Year ended December 31:	PERS 1	PERS 2/3
2018	$ (14,933)	$ (53,540)
2019	$ 4,714	$ 7,800
2020	$ (1,095)	$ (11,200)
2021	$ 10,779	$ (47,614)
2022		$ 3,564
Thereafter		$ 4,633
Total	$ (22,092)	$ (96,356)

NOTE 10 – 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 sixty two (62) members. The Pool's fiscal year is November 1 through October 31.

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.

Members 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
Property Loss:			
Buildings and Contents	$1,000 - $25,000 and See (C) below	$25,000	$1,000,000,000
Flood	See (A) below	See (A) below	$50,000,000
Earthquake	See (B) below	See (B) below	$110,000,000 ($75,000,000 shared by all members and $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
Liability:			
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
Other:			
Public Officials Bonds	Various	N/A	Various
Crime	$1,000 - $25,000	$25,000	$2,000,000
Identity Fraud	$0	$0	$25,000

A. $100,000 member deductibles, per occurrence, in Flood zones except Zones A&V; $250,000 member deductible per occurrence, in Flood Zones A&V.
B. Member deductible for earthquakes is 5% subject to $100,000 minimum Earthquake Shock. The deductible will apply per occurrence on a per unit basis, as defined in the policy form, subject to the stated minimum.
C. Member deductible for Cyber liability is $100,000 and where applicable the dollar amount of the business interruption loss during the policy's required 8 hour waiting period.

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

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 by November 1, 2018, written notice must be in possession of the Pool by April 30, 2018). 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.

WATER AND SEWER RISK MANAGEMENT POOL
Summary of Insurance – November 1, 2016 to October 31, 2017
Insurance Coverage, Policy Limits and Pool/Member Deductibles**

Coverage	Insurance Co. and Limits	Pool/Member Deductibles
Liability:	*Water and Sewer Risk Management Pool Effective 11/1/16 to 10/31/17*	Pool Self-Insured Retention:
	Reinsured by Munich Reinsurance America, Inc.	$200,000 per occurrence
Primary Layer	$10M per occurrence for all members/$10M annual aggregate per member for General Liability	Member Duductible: BI or PD - $1,000, $5,000, $10,000 or
	$10M per occurrence for all members/$10M annual agg per member for Products Completed Liability	per occurrence If a member terminates any employee
	$10M per occurrence for all members/$10M annual agg per member for Public Officials Errors & Ommissions	without first notifying WSRMP and obtaining a formal consultation with an
	$10M per occurrence for all members/$10M ann agg per member for Employment Practices Liability	practices attorney selected by WSRMP, or fails to follow the advice of the emplyment
	$10M per occurrence for all members/$10M ann agg per member for Employee Benefits Liability	attorney, then the member shall be responsible for the first $100,000 of claim
	$10M per occurrence for all members for Auto Liability	expenses for that claim, and that responsibility shall supersede the member's ordinary deductible for liablity claims.
Property:	*Public Entity Property Insurance Program (PEPIP)* *Effective 7/1/16 to 7/1/17*	Pool Self-Insured Retention:
Included	*Insurance Carriers (Various)*	$25,000 per occurrence, which
Autos	$1,000,000,000 per occurrence "All Risk"	applies in the event that a more
	$ 50,000,000 Flood limit per occurrence and annual aggregate	specific deductible is not applicable to a
	$110,000,000 Earthquake limit per occurrence and annual aggregate shared by all members. $75M shared by all members including Alderwood, Sammamish Plateau, and Cascade Water Alliance.	loss Member Deductible: Damage to District Property and
	$ 100,000,000 Combined Business Interruption, Rental Income, Tax Interrruption and Tuition Income	Automobile - $1,000, $5,000, $10,000 or $25,000 per occurrence
	$ 50,000,000 Per occurrence for Extra Expense	
	$ 1,000,000 Unscheduled Landscaping ($25,000/25 gallon max per tree)	Earthquake - 5% per occurrence for
	$ 5,000,000 Scheduled landscaping ($25,000/25 gallon max per tree)	Earthquake Shock per unit of insurance
	$ 25,000,000 Miscellaneous Unnamed Locations excl. EQ and Zone	subject to $100,000 minimum except;
	$ 25,000,000 Automatic Acquisition for new locations excl. EQ and Zone A&V flood	10% with $100,000 minimum for buildings constructed prior to 1940 where EQ
	$ 50,000,000 Errors & Omissions	is purchased
	$ 25,000,000 Course of Construction including new projects	
	$ 2,500,000 Money & Securities	Flood - $100,000 All Flood Zones per
	$ 2,500,000 Unscheduled Fine Arts	occurrence excl. Flood Zones A&V
	$ 250,000 Accidental Contamination per occurrence and annual aggregate per member with $500K annual aggregate for all insureds per	Flood Zones A&V - $250,000 per occurrence $500,000 per occurrence for
	$ 2,000,000 Unscheduled tunnels, bridges, dams, catwalks, roadways, etc. (except EQ)	tunnels, bridges, roadways, highways, streets, sidewalks, culverts, street lights and
	$100,000,000 Primary Terrorism per occurrence $200,000,000 Ann. Aggregate (all PEPIP Members)	signals unless a specific value has been declared (excluding coverage for the peril
	$300,000,000 Excess Terrorism per member/entity	Earthquake Shock, and excluding Federal
	$800,000,000 Excess Terrorism all PEPIP members combined	Emergency Management (FEMA) and/or
	$800,000,000 Excess Terrorism annual aggregate shared by all members/entities	Office of Emergency Services (OES) declared disasters or proclamations of emergency).
	$ 5,000,000 Per Occurrence Per Declaration Upgrade to Green Coverage	
	Property, Contents, EDP, and Contractor's Equipment limits based on property values at beginning of policy subject to additions/deletions of property	

Cyber	$2,000,000 Third Party Liability-annual aggregate limit of liability for	Pool Self-Insured Retention: N/A
Liability	each insured/members for Information Security & Privacy Liability	Member Deductible:
	(aggregate for all coverages combined, including claims expenses but	
	$500,000 Privacy Noticfication Costs	$100,000 per occurrence
	$2,000,000 Penalties for Regulatory Defense and Penalities. PCI fines and penalties and fines coverage added with siblimit of $100,000	8 Hour waiting period for first party Business Income Interruption Claims
	$2,000,000 First Party Computer Security for Cyber Extortion Loss	
	$2,000,000 First Party Computer Security for Data Protection Loss	
	and Business Interruption	
	$25,000,000 Cyber Liability Annual Policy and Program Aggregate Limit of Liability	
	Public Entity Property Insurance Program (PEPIP)	Pool Self-Insured Retention:
Boiler &	*Effective 7/1/16 to 7/1/1*	$25,000 per occurrence, which applies in
Machinery	*Insurance Carriers (Various)*	the event that a more specific deductible is
	$100,000,000 Limits of Liability per occurrence	not applicaable to a loss.
	Included: Jurisdictional and Inspection	
	Included: per occurrence consequential damage perishable	Member Deductible:
	goods/spoilage	$1,000, $5,000, $10,000 or $25,000 per
	$10,000,000 per occurrence electronic data processing media and data	
	$10,000,000 per occurrence hazardous	$50,000 for objects over 350 hp
	Included: per occurrence machine or apparatus used for	$100,000 for objects over 500 hp
	diagnosis, medication, surgical, therapeutic, dental or	$250,000 for objects over 750 hp
	purposes	$350,000 for objects over 25,000 hp
	$25,000,000 newly acquired locations. Values greater than $25,000,000 o	$10 per ft/$2,500 min. for Deep Water
	generating facilities must be reported within 90 days and mu	24 hr waiting period for Utility
	prior underwriting approval prior to binding	24 hr waiting period for BI except 30 day
		Revenue Bond
	National Union Fire Insurance Company Effective 11/1/16 to 11/1/17	Pool Self-Insured Retention:
Crime:	$2,000,000 Employee Theft - Per Loss Coverage	$25,000 Employee Theft – per loss, forgery or alteration
	$2,000,000 Forgery or Alteration	$5,000 Inside the Premises - theft of
	$250,000 Inside the Premises - robbery , safe burglary - other proerty	& securities, robbery, safe burglary
	$250,000 Outside the Premises	other property, outside the
	$250,000 Computer Fraud	computer fraud, money orders and
	$250,000 Money Orders and Counterfeit Paper Currency	counterfeit paper currency
	$250,000 Funds Transfer Fraud	
	$2,000,000 Credit Card Forgery	Member Deductible:
	$25,000 Prior Theft or Dishonesty	$1,000, $5,000 or $10,000, or $25,000
	$75,000/100% Included expenses incurred to establish amount of	occurrence
	St. Paul Travelers Bond Effective 11/1/16 to 10/31/17	Pool Self-Insured Retention: N/A
Identify	$25,000 per person (family members of employees who are residents of	
Reimburseme	household, to include spouse, children under 25 years of age and	Member Deductible: N/A
Program	Lost Wages up to $1,000 per week - maximum of 5 weeks	
	Costs for notarizing fraud affidavits or similar documents	
	Costs for certified mail	
	Loan re-application fees	
	Charges for long distance telephone calls	
	Reasonable attorney fees incurred (with St. Paul Travelers' prior	
	Illinois Union Insurance Company Effective 7/1/16 - 7/1/17	Pool Self-Insured Retention: N/A
Claims Made	$1,000,000 per Pollution Condition	
and Reported	$1,000,000 WSRMP Annual Aggregate	Member Self-Insured Retentions:
Pullution		$75,000 per pollution condition
legal Liability	Written notice to the carrier is required of any claim or pollution conditio	$750,000 underground storage tank
	within seven (7) days of discovery for pollution conditions requiring	specific 8 day waiting period on business
	immediate emergency response.	income losses
	$200,000 per occurrence	
Clash	$800,000 annual aggregate	
Coverage	Clash coverage offsets the risk of the Pool paying multiple SIRs when	
	more than one member is involved in a loss.	

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING AND FINANCIAL POLICIES

The accounting policies of the District conform to generally accepted accounting principles (GAAP) as applicable to proprietary funds of governments. The following is a summary of the most significant policies (including identification of those policies which result in material departures from the generally accepted accounting principles).

The following is a summary of the District's most significant policies:

A. Reporting Entity

West Sound Utility District is a municipal corporation formed on November 27, 2007, through a merger of Annapolis Water District and Karcher Creek Sewer District. The District was governed in 2016 by an elected three-member Board of Commissioners. As required by generally accepted accounting principles, management has considered all potential component units in defining the reporting entity.

The District's financial statements include the financial position and results of operations of all enterprise operations which the District manages. (See Note 8). The financial statements include, as well, the assets and liabilities of all funds for which the District has a custodial responsibility.

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 *Uniform System of Accounts for Class B Utilities.*

The District's "proprietary funds" ("Enterprise Utilities" and "Internal Service" funds) are accounted for using 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.

The District distinguishes between operating revenues and expenses from non-operating items. Operating revenues and expenses result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District are charges to customers for water and sewer usage fees and other services. Operating expenses for the District include the cost of sales and services, administrative expenses, depreciation on capital assets, etc. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

C. Financial Management Policies:

The Board of Commissioners has adopted comprehensive financial management policies which are reviewed and updated during the District's biennial budget process. The financial health and welfare of the District is highly dependent upon establishing and maintaining sound, financial-planning objectives and strategies of implementation. As a result, the implementation of these policies provides direction in the decision-making process of the District's Board of Commissioners and District administration while operating to provide stability of changing service and financial conditions. Such policies enable District officials to protect the public interest and ensure trust and confidence in the District's management of water and wastewater operations and assets. The District's financial management policies include the following components: financial philosophies; budget process; basis of accounting and budgeting; accounting financial reporting, forecasting, information system integrity and auditing policies; operating budget policies: revenue and expenditure policies; capital improvement policies; utility fund policies; internal service fund policies; investment policies and cash management; and debt management policies.

D. Cash and Cash Equivalents
For purposes of the statement of cash flows, the District considers all highly liquid investments (including restricted assets) with a maturity of three months or less purchased to be cash equivalents.

E. Capital Assets
See Note 5.

F. Investments
Investments are stated at fair value. Interest on debt securities is recognized in non-operating revenues as earned. Changes in the fair value of investments are also included in non-operating revenues (expenses). The average interest rate earned from these investments was .72%. Noncurrent assets consist of reserve cash, assets, and real estate held for future use. It is displayed on the "Statement of Net Position" at historical cost.

G. Receivables
Customer accounts receivable consist of amounts owed from private individuals or organizations for goods and services, including amounts owed for which billings have not been prepared. The District files property liens after following prescribed procedures for collections. As a result, there are no billed accounts which are considered not collectible.

H. Restricted Cash, Cash Equivalent and Investments
The assets held in these funds are restricted for specific uses, debt service and other special reserve requirements. Specific debt service requirements are described in Note 7.

	2016
Revenue Bond Reserve	$ 513,421
Ficility Counstructiion Fund	228,828
Lien Deposit	657
Developers Deposits	1,500
Total	$ 744,406

I. Capital Assets and Depreciation

Major expenses of capital assets and major repairs that increase the useful lives are capitalized. The District capitalizes purchases that meet this criterion when the individual cost threshold exceeds $5,000, as set for in Resolution 337-12 “Capital Assets Policy”. Maintenance, repairs and minor renewals are accounted for as expenses when incurred.

All capital assets are valued at acquisition value. Estimated costs are established where acquisition value is not known. Assets contributed by developers and customers are recorded at the construction cost.

Capital assets are depreciated using straight line methods over the following estimated useful life:

Asset	Years
Buildings	35
Utility Infrastructure and Improvements	10/50/100
Machinery and Equipment	10

J. Compensated Absences

Compensated absences are absences for which employees will be paid, such as vacation and sick leave. Additionally, employees may accumulate up to twenty four (24) hours of comp time earned during the calendar year. The District records unpaid leave for compensated absences as an expense and liability when incurred.

Vacation pay may be accumulated up to a maximum accrual of two hundred forty (240) hours and may be carried over to the next calendar year. Accrued vacation pay is payable upon an employee taking a vacation or upon resignation, retirement, or death. Sick leave in excess of one thousand forty (1,040) hours of the current month shall be deposited into a VEBA account for the employee. Annual leave and sick leave are payable as follows:

Retirement (vacation)	100% of current balance, not to exceed 240 hours
Retirement (sick leave)	50% not to exceed of 1040 hours
Death (vacation)	100% of current balance
Death (sick leave)	50% not to exceed of 1040 hours
Voluntary Resignation (vacation)	100% of current balance
Voluntary Resignation (sick leave)	25%

K. Long-Term Debt

See Note 6.

L. Infrastructure

Governmental Accounting Standards Board Statement No. 34 allows for two methods of reporting for a local government. One is called the “modified approach” and the other is based upon "historical cost". The District has always reported its infrastructure on a historical cost basis with a corresponding offset as accumulated depreciation. The District will continue to use "historical cost" as the basis of reporting its infrastructure and use straight-line depreciation as the methods to depict the value of the asset being used over time.

M. Pensions

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

NOTE 2 – DEPOSITS AND INVESTMENTS

A. Deposits

Custodial credit risk (deposits). Custodial risk for deposits is the risk that, in the event of a bank failure, the government's deposits may not be returned. The District has not adopted a policy that addresses deposit custodial risk; however, Kitsap County is the Treasurer for the District' funds. the District's 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). In the event of a bank failure, claims for the District's deposits would be satisfied by FDIC or from the sale of collateral held in the PDPC pool.

B. Investments

As required by state law, all investments of the District's funds are obligations of the U.S Government, U.S. agency issues, obligations of the State of Washington, general obligations of Washington State municipalities, or certificates of deposit with Washington State banks and savings and loan institutions. Currently, all investments of the District are invested through the Kitsap County Treasurer's Office in the County's external investment pool. The District's investments in the pool are reported at fair value, which is the same as the value of the Pool per share. The responsibility for managing the pool resides with the County Treasurer. The Pool is established from the RCW 36.29 which authorizes the County Treasurer to invest the funds of participants. The County's investment policy is established by the Kitsap County Finance Committee (KCFC), which consists of the County Treasurer, County Auditor and Chair of the Board of County Commissioners. The objectives of the KCFC are preservation of capital, followed by liquidity and return. The County external investment pool does not have a credit rating and had a weighted average maturity of 0.82 years as of December 31, 2016.

The District does not have a policy for custodial credit risk of investment securities. Further, the District is not subject to foreign currency risk or interest rate risk.

As of December 31, 2016, the District has the following cash and investments:

	Cash	Investments	Total
Washington State Investment Pool		5,996,505	5,996,505
Kitsap County	1,085,919		1,085,919
Bank of America	30,000		30,000
Cash on Hand	600		600
Total	$ 1,116,519	$ 5,996,505	$ 7,113,024

NOTE 3 – CONSTRUCTION IN PROGRESS

The District had active construction projects as of December 31, 2016, as follows:

Project Description	Project Budget	Expended 12/31/2016	Required Future Financing
Well 9 (Drilling)	$ 150,000	$ 148,212	None
Well 22 Infrastructure	$ 752,000	$ 714,592	None
Unexpected Distribution Sys Repair	$ 50,000	$ 6,703	None
Annual Well Rehabilitation	$ 60,000	$ 34,130	None
Replace Well #1 Reservoir	$ 650,000	$ 134,113	None
Construct Well #22 Pump House	$ 400,000	$ 64,341	None
Replace Main on Lidstrom	$ 325,000	$ 5,310	None
Complete Arnorld Ave Manhole Repair	$ 25,000	$ 15,653	None
Total Construction in Progress	$ 2,412,000	$ 1,123,054	

NOTE 4 – LEASE COMMITMENTS

The District is committed under various leases for land for future well site developers, postage meter and copier machines. These leases are considered operating leases for accounting purposes. Lease expense for the year ended December 31, 2016 amounted to $20,565. Future minimum rental commitments for these leases are as follow:

YEAR	AMOUNT
2017	$ 19,166
2018	$ 19,166
2019	$ 19,166
2020	$ 17,866
2021	$ 3,567
Thereafter	$ 28,536
Total	$ 107,467

NOTE 5 – CAPITAL ASSETS

Capital Assets activity for the year ended December 31, 2016, was as follows:

	Beginning Balance 01/01/2016	Increases	Decreases	Transfers	Ending Balance 12/31/2016
Capital Assets, not being depreciated:					
Property held for future use	156,091				156,091
Land	966,098				966,098
Construction in progress	1,660,997	765,394	(232,429)	(1,070,908)	1,123,054
Total Capital Assets, not being Depreciated	**$ 2,783,186**	**$765,394**	**($232,429)**	**($1,070,908)**	**$2,245,243**
Capital Assets, being Depreciated:					
Buildings	4,495,570	12,660			4,508,230
Utility Infrastructure and Improvements	39,228,262	480,365		1,070,908	40,779,535
Machinery and Equipment	3,217,814	70,925	(74,681)		3,214,058
Total Capital Assets being Depreciated	**$46,941,646**	**$563,950**	**($74,681)**	**$1,070,908**	**$48,501,823**
Less Accumulated Depreciation for:					
Buildings	(1,598,114)	(129,135)			(1,727,249)
Utility Infrastructure and Improvements	(14,727,944)	(867,209)			(15,595,153)
Machinery and Equipment	(2,073,063)	(195,032)	74,681		(2,193,414)
Total Accumulated Depreciation	**(18,399,121)**	**(1,191,376)**	**74681**		**(19,515,816)**
Total Capital Assets being Depreciated, net	28,542,525	(627,426)		1,070,908	28,986,007
Total Capital Assets, net	**$31,325,711**	**($137,968)**	**($232,429)**		**$31,231,250**

NOTE 6 – LONG-TERM DEBT AND LIABILITIES

A. Long-Term Debt

The District issues three special revenue bonds and fifteen government loans to finance the purchase and construction of capital assets. The *2009 Revenue Bond* included the refinancing of the Beach Drive ULID and a number of capital projects (Converse/ Sedgwick water/sewer, Well

22, Salmonberry generator, and reclaimed water). The *2010 Revenue Bond* includes refinancing the 2001 water and sewer bonds used to fund the construction of the District's Administration facilities. In September of 2016 the District refunded the 2009 Revenue Bond. By refunding the 2009 Revenue Bond the District save interest rate from four percent (4%) to 1.649% with a Net PV Savings of $183,175.

Long – Term debt instruments outsataning at year-end are as follows:

Name of Issuance-Purpose	Maturity Date	Original Issue	Current Debt Outstanding
2009 Revenue Bond - Water/Wastewater	4/11/2018	540,000	365,000
2010 Revenue Bond - Refunding Lund Ave.	4/2/2021	3,595,000	1,955,000
2016 Revenue Bond - Refunding 2009 Bond	11/1/2018	1,952,000	1,910,336
PWTF 99-791-002 - Greendale/Sieford	7/14/2019	438,376	69,217
PWTF 00-691-002 - Well 21	7/1/2020	669,870	138,972
PWTF 00-691-003 - Water Mains	7/1/2020	251,147	52,873
PWTF 01-691-003 - Storage Tank Painting	7/1/2021	99,719	25,320
PWTF 01-691-004 - Bethel Rd Water Sys Improvement	7/1/2021	939,573	247,256
PWTF 03-691-001 - Well 6 & 7 Decommission	7/1/2023	143,438	55,166
PWTF 07-962-002 - Salmonberry Reservoir Painting	7/1/2027	595,000	344,474
PWTF PC12-951-047 - Firmont Beach Water System	7/1/2031	311,496	245,714
PWTF 99-791-018 - Wastewater Pump St. Improvements	7/1/2019	1,005,615	158,781
PWTF 99-791-019 - Retsil Wartime Sewer Relacement	7/1/2019	1,007,640	159,101
PWTF 00-691-032 - Retsil Wartime Sewer Relacement	7/1/2020	1,005,210	183,193
PWFT 03-691-014 - Crownwood Lift Station	7/1/2023	189,091	69,665
PWFT 03-691-015 - Beach Drive Pump Station Collection	7/1/2023	148,750	57,847
PWTF 04-691-035 - Retsil Area A & B Improvements	7/1/2024	1,360,000	640,000
PWTF PC08-951-017 - Sedgwick Rd. Sewer System	7/1/2028	950,691	860,149
Total Long-Term Liabilities			**$ 7,538,065**

The annual requirements to amortize all debts outstanding as of December 31, 2016, including interest, are as follows:

Year Ending December 31	Principal	Interest	Total
2017	1,084,511	205,454	1,289,965
2018	1,094,771	180,324	1,275,095
2019	1,065,058	76,183	1,141,241
2020	947,026	55,624	1,002,650
2021	874,260	37,788	912,048
2022-2026	1,831,696	100,636	1,932,332
2027-2031	640,745	12,894	653,638
Total	$ 7,538,066	$ 668,903	$ 8,206,969

B. Change in Long Term Liabilities

During the year ended December 31, 2016 the following changes occurred in long-term liabilities:

	Beginning Balance 1/1/2016	Additions	Reduction	Ending Balance 12/31/2016	Due Within One Year 2017
Revenue Bonds	4,575,000	219,757	564,421	4,230,336	581,730
Government Loans	3,810,511		502,781	3,307,730	502,781
Net Pension Liabilities	1,132,351	1,320,627	1,132,351	1,320,627	
Compensated absences	485,333		122,163	363,170	71,591
Total	10,003,195	1,540,384	2,321,716	9,221,863	1,156,102
Less Current Portion				$1,156,102	
Total Long-Term Liabilities, net				$8,065,761	

NOTE 7 – RESTRICTED CASH

The District's statement of net position reports, $744,406, at December 31, 2016 of restricted for revenue debt service, none of which are restricted by enabling legislation. These are restricted for Revenue Bonds reserve requirement, FCF reserve, customer lien satisfaction and Developers deposits.

NOTE 8 – INVESTMENT IN JOINT WASTEWATER TREATMENT FACILITY

In 1982, the District entered into an agreement with the City of Port Orchard to be included within the boundaries of a utility local improvement district (ULID). The purpose of the ULID was to fund the construction of a new Joint Wastewater Treatment Facility (JWWTF). Construction of the joint facility was completed in 1985.

In 2002, the District and City continued the expansion plans of the Facility. The cost of this expansion was $21.5 million. This project funding was approved for a $10 million Public Works Trust Fund (PWTF) loan in 2002 and a $6.8 million PWTF loan in 2004. The City of Port Orchard was the lead agency for the expansion project and funding, with the City being the borrowing governmental entity on the PWTF loans. Funds from the JWWTF operating budget are transferred to the City to pay for the two loans. The City transferred the related assets and liabilities to the Facility upon completion of the project. The City and District have approved using a part of the wastewater treatment capital fees collected by each entity to assist with the annual debt payments on the PWTF loans. This cost sharing formula was 50/50%, and in 2016, each entity contributed $250,000 from these capital fees.

The Joint Wastewater Treatment Facility is jointly owned by the City of Port Orchard and West Sound Utility District, (formerly known as Karcher Creek Sewer District) each having a fifty percent (50%) ownership interest in the JWWTF. In accordance with the generally accepted accounting principles, the proportional shares of the Joint Venture's results of operations are presented as a single operating account on the City's proprietary fund's operating statements – "Investment in JWWTF". In 2016, the change in the District's equity in the JWWTF was an increased of $239,727. The District's equity interest in the JWWTF as of December 31, 2016, was $8,612,271 (see JWWTF Financial Statements for further information).

In 1983, West Sound Utility District (known then as Karcher Creek Sewer District) and the City of Port Orchard entered into an interlocal cooperative agreement giving the District operation and management responsibilities for the JWWTF. In 2014, the District and City negotiated and executed a new interlocal agreement which resulted in extending the responsibility of the District in managing and operating the JWWTF, in addition to resolving issues pertaining to property and asset ownership, liability and insurance.

The District accounts for its investment in the JWWTF on an equity method, whereby the District's share of the treatment plant's income or losses, assets and liabilities, are reflected as increases or decreases in its investment account balance.

The District's Finance Department maintains separate accounting records for the operating and maintenance expenses and revenues and prepares separate financial statements of the JWWTF. The City of Port Orchard maintains all accounting records regarding the expansion project. The District provides accounting and financial support services to the Facility, and accounting and finance statements for the Facility can be obtained at the District office, 2924 SE Lund Ave., Port Orchard, WA, or the District's website at www.wsud.us.

The District does not anticipate that the joint venture will cause fiscal stress to the District in the future.

NOTE 9 – PENSION PLANS

The following table represents the aggregate pension amounts for all plans subject to the requirements of the GASB Statement 68, *Accounting and Financial Reporting for Pensions* for the year 2016:

Aggregate Pension Amounts – All Plans	
Pension liabilities	**$1,320,627**
Deferred outflows of resources	**$207,818**
Deferred inflows of resources	**$38,826**
Pension expense/expenditures	**$113,513**

State Sponsored Pension Plans

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

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

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

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

Public Employees' Retirement System (PERS)

Plan Description

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

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

Contributions

The **PERS Plan 1**-member contribution rate is established by State stature at 6 percent. The employer contribution rate is developed by the Office of the State of Actuary and includes an administrative expense component that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates. The PERS Plan 1 required contribution rates (expressed as a percentage of covered payroll) for 2016 were as follows:

PERS Plan 1		
Actual Contribution Rates:	**Employer**	**Employee***
PERS Plan 1	**6.23%**	**6.00%**
PERS Plan 1 UAAL	**4.77%**	**6.00%**
Administrative Fee	**0.18%**	
Total	**11.18%**	**6.00%**

* For Employees participating in JBM, the contribution rate was 12.26%

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

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

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

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

Contributions

The PERS Plan 2/3 employer and employee contribution rates are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit of Plan 3. The Plan 2/3 employer rates include a component to address the PERS Plan 1 UAAL and an administrative expense that is currently set at 0.18 percent (0.18%). Each biennium, the state Pension Funding Council adopts Plan 2 employer and employee contribution rates and Plan 3 contribution rates. The PERS Plan 2/3 required contribution rates (expressed as a percentage of covered payroll) for 2016 were as follows:

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

* For employees participating JBM, the contribution rate was 15.30%

The District's actual contributions to the plan were $71,669 to PERS Plan 1 and $73,341 to PERS Plan 2/3 for the year ended December 31, 2016.

Actuarial Assumptions

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

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

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

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

There was minor change in methods and assumptions since the last valuation.

- For all systems, except LEOFF Plan 2, the assumed valuation interest rate was lowered from 7.8% to 7.7%. Assumed administrative factors were updated.

Discount Rate

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

To determine that rate, an asset sufficiency test included an assumed 7.7 percent (7.7%) long-term discount rate to determine funding liabilities for calculating future contribution rate requirements. (All plans use 7.7 percent (7.7%) except LEOFF 2, which has assumed 7.5 percent (7.5%)). Consistent with the long-term expected rate of return, a 7.5 percent (7.5%) future investment rate of return on invested assets was assumed for the test. Contributions from plan members and employers are assumed to continue being made at contractually required rates (including PERS 2/3, PSERS 2, SERS 2/3, and TRS 2/3 employers, whose rates include a component for the PERS 1, and TRS 1 plan liabilities). Based on these assumptions, the pension plans' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return of 7.5 percent (7.5%) was used to determine the total liability.

Long-Term Expected Rate of Return

The long-term expected rate of return on the DRS pension plan investments of 7.5 percent (7.5%) was determined using a building-block-method. The Washington State Investment Board (WSIB) used a best estimate of expected future rates of return (expected returns, net of pension plan investment expense, including inflation) to develop each major asset class. Those expected returns make up one component of WSIB's capital market assumptions. The WSIB uses the capital market assumptions and their target asset allocation to simulate future investment returns at various future times. The long-term expected rate of return of 7.5 percent (7.5%) approximately equals to median of the simulated investments over a 50-year time horizon

Estimated Rates of Return by Asset Class

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2016, are summarized in the table below. The inflation component used to create the table is 2.2 percent (2.2%) and represents the WSIB's most recent long-term estimate of broad economic inflation.

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

Sensitivity of NPL

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

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
PERS 1	$818,922	$679,097	$558,768
PERS 2/3	$1,181,172	$641,530	$(333,953)

Pension Plan Fiduciary Net Position

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

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

At June 30, 2016, the District reported a total pension liability of $1,320,627 for its proportionate share of the net pension liabilities as follows:

	Liability
PERS 1	$679,097
PERS 2/3	$641,530

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

	Proportionate Share 6/30/15	Proportionate Share 6/30/16	Change in Proportion
PERS 1	0.012739%	0.012645%	(0.000094%)

PERS 2/3	**0.013042%**	**0.012742%**	**(0.000300%)**

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

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

Pension Expense

For the year ended December 31, 2016, the District recognized pension expense as follows:

	Pension Expense
PERS 1	**$30,753**
PERS 2/3	**$82,761**
TOTAL	**$113,513**

Deferred Outflows of Resources and Deferred Inflows of Resources

At December 31, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

PERS 1	**Deferred Outflows of Resources**	**Deferred Inflows of Resources**
Net difference between projected and actual investment earnings on pension plan investments	**$17,099**	
Contributions subsequent to the measurement date	**$35,312**	
TOTAL	**$52,410**	

PERS 2/3	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$34,161	$ (21,178)
Net difference between projected and actual investment earnings on pension plan investments	$78,505	
Changes of assumptions	$6,631	
Changes in proportion and differences between contributions and proportionate share of contributions		$ (17,648)
Contributions subsequent to the measurement date	$36,111	
TOTAL	$155,408	$ (38,826)

Deferred outflows of resources related to pensions resulting from the District's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2017. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions were recognized in pension expenses as follows:

Year ended December 31:	PERS 1	PERS 2/3
2017	$ (4,210)	$ (5,924)
2018	$ (4,210)	$ (5,924)
2019	$ 15,703	$ 55,703
2020	$ 9,815	$ 36,615
Total	$ 17,099	$ 80,470

NOTE 10 – 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 sixty two (62) members. The Pool's fiscal year is November 1 through October 31.

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.

Members 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
Property Loss:			
Buildings and Contents	$1,000 - $25,000 and See (C) below	$25,000	$1,000,000,000
Flood	See (A) below	See (A) below	$50,000,000
Earthquake	See (B) below	See (B) below	$110,000,000 ($75,000,000 shared by all members and $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
Liability:			
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

Other:			
Public Officials Bonds	Various	N/A	Various
Crime	$1,000 - $25,000	$25,000	$2,000,000
Identity Fraud	$0	$25,000	$0

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.

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. 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 and Machinery deductible which exceeds $25,000. In the past three years, the District did not have any settlements that exceeded the insurance coverage.

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 by 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.

WATER AND SEWER RISK MANAGEMENT POOL
Summary of Insurance – November 1, 2015 to October 31, 2017
Insurance Coverage, Policy Limits and Pool/Member Deductibles**

Coverage	Insurance Co. and Limits	Pool/Member Deductibles
Liability:	*Water and Sewer Risk Management Pool Effective 11/1/16 to 10/31/17*	Pool Self-Insured Retention:
	Reinsured by Munich Reinsurance America, Inc.	$200,000 per occurrence
Primary Layer	$10M per occurrence for all members/$10M annual aggregate per member for General Liability	Member Duductible: BI or PD - $1,000, $5,000, $10,000 or
	$10M per occurrence for all members/$10M annual agg per member for Products Completed Liability	per occurrence If a member terminates any employee
	$10M per occurrence for all members/$10M annual agg per member for Public Officials Errors & Ommissions	without first notifying WSRMP and obtaining a formal consultation with an
	$10M per occurrence for all members/$10M ann agg per member for Employment Practices Liability	practices attorney selected by WSRMP, or fails to follow the advice of the emplyment
	$10M per occurrence for all members/$10M ann agg per member for Employee Benefits Liability	attorney, then the member shall be responsible for the first $100,000 of claim
	$10M per occurrence for all members for Auto Liability	expenses for that claim, and that responsibility shall supersede the member's ordinary deductible for liablity claims.
Property:	*Public Entity Property Insurance Program (PEPIP) Effective 7/1/16 to 7/1/17*	Pool Self-Insured Retention:
Included	*Insurance Carriers (Various)*	$25,000 per occurrence, which
Autos	$1,000,000,000 per occurrence "All Risk"	applies in the event that a more
	$ 50,000,000 Flood limit per occurrence and annual aggregate	specific deductible is not applicable to a
	$110,000,000 Earthquake limit per occurrence and annual aggregate shared by all members. $75M shared by all members including Alderwood, Sammamish Plateau, and Cascade Water Alliance.	loss Member Deductible: Damage to District Property and
	$ 100,000,000 Combined Business Interruption, Rental Income, Tax Interrruption and Tuition Income	Automobile - $1,000, $5,000, $10,000 or $25,000 per occurrence
	$ 50,000,000 Per occurrence for Extra Expense	
	$ 1,000,000 Unscheduled Landscaping ($25,000/25 gallon max per tree)	Earthquake - 5% per occurrence for
	$ 5,000,000 Scheduled landscaping ($25,000/25 gallon max per tree)	Earthquake Shock per unit of insurance
	$ 25,000,000 Miscellaneous Unnamed Locations excl. EQ and Zone	subject to $100,000 minimum except;
	$ 25,000,000 Automatic Acquisition for new locations excl. EQ and Zone A&V flood	10% with $100,000 minimum for buildings constructed prior to 1940 where EQ
	$ 50,000,000 Errors & Omissions	is purchased
	$ 25,000,000 Course of Construction including new projects	
	$ 2,500,000 Money & Securities	Flood - $100,000 All Flood Zones per
	$ 2,500,000 Unscheduled Fine Arts	occurrence excl. Flood Zones A&V
	$ 250,000 Accidental Contamination per occurrence and annual aggregate per member with $500K annual aggregate for all insureds per	Flood Zones A&V - $250,000 per occurrence $500,000 per occurrence for
	$ 2,000,000 Unscheduled tunnels, bridges, dams, catwalks, roadways, etc. (except EQ)	tunnels, bridges, roadways, highways, streets, sidewalks, culverts, street lights and
	$100,000,000 Primary Terrorism per occurrence $200,000,000 Ann. Aggregate (all PEPIP Members)	signals unless a specific value has been declared (excluding coverage for the peril
	$300,000,000 Excess Terrorism per member/entity	Earthquake Shock, and excluding Federal
	$800,000,000 Excess Terrorism all PEPIP members combined	Emergency Management (FEMA) and/or
	$800,000,000 Excess Terrorism annual aggregate shared by all members/entities	Office of Emergency Services (OES) declared disasters or proclamations of emergency).
	$ 5,000,000 Per Occurrence Per Declaration Upgrade to Green Coverage	
	Property, Contents, EDP, and Contractor's Equipment limits based on property values at beginning of policy subject to additions/deletions of property	

Cyber	$2,000,000 Third Party Liability-annual aggregate limit of liability for	Pool Self-Insured Retention: N/A
Liability	each insured/members for Information Security & Privacy Liability	Member Deductible:
	(aggregate for all coverages combined, including claims expenses but	
	$500,000 Privacy Noticfication Costs	$100,000 per occurrence
	$2,000,000 Penalties for Regulatory Defense and Penalities. PCI fines and penalties and fines coverage added with siblimit of $100,000	8 Hour waiting period for first party Business Income Interruption Claims
	$2,000,000 First Party Computer Security for Cyber Extortion Loss	
	$2,000,000 First Party Computer Security for Data Protection Loss	
	and Business Interruption	
	$25,000,000 Cyber Liability Annual Policy and Program Aggregate Limit of Liability	
	Public Entity Property Insurance Program (PEPIP)	Pool Self-Insured Retention:
Boiler &	*Effective 7/1/16 to 7/1/1*	$25,000 per occurrence, which applies in
Machinery	*Insurance Carriers (Various)*	the event that a more specific deductible is
	$100,000,000 Limits of Liability per occurrence	not applicaable to a loss.
	Included: Jurisdictional and Inspection	
	Included: per occurrence consequential damage perishable	Member Deductible:
	goods/spoilage	$1,000, $5,000, $10,000 or $25,000 per
	$10,000,000 per occurrence electronic data processing media and data	
	$10,000,000 per occurrence hazardous	$50,000 for objects over 350 hp
	Included: per occurrence machine or apparatus used for	$100,000 for objects over 500 hp
	diagnosis, medication, surgical, therapeutic, dental or	$250,000 for objects over 750 hp
	purposes	$350,000 for objects over 25,000 hp
	$25,000,000 newly acquired locations. Values greater than $25,000,000 o	$10 per ft/$2,500 min. for Deep Water
	generating facilities must be reported within 90 days and mu	24 hr waiting period for Utility
	prior underwriting approval prior to binding	24 hr waiting period for BI except 30 day
		Revenue Bond
	National Union Fire Insurance Company Effective 11/1/16 to 11/1/17	Pool Self-Insured Retention:
Crime:	$2,000,000 Employee Theft - Per Loss Coverage	$25,000 Employee Theft – per loss, forgery or alteration
	$2,000,000 Forgery or Alteration	$5,000 Inside the Premises - theft of
	$250,000 Inside the Premises - robbery , safe burglary - other proerty	& securities, robbery, safe burglary
	$250,000 Outside the Premises	other property, outside the
	$250,000 Computer Fraud	computer fraud, money orders and
	$250,000 Money Orders and Counterfeit Paper Currency	counterfeit paper currency
	$250,000 Funds Transfer Fraud	
	$2,000,000 Credit Card Forgery	Member Deductible:
	$25,000 Prior Theft or Dishonesty	$1,000, $5,000 or $10,000, or $25,000
	$75,000/100% Included expenses incurred to establish amount of	occurrence
	St. Paul Travelers Bond Effective 11/1/16 to 10/31/17	Pool Self-Insured Retention: N/A
Identify	$25,000 per person (family members of employees who are residents of	
Reimburseme	household, to include spouse, children under 25 years of age and	Member Deductible: N/A
Program	Lost Wages up to $1,000 per week - maximum of 5 weeks	
	Costs for notarizing fraud affidavits or similar documents	
	Costs for certified mail	
	Loan re-application fees	
	Charges for long distance telephone calls	
	Reasonable attorney fees incurred (with St. Paul Travelers' prior	
	Illinois Union Insurance Company Effective 7/1/16 - 7/1/17	Pool Self-Insured Retention: N/A
Claims Made	$1,000,000 per Pollution Condition	
and Reported	$1,000,000 WSRMP Annual Aggregate	Member Self-Insured Retentions:
Pullution		$75,000 per pollution condition
legal Liability	Written notice to the carrier is required of any claim or pollution conditio	$750,000 underground storage tank
	within seven (7) days of discovery for pollution conditions requiring	specific 8 day waiting period on business
	immediate emergency response.	income losses
	$200,000 per occurrence	
Clash	$800,000 annual aggregate	
Coverage	Clash coverage offsets the risk of the Pool paying multiple SIRs when	
	more than one member is involved in a loss.	

West Sound Utility District

Required Supplementary Information
State Sponsored Plans
Schedule of Proportionate Share of Net Pension Liability
As of June 30, 2017
Last Four Fiscal Year

PERS 1

	2017	2016	2015	2014
Employer's proportion of the net pension liability (asset)	0.012476%	0.012645%	0.012739%	0.012934%
Employer's proportionate share of the net pension liability	$ 591,996	$ 679,097	$ 666,363	$ 651,550
Employer's covered employee payroll	$ 143,440	$ 141,057	$ 134,677	$ 126,708
Employer's proportionate share of the net pension liability as a % of covered employee payroll	412.71%	481.43%	494.79%	514.21%
Plan fiduciary net position as a % of the total pension liability	61.24%	57.03%	59.10%	61.19%

PERS 2/3

	2017	2016	2015	2014
Employer's proportion of the net pension liability (asset)	0.012673%	0.012742%	0.013042%	0.013402%
Employer's proportionate share of the net pension liability	$ 440,326	$ 641,530	$ 465,988	$ 270,899
Employer's covered employee payroll	$ 1,191,084	$ 1,198,606	$ 1,157,058	$ 1,158,854
Employer's proportionate share of the net pension liability as a % of covered employee payroll	36.97%	53.52%	40.27%	23.38%
Plan fiduciary net position as a % of the total pension liability	90.97%	85.82%	89.20%	93.29%

West Sound Utility District

Required Supplementary Information
State Sponsored Plan
Schedule of Proportionate Share of Net Pension Liability
As of June 30, 2016
Last Three Fiscal Year

PERS 1

	2014	2015	2016
Employer's proportion of the net pension liability (asset)	0.012934%	0.012739%	0.012645%
Employer's proportionate share of the net pension liability	$ 651,550	$ 666,363	$ 679,097
Employer's covered employee payroll	$ 94,411	$ 134,344	$ 141,057
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	$ 690	$ 496	$ 481
Plan fiduciary net position as a percentage of the total pension liability	61%	59%	57%

PERS 2/3

	2014	2015	2016
Employer's proportion of the net pension liability (asset)	0.013402%	0.013042%	0.012742%
Employer's proportionate share of the net pension liability	$ 270,899	$ 465,988	$ 641,530
Employer's covered employee payroll	$ 1,158,854	$ 1,157,058	$ 1,198,606
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	23.38%	40.27%	53.52%
Plan fiduciary net position as a percentage of the total pension liability	93.29%	89.20%	85.82%

West Sound Utility District

Required Supplementary Information

State Sponsored Plans

Schedule of Employer Contributions

As of December 31, 2017

Last Four Fiscal Year

PERS 1

	2017	2016	2015	2014
Statutorily or contractually required contributions	$ 73,431	$ 71,669	$ 64,567	$ 58,109
Contributions in relation to the statutorily or contractually required contributions	$ (73,431)	$ (71,669)	$ (64,567)	$ (58,109)
Contribution deficiency (excess)				
Covered employer payroll	$ 133,623	$ 141,052	$ 138,000	$ 128,346
Contributions as a percentage of covered employee payroll	54.95%	50.81%	46.79%	45.28%

PERS 2/3

	2017	2016	2015	2014
Statutorily or contractually required contributions	$ 81,236	$ 73,341	$ 65,218	$ 57,572
Contributions in relation to the statutorily or contractually required contributions	$ (81,236)	$ (73,341)	$ (65,218)	$ (57,572)
Contribution deficiency (excess)				
Covered employer payroll	$1,204,539	$1,177,154	$1,180,819	$1,158,655
Contributions as a percentage of covered employee payroll	6.74%	6.23%	5.52%	4.97%

West Sound Utility District
Required Supplementary Information
State Sponsored Plan
Schedule of Employer Contributions
As of December 31, 2016
Last Three Fiscal Year

PERS 1

	2014	2015	2016
Statutorily or contractually required contributions	$ 58,109	$ 64,567	$ 71,669
Contributions in relation to the statutorily or contractually required contributions	$ (58,109)	$ (64,567)	$ (71,669)
Contribution deficiency (excess)			
Covered employer payroll	$ 128,346	$ 138,000	$ 141,052
Contributions as a percentage of covered employee payroll	45.28%	46.79%	50.81%

PERS 2/3

	2014	2015	2016
Statutorily or contractually required contributions	$ 57,572	$ 65,218	$ 73,341
Contributions in relation to the statutorily or contractually required contributions	$ (57,572)	$ (65,218)	$ (73,341)
Contribution deficiency (excess)			
Covered employer payroll	$1,158,655	$1,180,819	$1,177,154
Contributions as a percentage of covered employee payroll	4.97%	5.52%	6.23%

West Sound Utility District
Notes to Requires Supplemental Information - Pension
As of December 31, 2017

Note 1: Information Provided

The District shared the Organization Identification Number under Washington State Department of Retirement System with Joint Wastewater Treatment Facility (SKWRF) until July 2016. All pension data including allocation percentage were recalculated according to the percentage of the District and the Plant's contributions.

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

Note 2: Significant Factors

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

Note 1: Information Provided

The District shared the Organization Identification Number under Washington State Department of Retirement System with Joint Wastewatr Treatment Facility (SKWRF) until July 2016. All pension data including allocation percentage were recalculated according to the percentage of the District and the Plant's contributions.

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

Note 2: Significant Factors

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

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.

Contact information for the State Auditor's Office	
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