



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

**Financial Statements Audit Report**  
**West Sound Utility District No. 1**

**For the period January 1, 2018 through December 31, 2019**

**Published February 11, 2021**

**Report No. 1027669**





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

February 11, 2021

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,

A handwritten signature in black ink that reads "Pat McCarthy".

Pat McCarthy  
State Auditor  
Olympia, WA

***Americans with Disabilities***

*In accordance with the Americans with Disabilities Act, we will make this document available in alternative formats. For more information, please contact our Office at (564) 999-0950, TDD Relay at (800) 833-6388, or email our webmaster at [webmaster@sao.wa.gov](mailto:webmaster@sao.wa.gov).*

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

**West Sound Utility District No. 1  
January 1, 2018 through December 31, 2019**

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, 2019 and 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated February 3, 2021.

As discussed in Note 11 to the 2019 financial statements, the full extent of the direct or indirect financial impact on the District of the COVID-19 pandemic and related precautionary measures is unknown.

**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.

A handwritten signature in black ink that reads "Pat McCarthy". The signature is written in a cursive, flowing style.

Pat McCarthy

State Auditor

Olympia, WA

February 3, 2021

# INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

## **West Sound Utility District No. 1 January 1, 2018 through December 31, 2019**

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, 2019 and 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed on page 10.

### **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.

## **Opinions**

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, 2019 and 2018, 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.

## **Matters of Emphasis**

As discussed in Note 11 to the 2019 financial statements, the full extent of the direct or indirect financial impact on the District of the COVID-19 pandemic and related precautionary measures is unknown. Our opinion is not modified with respect to this matter.

## **Other Matters**

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

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplementary information listed on page 10 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 February 3, 2021 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

February 3, 2021

## **FINANCIAL SECTION**

### **West Sound Utility District No. 1 January 1, 2018 through December 31, 2019**

#### **REQUIRED SUPPLEMENTARY INFORMATION**

Management Discussion and Analysis – 2019  
Management Discussion and Analysis – 2018

#### **BASIC FINANCIAL STATEMENTS**

Statement of Net Position – 2019  
Statement of Net Position – 2018  
Statement of Revenues, Expenses, and Changes in Fund Net Position – 2019  
Statement of Revenues, Expenses, and Changes in Fund Net Position – 2018  
Statement of Cash Flows – 2019  
Statement of Cash Flows – 2018  
Notes to Financial Statements – 2019  
Notes to Financial Statements – 2018

#### **REQUIRED SUPPLEMENTARY INFORMATION**

Schedule of Proportionate Share of Net Pension Liability – PERS 1, PERS 2/3 – 2019  
Schedule of Proportionate Share of Net Pension Liability – PERS 1, PERS 2/3 – 2018  
Schedule of Employer Contributions – PERS 1, PERS 2/3 – 2019  
Schedule of Employer Contributions – PERS 1, PERS 2/3 – 2018  
Notes to Required Supplemental Information – Pension – 2019  
Notes to Required Supplemental Information – Pension – 2018

**West Sound Utility District**  
***Management Discussion and Analysis***  
***For the Year Ended December 31, 2019***

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**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, 2019. 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 an annual 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. Additionally, 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 reviewed and updated when necessary with the adoption of the District budget and 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 the 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 (GAAP).

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 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

**West Sound Utility District**  
***Management Discussion and Analysis***  
***For the Year Ended December 31, 2019***

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*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 2019 was \$48,498,535. Of this amount, \$19,586,943 may be used to meet the District's ongoing obligations to citizens and creditors.
- The District's total net position increased by \$3,339,553 in 2019. The increase in 2019 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 total long-term debt decreased by \$1,065,059 during the fiscal year. As of December 31, 2019, the total outstanding long-term debt was \$4,293,725.
- The District's total cash and cash equivalents increased by \$1,630,025 in 2019 due to increasing of 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, 2019 and 2018.

**West Sound Utility District**  
**Management Discussion and Analysis**  
**For the Year Ended December 31, 2019**

December 31,	2019	2018
Current and other assets	22,327,510	20,296,119
Capital assets, net	32,132,075	31,955,434
Total Assets	\$ 54,459,585	\$ 52,251,553
Deferred Outflows of Resources	127,454	111,465
Current Liabilities	1,314,804	1,422,328
Non-current Liabilities	4,472,040	5,507,809
Total Liabilities	\$ 5,786,844	\$ 6,930,137
Deferred Inflows of Resources	301,660	273,899
Net Position:		
Net Invested in capital assets,	27,838,350	26,596,650
Restricted assets	1,073,242	986,503
Unrestricted	19,586,943	17,575,830
Total Net Position	\$ 48,498,535	\$ 45,158,983

The 2019 total net position was \$48 million, which is an increase of 7.4% from 2018. At the end of 2019 and 2018, capital assets represent 59% and 61.2% , respectively, of total assets.

As of December 31, 2019 and 2018, the District had non-current liabilities of \$4.5 million and \$5.5 million, respectively. The decreases are due to the District scheduled debt payments. The District's investment in capital assets, less any related debt, was \$27.8 million at December 31, 2019 and \$26.6 million at December 31, 2018. This has increased over last year due to the declining balance in debt service. Restricted cash for debt service represents debt service reserve, FCF reserve, customer lien satisfaction, sewer inspection deposit 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 2019. 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:

**West Sound Utility District**  
**Management Discussion and Analysis**  
**For the Year Ended December 31, 2019**

Revenues	2019	2018
Operating Revenue		
Charges for services	8,013,220	7,651,792
Other revenue - interlocal service fees	164,500	185,524
Non-Operating revenues		
Equity in Income of Joint Venture Subsidiaries	416,784	636,545
Interest and Dividend Income	211,417	135,560
Other Non-operating Revenues	7,197	(87)
Total Revenues	<u>\$ 8,813,118</u>	<u>\$ 8,609,334</u>
Expenses		
Operating expenses	6,239,703	6,406,414
Non-Operating expenses	62,979	91,644
Total Expenses	<u>\$ 6,302,682</u>	<u>\$ 6,498,059</u>
Income Before Contributions	2,510,436	2,111,275
Capital Contributions	829,117	2,067,005
Change in Net Position	<u>3,339,553</u>	<u>4,178,280</u>
Net Position, Beginning of Year	<u>45,158,982</u>	<u>40,980,702</u>
Net Position, Ending of Year	<u>\$ 48,498,535</u>	<u>\$ 45,158,982</u>

Total operating revenues for the District in 2019 and 2018 were \$8.2 million and \$7.8 million, respectively. This was an increase of \$340,404 from 2018 revenues.

The total contributions of \$829,117 represent capital contributions from developers.

Total operating expenses for 2019 and 2018 were \$6.2 million and \$6.4 million, respectively, with an decrease of 2.6%.

The notes to the District's basic financial statements can be found on pages 13 - 30 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, 2019, amounted to \$32,132,075 (net of accumulated depreciation). The District's capital assets include land, property held for future use, construction in progress, plant, building, machinery and equipment. A total increase of \$1,241,700

**West Sound Utility District**  
**Management Discussion and Analysis**  
**For the Year Ended December 31, 2019**

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in the District's net investment in capital assets for the current year was 4.67%. The change in capital assets is from accumulated depreciation.

	2019	2018
Property held for future use	156,091	156,091
Land	966,098	966,098
Construction in progress	1,606,337	279,092
Plant	44,492,111	44,371,110
Building	4,508,230	4,508,230
Machinery and Equipment	3,470,765	3,470,765
Less Accumulated Depreciation	(23,067,557)	(21,795,952)
Total Capital Assets	\$ 32,132,075	\$ 31,955,434

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. As of December 31, 2019, the District had total outstanding debt of \$4,293,725. Of this, \$2,494,338 is Revenue Bond debt, which is secured by District assessments, rates charged to customers, and the full faith and credit of the District. The remaining debt of \$1,799,387 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 some growth in 2019 due to the community's developing economy and anticipated continued growth with consideration given to current and projected economic conditions. 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, to 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.

**West Sound Utility District**  
***Management Discussion and Analysis***  
***For the Year Ended December 31, 2019***

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**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.

Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Randy Screws, General Manager, West Sound Utility District, 2924 SE Lund Ave., Port Orchard, WA 98366.



**West Sound Utility District**  
***Management Discussion and Analysis***  
***For the Year Ended December 31, 2018***

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**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, 2018. 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 with the adoption of the District 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 the 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 (GAAP).

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 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

**West Sound Utility District**  
***Management Discussion and Analysis***  
***For the Year Ended December 31, 2018***

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*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 2018 was \$45,158,982. Of this amount, \$17,575,830 may be used to meet the District's ongoing obligations to citizens and creditors.
- The District's total net position increased by \$4,178,280 in 2018. The increase in 2018 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 total long-term debt decreased by \$1,094,771 during the fiscal year. As of December 31, 2018, the total outstanding long-term debt was \$5,358,784.
- The District's total cash and cash equivalents increased by \$2,182,111 in 2018 due to decreasing of capital financing 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, 2018 and 2017.

**West Sound Utility District**  
**Management Discussion and Analysis**  
**For the Year Ended December 31, 2018**

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	<u>Net Position</u>	
December 31,	2018	2017
Current and other assets	20,296,119	17,400,052
Capital assets, net	31,955,434	31,820,947
Total Assets	\$ 52,251,553	\$ 49,220,999
Deferred Outflows of Resources	111,465	128,832
Current Liabilities	1,422,328	1,556,013
Non-current Liabilities	5,507,809	6,645,342
Total Liabilities	\$ 6,930,137	\$ 8,201,355
Deferred Inflows of Resources	273,899	167,774
Net Position:		
Net Invested in capital assets,	26,596,650	25,367,392
Restricted assets	986,503	828,880
Unrestricted	17,575,830	14,784,430
Total Net Position	\$ 45,158,983	\$ 40,980,702

The 2018 total net position was \$45 million, which is an increase of 10% from 2017. At the end of 2018 and 2017, capital assets represent 61.2% and 64.6% , respectively, of total assets.

As of December 31, 2018 and 2017, the District had non-current liabilities of \$5.5 million and \$6.6 million, respectively. The decreases are due to the District scheduled debt payments. The District's investment in capital assets, less any related debt, was \$26.6 million at December 31, 2018 and \$25.4 million at December 31, 2017. This has increased over last year due to the declining balance in debt service. Restricted cash for debt service represents debt service reserve, FCF reserve, customer lien satisfaction, sewer inspection deposit 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 2018. These changes are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash

**West Sound Utility District**  
**Management Discussion and Analysis**  
**For the Year Ended December 31, 2018**

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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:

	<u>Change in Net Position</u>	
	2018	2017
Revenues		
Operating Revenue		
Charges for services	7,651,792	7,162,195
Other revenue - interlocal service fees	185,524	211,890
Non-Operating revenues		
Equity in Income of Joint Venture Subsidiaries	636,545	446,143
Interest and Dividend Income	135,560	62,994
Other Non-operating Revenues	(87)	24,217
Total Revenues	<u>\$ 8,609,334</u>	<u>\$ 7,907,439</u>
Expenses		
Operating expenses	6,406,414	6,068,187
Non-Operating expenses	91,644	120,150
Total Expenses	<u>\$ 6,498,059</u>	<u>\$ 6,188,337</u>
Income Before Contributions	2,111,275	1,719,103
Capital Contributions	2,067,005	847,992
Change in Net Position	<u>4,178,280</u>	<u>2,567,095</u>
Net Position, Beginning of Year	<u>40,980,702</u>	<u>38,413,608</u>
Net Position, Ending of Year	<u>\$ 45,158,982</u>	<u>\$ 40,980,702</u>

Total operating revenues for the District in 2018 and 2017 were \$7.8 million and \$7.4 million, respectively. This was an increase of \$463,231 from 2017 revenues.

The total contributions of \$2,067,005 represent capital contributions from developers.

Total operating expenses for 2018 and 2017 were \$6.4 million and \$6.1 million, respectively, with an increase of 5.6%.

The notes to the District's basic financial statements can be found on pages 13 - 33 of this report. These notes provide additional information that is essential to a full understanding of the basic financial statements.

**West Sound Utility District**  
***Management Discussion and Analysis***  
***For the Year Ended December 31, 2018***

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**CAPITAL ASSET AND DEBT ADMINISTRATION**

**Capital Assets**

The District's capital assets as of December 31, 2018, amounted to \$31,955,434 (net of accumulated depreciation). The District's capital assets include land, property held for future use, construction in progress, plant, building, machinery and equipment. A total increase of \$1,229,258 in the District's net investment in capital assets for the current year was 4.85%. The change in capital assets is from accumulated depreciation.

	<u>Capital Assets, Net</u>	
	<u>2018</u>	<u>2017</u>
Property held for future use	156,091	156,091
Land	966,098	966,098
Construction in progress	279,092	1,936,370
Plant	44,371,110	41,646,220
Building	4,508,230	4,508,230
Machinery and Equipment	3,470,765	3,254,038
Less Accumulated Depreciation	(21,795,952)	(20,646,101)
Total Capital Assets	<u>\$ 31,955,434</u>	<u>\$ 31,820,947</u>

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, Revenue Bonds and Compensated Absences. As of December 31, 2018, the District had total outstanding debt of \$5,358,784. Of this, \$3,056,616 is Revenue Bond debt, which is secured through sewer utility local improvement at Beach Drive and Watauga Beach Drive, is secured by District assessments, rates charged to customers, and the full faith and credit of the District. The remaining debt of \$2,302,168 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 2018 due to the community's developing economy. There was an increase of 2.3% in water consumption in 2018. The District anticipated continued growth with consideration given to current and projected economic conditions. 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

**West Sound Utility District**  
***Management Discussion and Analysis***  
***For the Year Ended December 31, 2018***

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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, to 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  
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.

**West Sound Utility District**  
**Statement of Net Position**  
**As of December 31, 2019**

	<u>2019</u>
<b>ASSETS</b>	
Current Assets:	
Cash, Cash Equivalents and Pooled Investments	\$ 10,273,630
Restricted Cash, Cash Equivalents and Investments	220,633
Accounts Receivable, net	788,195
Prepaid Assets	<u>80,700</u>
Total Current Assets	<u>11,363,158</u>
Noncurrent Assets:	
Reserve Cash for Debt Service	852,609
Investment in JWWTF	10,111,743
Capital Assets Not Being Depreciated:	
Property Held for Future Use	156,091
Land	966,098
Construction in Progress	<u>1,606,337</u>
Total capital, not being depreciated	<u>2,728,526</u>
Capital Assets Being Depreciated:	
Plant	44,492,111
Building	4,508,230
Machinery and Equipment	3,470,765
Less Accumulated Depreciation	<u>(23,067,557)</u>
	<u>29,403,549</u>
Total Capital Assets, net	<u>32,132,075</u>
Total Noncurrent Assets	<u>43,096,428</u>
<b>TOTAL ASSETS</b>	<u><u>\$ 54,459,585</u></u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	
Deferred Outflows Related to Pensions	\$ 127,454

**West Sound Utility District**  
***Statement of Net Position***  
***As of December 31, 2019***

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**LIABILITIES**

Current liabilities

Accounts payable	\$ 43,285
Debt interest payable	28,087
Deposits and other payables	270,019
Current Portion of Bonds Payable	573,278
Current Portion of loans payable to other governments	373,748
Current Portion of compensated absences	26,389
Total Current Liabilities	<u>1,314,804</u>

Noncurrent Liabilities:

Bonds payable, net	1,921,060
Loans payable to other governments, net	1,425,639
Other Payable	383,296
Accrued compensated absences, net	262,852
Net Pension Liabilities	479,192
Total Noncurrent liabilities	<u>4,472,040</u>

<b>TOTAL LIABILITIES</b>	<b><u>\$ 5,786,844</u></b>
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**DEFERRED INFLOWS OF RESOURCES**

Deferred Inflows Related to Pensions	\$ 301,660
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**NET POSITION**

Net investment in capital assets	27,838,350
Restricted	1,073,242
Unrestricted	19,586,943
<b>TOTAL NET POSITION</b>	<b><u>\$ 48,498,535</u></b>

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



**West Sound Utility District**  
**Statement of Net Position**  
**As of December 31, 2018**

	2018
<b>ASSETS</b>	
Current Assets:	
Cash, Cash Equivalents and Pooled Investments	\$ 8,730,345
Restricted Cash, Cash Equivalents and Investments	219,550
Accounts Receivable, net	823,569
Prepaid Assets	60,744
Total Current Assets	<u>9,834,208</u>
Noncurrent Assets:	
Reserve Cash for Debt Service	766,953
Investment in JWWTF	9,694,959
Capital Assets Not Being Depreciated:	
Property Held for Future Use	156,091
Land	966,098
Construction in Progress	279,092
Total capital, not being depreciated	<u>1,401,280</u>
Capital Assets Being Depreciated:	
Plant	44,371,110
Building	4,508,230
Machinery and Equipment	3,470,765
Less Accumulated Depreciation	<u>(21,795,952)</u>
	<u>30,554,153</u>
Total Capital Assets, net	<u>31,955,434</u>
Total Noncurrent Assets	<u>42,417,345</u>
<b>TOTAL ASSETS</b>	<u><u>\$ 52,251,553</u></u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	
Deferred Outflows Related to Pensions	\$ 111,465

**West Sound Utility District**  
***Statement of Net Position***  
***As of December 31, 2018***

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**LIABILITIES**

Current liabilities

Accounts payable	\$ 43,379
Debt interest payable	26,880
Deposits and other payables	261,712
Current Portion of Bonds Payable	562,278
Current Portion of loans payable to other governments	502,781
Current Portion of compensated absences	25,298
Total Current Liabilities	<u>1,422,328</u>

Noncurrent Liabilities:

Bonds payable, net	2,494,338
Loans payable to other governments, net	1,799,387
Other Payable	308,183
Accrued compensated absences, net	252,544
Net Pension Liabilities	653,357
Total Noncurrent liabilities	<u>5,507,809</u>

<b>TOTAL LIABILITIES</b>	<b><u>\$ 6,930,137</u></b>
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**DEFERRED INFLOWS OF RESOURCES**

Deferred Inflows Related to Pensions	\$ 273,899
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**NET POSITION**

Net investment in capital assets	26,596,650
Restricted	986,503
Unrestricted	17,575,830
<b>TOTAL NET POSITION</b>	<b><u>\$ 45,158,982</u></b>

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

**West Sound Utility District**  
**Statement of Revenues,**  
**Expenses, and Changes in Fund Net Position**  
**For the Year Ended December 31, 2019**

	2019
<b>OPERATING REVENUES:</b>	
Water Sales and Service Fees	\$ 3,611,780
Other Charges for Services-Water	129,343
Sewer Sales and Service Fees	4,159,523
Other Charges for Services-Sewer	112,574
Other Revenue: Interlocal Service Fees	164,500
Total Operating Revenue	<u>8,177,720</u>
<b>OPERATING EXPENSES:</b>	
Operations:	
General Operations	1,365,788
Cost of Energy	265,514
Contracted Processing and Operations	1,573,290
Maintenance	177,021
Administration:	
General Administration	1,230,870
Depreciation and Amortization	1,271,605
Property, Excise and B&O Taxes	256,188
Other Operating Expenses	99,427
Total Operating Expenses	<u>6,239,703</u>
<b>OPERATING INCOME</b>	<u>\$ 1,938,017</u>
<b>NONOPERATING REVENUES (EXPENSES):</b>	
Equity in Income of Joint Venture Subsidiaries	416,784
Interest and Dividend Income	211,417
Interest Expense	(62,979)
Other Nonoperating Revenues	4,656
Gain on Capital Assets Disposition	2,542
Total Nonoperating Revenues (Expenses)	<u>572,419</u>
<b>INCOME BEFORE CONTRIBUTION</b>	<u>2,510,436</u>
Capital Contributions- Water	512,508
Capital Contributions- Wastewater	316,609
Total Capital Contributions	<u>829,117</u>
<b>CHANGE IN NET POSITION</b>	<u><b>\$ 3,339,553</b></u>
<b>TOTAL NET POSITION, January 1</b>	<u><b>\$ 45,158,982</b></u>
<b>TOTAL NET POSITION, December 31</b>	<u><b>\$ 48,498,535</b></u>

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

**West Sound Utility District**  
**Statement of Revenues,**  
**Expenses, and Changes in Fund Net Position**  
**For the Year Ended December 31, 2018**

	2018
<b>OPERATING REVENUES:</b>	
Water Sales and Service Fees	\$ 3,486,605
Other Charges for Services-Water	120,146
Sewer Sales and Service Fees	3,955,414
Other Charges for Services-Sewer	89,627
Other Revenue: Interlocal Service Fees	185,524
Total Operating Revenue	<u>7,837,316</u>
<b>OPERATING EXPENSES:</b>	
Operations:	
General Operations	1,324,245
Cost of Energy	322,032
Contracted Processing and Operations	1,530,360
Maintenance	332,465
Administration:	
General Administration	1,292,150
Depreciation and Amortization	1,251,768
Property, Excise and B&O Taxes	249,492
Other Operating Expenses	103,902
Total Operating Expenses	<u>6,406,414</u>
<b>OPERATING INCOME</b>	<u>\$ 1,430,902</u>
<b>NONOPERATING REVENUES (EXPENSES):</b>	
Equity in Income of Joint Venture Subsidiaries	636,545
Interest and Dividend Income	135,560
Interest Expense	(91,644)
Other Nonoperating Revenues	2,155
Gain on Capital Assets Disposition	(2,243)
Total Nonoperating Revenues (Expenses)	<u>680,373</u>
<b>INCOME BEFORE CONTRIBUTION</b>	<u>2,111,275</u>
Capital Contributions- Water	1,177,116
Capital Contributions- Wastewater	889,889
Total Capital Contributions	<u>2,067,005</u>
<b>CHANGE IN NET POSITION</b>	<u><b>\$ 4,178,280</b></u>
<b>TOTAL NET POSITION, January 1</b>	<u><b>\$ 40,980,702</b></u>
<b>TOTAL NET POSITION, December 31</b>	<u><b>\$ 45,158,982</b></u>

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

**West Sound Utility District**  
**Statement of Cash Flows**  
**For the Year Ended December 31, 2019**

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	<u>2019</u>
<u>Cash Flows From Operating Activities:</u>	
Receipts from customers	\$ 8,224,177
Payments to suppliers	(3,263,851)
Payments to employees	(1,853,657)
Net Cash Provided by Operating Activities	<u>3,106,670</u>
<u>Cash Flows From Capital and Related Financing Activities:</u>	
Proceeds from issuance of debt	
Principal paid on revenue bond and PWTF debt	(1,065,059)
Proceeds from sale of fixed assets	
Acquisition and construction of capital assets	(1,254,936)
Debt issuance fees	
Interest paid on revenue bonds and PWTF debt	(76,183)
Contributions from Developers	708,116
Net Cash Used for Capital Financing Activities	<u>(1,688,062)</u>
<u>Cash Flows from Investing Activities:</u>	
Interest and dividends on investments	<u>211,417</u>
Net Cash Provided by Investing Activities	<u>211,417</u>
<b>Net Increase in Cash and Cash equivalents</b>	<b><u>\$ 1,630,025</u></b>
Cash and Cash Equivalents at Beginning of Year:	\$ 9,716,847
Cash and Cash Equivalents at The End of Year:	<u>\$ 11,346,872</u>

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

**West Sound Utility District**  
**Statement of Cash Flows**  
**For the Year Ended December 31, 2019**

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RECONCILIATION	<u>2019</u>
Net Utility Operating (loss) Income	\$ 1,938,017
Adjustments to reconcile net utility operating income to net cash provided by operating activities:	
Depreciation and amortization	1,271,605
Pension Expense	(162,393)
Change in Assets and Liabilities:	
Decrease (Increase) in Receivables	45,374
Decrease (Increase) in Prepaid Expenses	(19,956)
Increase (Decrease) in Accrued Comp Absences	11,399
Increase (Decrease) in Payables	14,316
Increase (Decrease) in Contractor Retainage	7,224
Increase (Decrease) in Customer Deposits	<u>1,083</u>
Total adjustments	<u>1,168,653</u>
<b>Net Cash Provided by Operating Activities</b>	<b><u>\$ 3,106,670</u></b>
Noncash investing, capital and financing activities:	
Contributions of capital assets from developers	121,001
Gain in equity of the Joint Venture - JWWTF	\$ 416,784
Gain (Loss) on disposition of capital assets	

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

**West Sound Utility District**  
**Statement of Cash Flows**  
**For the Year Ended December 31, 2018**

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	<u>2018</u>
<u>Cash Flows From Operating Activities:</u>	
Receipts from customers	\$ 7,778,077
Payments to suppliers	(3,378,362)
Payments to employees	(2,007,157)
Net Cash Provided by Operating Activities	<u>2,392,557</u>
<u>Cash Flows From Capital and Related Financing Activities:</u>	
Proceeds from issuance of debt	
Principal paid on revenue bond and PWTF debt	(1,094,771)
Proceeds from sale of fixed assets	9,469
Acquisition and construction of capital assets	(69,240)
Debt issuance fees	
Interest paid on revenue bonds and PWTF debt	(112,731)
Contributions from Developers	921,266
Net Cash Used for Capital Financing Activities	<u>(346,007)</u>
<u>Cash Flows from Investing Activities:</u>	
Interest and dividends on investments	<u>135,560</u>
Net Cash Provided by Investing Activities	<u>135,560</u>
<b>Net Increase in Cash and Cash equivalents</b>	<b><u>\$ 2,182,111</u></b>
Cash and Cash Equivalents at Beginning of Year:	\$ 7,534,736
Cash and Cash Equivalents at The End of Year:	<u>\$ 9,716,847</u>

**West Sound Utility District**  
**Statement of Cash Flows**  
**For the Year Ended December 31, 2018**

RECONCILIATION	2018
Net Utility Operating (loss) Income	\$ 1,430,902
Adjustments to reconcile net utility operating income to net cash provided by operating activities:	
Depreciation and amortization	1,251,768
Pension Expense	(255,454)
Change in Assets and Liabilities:	
Decrease (Increase) in Receivables	(75,687)
Decrease (Increase) in Prepaid Expenses	(1,725)
Increase (Decrease) in Accrued Comp Absences	21,575
Increase (Decrease) in Payables	(1,554)
Increase (Decrease) in Contractor Retainage	6,284
Increase (Decrease) in Customer Deposits	16,448
Total adjustments	961,656
<b>Net Cash Provided by Operating Activities</b>	<b>\$ 2,392,557</b>
Noncash investing, capital and financing activities:	
Contributions of capital assets from developers	1,145,739
Gain in equity of the Joint Venture - JWWTF	636,545
Gain (Loss) on disposition of capital assets	
Gain on disposition of capital assets	\$ (11,712)

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



**West Sound Utility District**  
***Notes to Financial Statements***  
***For the Year Ended December 31, 2019***

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**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 2019 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. 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 adopted comprehensive financial management policies which are reviewed and updated during the District's 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

**West Sound Utility District**  
***Notes to Financial Statements***  
***For the Year Ended December 31, 2019***

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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. 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 uncollectible.

G. 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.

	2019
Revenue Bond Reserve	\$ 469,313
Facility Construction Fund	586,296
Lien Deposit	133
Sewer Inspection Deposits	17,500
Developers Deposits	3,000
Total	\$ 1,076,242

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 1.82%. Noncurrent assets consist of reserve cash, capital assets, and real estate held for future use etc. It is displayed on the "Statement of Net Position" at historical cost.

H. 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

**West Sound Utility District**  
***Notes to Financial Statements***  
***For the Year Ended December 31, 2019***

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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

I. 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 employee anniversary month. The board of Commissioners approved the resolution 795-18 “Modifying Vacation (Annual Leave) Policy” on January 7, 2019. This new policy revision provides an option to employees to receive compensation for up to one or two standard workweeks of accrued vacation leave within a calendar year based on certain criteria. Accrued vacation pay is payable upon an employee taking a vacation or upon termination of employment, retirement, or death. Sick leave in excess of one thousand forty (1,040) hours of the current year shall be deposited into a VEBA account for the employee at a rate of fifty (50) percent of the overage amount. 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%

J. Long-Term Debt  
See Note 6.

**West Sound Utility District**  
***Notes to Financial Statements***  
***For the Year Ended December 31, 2019***

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K. 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.

L. 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 Distict’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 Distict 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 manging 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 investment pool does not have a credit rating.

**West Sound Utility District**  
**Notes to Financial Statements**  
**For the Year Ended December 31, 2019**

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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, 2019, the District has the following cash and investments:

	Cash	Investments	Total
Washington State Investment Pool		10,398,602	10,398,602
Kitsap County	917,671		917,671
Bank of America	30,000		30,000
Cash on Hand	600		600
Total	\$ 948,271	\$ 10,398,602	\$ 11,346,872

**NOTE 3 – CONSTRUCTION IN PROGRESS**

The District had active construction projects as of December 31, 2019, as follows:

Project Description	Project Budget	Expended 12/31/2019	Required Future Financing
Well 9 (Drilling)		\$ 148,212	None
SCADA Improvements		\$ 10,524	None
Replace Main on Lidstrom	\$ 505,760	\$ 887,106	None
Watauga PRV Project		\$ 66,890	None
Replace Well #16/17 Reserver & Pump	\$ 2,200,000	\$ 247,193	None
Well #19 Improvement	\$ 50,000	\$ 36,859	None
Lincoln Ave. Point Repairs		\$ 11,391	None
Construction Sewer SCADA System	\$ 50,000	\$ 9,634	None
Reline MH 162-162A, 194-195		\$ 19,893	None
Reline MH 194-195	\$ 50,000	\$ 23,881.90	None
Repairs MH #233-234	\$ 60,000	\$ 40,551.27	None
Replace MH161-164	\$ 100,000	\$ 43,025.03	None
Repaire Mains MH219	\$ 300,000	\$ 61,177.88	None
Total Construction in Progress	\$ 3,315,760	\$ 1,606,337	

**West Sound Utility District**  
**Notes to Financial Statements**  
**For the Year Ended December 31, 2019**

**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, 2019 amounted to \$22,964. The District is going to terminate copier machine leases in October 2020. Also the well site rent will be zero dollars according to the lease agreement beginning in 2020. Future minimum rental commitments for these leases are only \$15,127 in 2020. Afterward the District will have no lease commitments.

**NOTE 5 – CAPITAL ASSETS AND DEPRECIATION**

Capital Assets activity for the year ended December 31, 2019, was as follows:

	Beginning Balance 01/01/2019	Increases	Decreases	Transfers	Ending Balance 12/31/2019
Capital assets, not being depreciated:					
Property held for future use	156,091				156,091
Land	966,098				966,098
Construction in progress	279,092	1,327,246			1,606,337
Total capital assets, not being depreciated	\$ 1,401,280	\$ 1,327,246	\$ -	\$ -	\$ 2,728,526
Capital Assets, being depreciated:					
Buildings	4,508,230				4,508,230
Utility Infrastructure and improvements	44,371,110	121,001			44,492,111
Machinery and equipment	3,470,765				3,470,765
Total capital assets being depreciated	\$ 52,350,105	\$ 121,001	\$ -	\$ -	\$ 52,471,106
Less accumulated depreciation for:					
Buildings	(1,985,521)	(129,137)			(2,114,657)
Utility infrastructure and improvements	(17,407,796)	(940,151)			(18,347,947)
Machinery and equipment	(2,402,635)	(202,318)			(2,604,952)
Total accumulated depreciation	\$(21,795,952)	\$(1,271,605)	\$ -		\$(23,067,557)
Total capital assets being depreciated, net	\$ 30,554,153	\$(1,150,604)	\$ -		\$ 29,403,549
Total capital assets, net	\$ 31,955,434	\$ 176,642	\$ -		\$ 32,132,075

**NOTE 6 – LONG-TERM DEBT AND LIABILITIES**

**A. Long-Term Debt**

The District issued 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 other 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

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Water/Wastewater Revenue Bond was initiated to refund 2009 Bonds due to securing a 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
2010 Revenue Bond - Refunding Lund Ave.	4/2/2021	3,595,000	820,000
2016 Revenue Bond - Refunding 2009 Bond	11/1/2018	1,952,000	1,674,338
PWTF 00-691-002 - Well 21	7/1/2020	669,870	34,743
PWTF 00-691-003 - Water Mains	7/1/2020	251,147	13,218
PWTF 01-691-003 - Storage Tank Painting	7/1/2021	99,719	10,128
PWTF 01-691-004 - Bethel Rd Water Sys Improvement	7/1/2021	939,573	98,902
PWTF 03-691-001 - Well 6 & 7 Decommission	7/1/2023	143,438	31,523
PWTF 07-962-002 - Salmonberry Reservoir Painting	7/1/2027	595,000	250,526
PWTF PC12-951-047 - Firmont Beach Water System	7/1/2031	311,496	196,571
PWTF 00-691-032 - Retsil Wartime Sewer Relacement	7/1/2020	1,005,210	45,798
PWTF 03-691-014 - Crownwood Lift Station	7/1/2023	189,091	39,809
PWTF 03-691-015 - Beach Drive Pump Station Collection	7/1/2023	148,750	33,056
PWTF 04-691-035 - Retsil Area A & B Improvements	7/1/2024	1,360,000	400,000
PWTF PC08-951-017 - Sedgwick Rd. Sewer System	7/1/2028	950,691	645,112
Total Long-Term Debt			4,293,725

The annual requirements to amortize all debts outstanding as of December 31, 2019, including interest, are as follows:

Year Ending December 31	Principal	Interest	Total
2020	947,026	55,624	1,002,650
2021	874,260	37,788	912,048
2022	410,745	27,829	438,574
2023	410,969	24,093	435,063
2024	390,042	20,187	410,229
2025-2029	1,227,921	41,337	1,269,259
2030-2031	32,762	123	32,884
Total	\$ 4,293,725	\$ 206,981	\$ 4,500,706

**B. Change in Long Term Liabilities**

During the year ended December 31, 2019 the following changes occurred in long-term liabilities:



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	Beginning Balance 1/1/2019	Additions	Reduction	Ending Balance 12/31/2019	Due Within One Year 2020
Revenue Bonds	3,056,616		562,278	2,494,338	573,278
Government Loans	2,302,168		502,781	1,799,387	373,748
Net Pension Liabilities	653,357		174,165	479,192	
Compensated absences	277,842	11,399		289,241	26,389
<b>Total</b>	<b>6,289,983</b>	<b>11,399</b>	<b>1,239,224</b>	<b>5,062,158</b>	<b>973,414</b>
Less Current Portion				\$ 973,414	
Total Long-Term Liabilities, net				\$4,088,744	

**NOTE 7 – RESTRICTED CASH**

The District's statement of net position reports, \$1,073,242, at December 31, 2019 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, sewer inspection deposits and developers deposits.

**NOTE 8 – INVESTMENT IN JOINT WASTEWATER TREATMENT FACILITY**

In 1983, 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 (P WTF) loan in 2002 and a \$6.8 million P WTF 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 P WTF 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 P WTF loans. The District shared 51% cost while the City was 49%, and in 2019, 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



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presented as a single operating account on the City's proprietary fund's operating statements – "Investment in JWWTF". In 2019, the change in the District's equity in the JWWTF was an increase of \$416,784. The District's equity interest in the JWWTF as of December 31, 2019, was \$10,111,743 (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, 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, maintenance expenses, 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](http://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 for the year 2019:

Aggregate Pension Amounts – All Plans	
Pension liabilities	\$479,192
Deferred outflows of resources	\$127,454
Deferred inflows of resources	\$301,660
Pension expense/expenditures	\$(2,846)

**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)

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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](http://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 statute 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 2019 were as follows:

PERS Plan 1		
Actual Contribution Rates	Employer	Employee*
January – June 2019:		
PERS Plan 1	7.52%	6.00%
PERS Plan 1 UAAL	5.13%	
Administrative Fee	0.18%	
Total	12.83%	6.00%
July - December 2019:		
PERS Plan 1	7.92%	6.00%

**West Sound Utility District**  
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PERS Plan 1 UAAL	4.76%	
Administrative Fee	0.18%	
Total	12.86%	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% 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 3% 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 5% 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.

#### 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%. Each biennium, the state Pension Funding Council adopts Plan 2 employer

**West Sound Utility District**  
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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 2019 were as follows:

PERS Plan 2/3		
Actual Contribution Rates	Employer 2/3	Employee 2*
January – June 2019:		
PERS Plan 2/3	7.52%	7.41%
PERS Plan 1 UAAL	5.13%	
Administrative Fee	0.18%	
Employee PERS Plan 3		Varies
Total	12.83%	7.41%
July – December 2019:		
PERS Plan 2/3	7.92%	7.90%
PERS Plan 1 UAAL	4.76%	
Administrative Fee	0.18%	
Employee PERS Plan 3		Varies
Total	12.86%	7.90%

\* For employees participating JBM, the contribution rate was 18.53% to 19.75%.

The District's actual PERS plan contributions were \$62,366 to PERS Plan 1 and \$97,182 to PERS Plan 2/3 for the year ended December 31, 2019.

### **Actuarial Assumptions**

The total pension liability (TPL) for each of the DRS plans was determined using the most recent actuarial valuation completed in 2018 with valuation date of June 30, 2018. The actuarial assumptions used in the valuation were based on the results of the Office of the State Actuary's (OSA) *2007-2012 Experience Study* and the *2017 Economic Experience Study*.

Additional assumptions for subsequent events and law changes are current as of the 2018 actuarial valuation report. The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2019. Plan liabilities were rolled forward from June 30, 2018, to June 30, 2019, reflecting each plan's normal cost (using the entry-age cost method), assumed interest and actual benefit payments.

- Inflation: 2.75% total economic inflation; 3.50% salary inflation.
- Salary increases: In addition to the base 3.50% salary inflation assumption, salaries are also expected to grow by promotions and longevity.
- Investment rate of return: 7.4%

Mortality rates were based on the RP-2000 report's Combined Healthy Table and Combined Disabled Table, published by the Society of Actuaries. The OSA applied offsets to the table and recognized future improvements in mortality by projecting the mortality rates using 100% Scale

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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.

- OSA updated modeling to reflect providing benefit payments to the date of the initial retirement eligibility for terminated vested members who delay application for retirement benefits.
- OSA updated COLA programming to reflect legislation signed during the 2018 legislative session that provides PERS and TRS Plan 1 annuitants who are not receiving a basic minimum, alternate minimum, or temporary disability benefit with a one-time permanent 1.5% increase to their monthly retirement benefit, not to exceed a maximum of \$62.50 per month.

#### **Discount Rate**

The discount rate used to measure the total pension liability for all DRS plans was 7.4%.

To determine that rate, an asset sufficiency test included an assumed 7.5% long-term discount rate to determine funding liabilities for calculating future contribution rate requirements. (All plans use 7.5% except LEOFF 2). Consistent with the long-term expected rate of return, a 7.4% future investment rate of return on invested assets was assumed for the test. Contributions from plan members and employers are assumed to continue being made at contractually required rates (including PERS 2/3, 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 7.4% was used to determine the total liability.

#### **Long-Term Expected Rate of Return**

The long-term expected rate of return on the DRS pension plan investments of 7.4% was determined using a building-block-method. In selecting this assumption, the Office of the State Actuary (OSA) reviewed the historical experience data, considered the historical conditions that produced past annual investment returns, and considered capital market assumptions and simulated expected investment returns provided by the Washington State Investment Board (WSIB). The WSIB uses the capital market assumptions and their target asset allocation to simulate future investment returns over various time horizons.

#### **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, 2019, 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.

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Asset Class	Target Allocation	% Long-Term Expected Real Rate of Return Arithmetic
Fixed Income	20%	2.20%
Tangible Assets	7%	5.10%
Real Estate	18%	5.80%
Global Equity	32%	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 7.4%, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1% point lower (6.4%) or 1% point higher (8.4%) than the current rate.

	1% Decrease (6.4%)	Current Discount Rate (7.4%)	1% Increase (8.4%)
PERS 1	\$452,426	\$361,271	\$282,182
PERS 2/3	\$904,405	\$117,921	\$(527,441)

**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, 2019, the District reported a total pension liability of \$479,192 for its proportionate share of the net pension liabilities as follows:

	Liability
PERS 1	\$361,271
PERS 2/3	\$117,921

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

	Proportionate Share 6/30/18	Proportionate Share 6/30/19	Change in Proportion
PERS 1	0.010153%	0.009395%	(0.000758%)
PERS 2/3	0.011709%	0.012140%	0.000431%

**West Sound Utility District**  
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**For the Year Ended December 31, 2019**

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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, 2019, and the actuarial valuation date on which the total pension liability is based was as of June 30, 2018, with update procedures used to roll forward the total pension liability to the measurement date.

**Pension Expense**

For the year ended December 31, 2019, the District recognized pension expense as follows:

	Pension Expense
PERS 1	\$(18,933)
PERS 2/3	\$16,088
TOTAL	\$(2,846)

**Deferred Outflows of Resources and Deferred Inflows of Resources**

At December 31, 2019, 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		\$ (24,136)
Contributions subsequent to the measurement date	\$29,454	
TOTAL	\$29,454	\$ (24,136)

PERS 2/3	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$33,785	\$ (25,352)
Net difference between projected and actual investment earnings on pension plan investments		\$ (171,644)
Changes of assumptions	\$3,020	\$(49,476)
Changes in proportion and differences between contributions and proportionate share of contributions	\$12,260	\$ (31,052)
Contributions subsequent to the measurement date	\$48,935	
TOTAL	\$98,000	\$ (277,524)



**West Sound Utility District**  
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**For the Year Ended December 31, 2019**

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

Year ended December 31:	PERS 1	PERS 2/3
2020	\$ (5,328)	\$ (57,162)
2021	\$ (12,621)	\$ (92,020)
2022	\$ (4,504)	\$ (42,995)
2023	\$ (1,683)	\$ (24,836)
2024		\$ (13,348)
Thereafter		\$ 1,901
Total	\$ (24,136)	\$ (228,460)

**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 70 members. The Pool's fiscal year is November 1st through October 31st.

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

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

TYPE OF COVERAGE	MEMBER DEDUCTIBLE	SELF-INSURED RETENTION/	EXCESS LIMITS
Property Loss:			



**West Sound Utility District**  
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Buildings and Contents	\$1,000 - \$25,000 and See (C) below	\$25,000	\$275,000,000
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	\$700,000,000 Primary layer
Boiler & Machinery	\$1,000 - \$350,000 depending on object	\$25,000 - \$350,000 depending on object	\$100,000,000
Auto - Physical Damage	\$1,000-\$25,000	\$25,000	\$15,000,000
Liability:			
Commercial General Liability	\$1,000 - \$25,000	\$200,000, subject to \$150,000 Corridor Deductible	\$15,000,000
Auto Liability	\$1,000 - \$25,000	Same as above	\$15,000,000
Public Officials Errors and Omissions	\$1,000 - \$25,000	Same as above	\$15,000,000
Employment Practices	\$1,000 - \$25,000	Same as above	\$15,000,000
Other:			
Cyber Liability	\$50,000	N/A	\$2,000,000
Deadly Weapon/Active Shooter	\$10,000	N/A	\$500,000
Public Officials Bonds	Various	N/A	Various
Crime	\$1,000 - \$25,000	\$25,000	\$2,000,000
Identity Fraud	\$0	\$0	\$25,000

- A. \$100,000 member deductibles, per occurrence, in Flood zones except Zones A&V;  
\$250,000 member deductible per occurrence, in Flood Zones A&V.
- B. Member deductible for earthquakes is 5% subject to \$100,000 minimum Earthquake Shock. The deductible will apply per occurrence on a per unit basis, as defined in the policy form, subject to the stated minimum.
- C. Member deductible for Cyber liability is \$50,000 and where applicable the dollar amount of the business interruption loss during the policy's required 8 hour waiting period.

**West Sound Utility District**  
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***For the Year Ended December 31, 2019***

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

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

The Pool is fully funded by its member participants. Claims are filed by members with the Pool who determines coverage and performs claims adjustment in consultation with various independent public adjusters.

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.

In the past three years, the District did not have any settlements that exceeded the insurance coverage.

**NOTE 11 – SUBSEQUENT EVENT**

On February 2020, the Governor of the state of Washington declared a state of emergency in response to the spread of a deadly new virus. In the weeks following the declaration, precautionary measures to slow the spread of the virus have been ordered. These measures include closing schools, colleges and universities, cancelling public events, prohibiting public and private gatherings, and requiring people to stay home unless they are leaving for an essential function.

On March 23, 2020, the Board approved Resolution 880 – 20 “Declaration of Emergency – Covid 19”.

The length of time these measures will be in place, and the full extent of the financial impact on the District is unknown at this time.

**West Sound Utility District**  
***Notes to Financial Statements***  
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**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 2018 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 adopted comprehensive financial management policies which are reviewed and updated during the District's 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

**West Sound Utility District**  
***Notes to Financial Statements***  
***For the Year Ended December 31, 2018***

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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. 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 uncollectible.

G. 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.

	2018
Revenue Bond Reserve	\$ 458,769
Facility Counstruction Fund	508,183
Lien Deposit	300
Sewer Inspection Deposits	13,250
Developers Deposits	6,000
Total	\$ 986,503

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 2.1495%. Noncurrent assets consist of reserve cash, capital assets, and real estate held for future use etc. It is displayed on the "Statement of Net Position" at historical cost.

**West Sound Utility District**  
***Notes to Financial Statements***  
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H. 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

I. 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 termination of employment, retirement, or death. Sick leave in excess of one thousand forty (1,040) hours of the current year shall be deposited into a VEBA account for the employee at a rate of fifty (50) percent of the overage amount. 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%

J. Long-Term Debt

See Note 6.

**West Sound Utility District**  
***Notes to Financial Statements***  
***For the Year Ended December 31, 2018***

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K. 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.

L. 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 Distict’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 Distict 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 manging 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 investment pool does not have a credit rating.

**West Sound Utility District**  
**Notes to Financial Statements**  
**For the Year Ended December 31, 2018**

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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, 2018, the District has the following cash and investments:

	Cash	Investments	Total
Washington State Investment Pool		9,075,875	9,075,875
Kitsap County	610,373		610,373
Bank of America	30,000		30,000
Cash on Hand	600		600
Total	\$ 640,973	\$ 9,075,875	\$ 9,716,847

**NOTE 3 – CONSTRUCTION IN PROGRESS**

The District had active construction projects as of December 31, 2018, as follows:

Project Description	Project Budget	Expended 12/31/2018	Required Future Financing
Well 9 (Drilling)	\$ 150,000	\$ 148,212	None
SCADA Improvements	\$ 50,000	\$ 10,524	None
Replace Main on Lidstrom	\$ 325,000	\$ 15,804	None
Watauga PRV Project	\$ 75,000	\$ 40,863	None
Replace Well #16/17 Reserver & Pump	\$ 600,000	\$ 21,545	None
Well #19 Improvement	\$ -	\$ 1,226	None
Lincoln Ave. Point Repairs	\$ 25,000	\$ 11,391	None
Construction Sewer SCADA System	\$ 50,000	\$ 9,634	None
Reline MH 162-162A, 194-195	\$ 50,000	\$ 19,893	None
Total Construction in Progress	\$ 1,325,000	\$ 279,092	

**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, 2018 amounted to \$20,165. Future minimum rental commitments for these leases are as follows:



**West Sound Utility District**  
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**For the Year Ended December 31, 2018**

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YEAR	AMOUNT
2019	22,804
2020	19,598
2021	3,567
2022	3,567
2023	3,567
2024 - 2029	21,402
<b>Total</b>	<b>74,505</b>

**NOTE 5 – CAPITAL ASSETS**

Capital Assets activity for the year ended December 31, 2018, was as follows:

	Beginning Balance 01/01/2018	Increases	Decreases	Transfers	Ending Balance 12/31/2018
Capital assets, not being depreciated:					
Property held for future use	156,091				156,091
Land	966,098				966,098
Construction in progress	1,936,370	79,696	9,103	(1,727,871)	279,092
Total capital assets, not being depreciated	\$ 3,058,559	\$ 79,696	\$ 9,103	\$(1,727,871)	\$ 1,401,280
Capital Assets, being depreciated:					
Buildings	4,508,230				4,508,230
Utility Infrastructure and improvements	41,646,220	1,199,430		1,525,461	44,371,110
Machinery and equipment	3,254,038	127,945	113,628	202,410	3,470,765
Total capital assets being depreciated	\$ 49,408,488	\$ 1,327,375	\$ 113,628	\$ 1,727,871	\$ 52,350,105
Less accumulated depreciation for:					
Buildings	(1,856,384)	(129,137)			(1,985,521)
Utility infrastructure and improvements	(16,483,374)	(924,422)			(17,407,796)
Machinery and equipment	(2,306,342)	(96,293)			(2,402,635)
Total accumulated depreciation	\$(20,646,100)	\$(1,149,852)	\$ -		\$(21,795,952)
Total capital assets being depreciated, net	\$ 28,762,388	\$ 177,523	\$ 113,628	\$ 1,727,871	\$ 30,554,153
Total capital assets, net	\$ 31,820,947	\$ 257,219	\$ 122,732		\$ 31,955,434

**NOTE 6 – LONG-TERM DEBT AND LIABILITIES**

**A. Long-Term Debt**

The District issued 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 other capital projects (Converse/



**West Sound Utility District**  
**Notes to Financial Statements**  
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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 a better interest rate. The 2009 Revenue Bond was retired at the end of 2018.

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	3,385,000	-
2010 Revenue Bond - Refunding Lund Ave.	4/2/2021	3,595,000	1,210,000
2016 Revenue Bond - Refunding 2009 Bond	11/1/2018	1,952,000	1,846,616
PWTF 99-791-002 - Greendale/Sieford	7/14/2019	438,376	23,072
PWTF 00-691-002 - Well 21	7/1/2020	669,870	69,486
PWTF 00-691-003 - Water Mains	7/1/2020	251,147	26,437
PWTF 01-691-003 - Storage Tank Painting	7/1/2021	99,719	15,192
PWTF 01-691-004 - Bethel Rd Water Sys Improvement	7/1/2021	939,573	148,354
PWTF 03-691-001 - Well 6 & 7 Decommission	7/1/2023	143,438	39,404
PWTF 07-962-002 - Salmonberry Reservoir Painting	7/1/2027	595,000	281,842
PWTF PC12-951-047 - Firmont Beach Water System	7/1/2031	311,496	212,952
PWTF 99-791-018 - Wastewater Pump St. Improvements	7/1/2019	1,005,615	52,927
PWTF 99-791-019 - Retsil Wartime Sewer Relacement	7/1/2019	1,007,640	53,034
PWTF 00-691-032 - Retsil Wartime Sewer Relacement	7/1/2020	1,005,210	91,597
PWTF 03-691-014 - Crownwood Lift Station	7/1/2023	189,091	49,761
PWTF 03-691-015 - Beach Drive Pump Station Collection	7/1/2023	148,750	41,319
PWTF 04-691-035 - Retsil Area A & B Improvements	7/1/2024	1,360,000	480,000
PWTF PC08-951-017 - Sedgwick Rd. Sewer System	7/1/2028	950,691	716,791
Total Long-Term Liabilities			5,358,784

The annual requirements to amortize all debts outstanding as of December 31, 2018, including interest, are as follows:

Year Ending December 31	Principal	Interest	Total
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	410,969	24,093	435,063
2024-2028	1,601,582	61,402	1,662,984
2029-2031	49,143	246	49,388
Total	\$ 5,358,784	\$ 283,164	\$ 5,641,947

**West Sound Utility District**  
**Notes to Financial Statements**  
**For the Year Ended December 31, 2018**

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**B. Change in Long Term Liabilities**

During the year ended December 31, 2018 the following changes occurred in long-term liabilities:

	Beginning Balance 1/1/2018	Additions	Reduction	Ending Balance 12/31/2018	Due Within One Year 2019
Revenue Bonds	3,648,606		591,990	3,056,616	562,278
Government Loans	2,804,948		502,781	2,302,168	502,781
Net Pension Liabilities	1,032,303	453,455	832,401	653,357	
Compensated absences	256,267	51,112	29,537	277,842	25,298
<b>Total</b>	<b>7,742,125</b>	<b>504,567</b>	<b>1,956,709</b>	<b>6,289,983</b>	<b>1,090,357</b>
Less Current Portion				\$1,090,357	
<b>Total Long-Term Liabilities, net</b>				<b>\$5,199,626</b>	

**NOTE 7 – RESTRICTED CASH**

The District's statement of net position reports, \$986,503, at December 31, 2018 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, sewer inspection deposits 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

**West Sound Utility District**  
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on the PWWTF loans. This cost sharing formula was 50/50%, and in 2018, 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 2018, the change in the District's equity in the JWWTF was an increase of \$636,545. The District's equity interest in the JWWTF as of December 31, 2018, was \$9,694,959 (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, 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, maintenance expenses, 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](http://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 for the year 2018:

Aggregate Pension Amounts – All Plans	
Pension liabilities	\$653,357
Deferred outflows of resources	\$111,465
Deferred inflows of resources	\$273,899
Pension expense/expenditures	\$(90,990)

**West Sound Utility District**  
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**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](http://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 statute 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

**West Sound Utility District**  
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Council adopts Plan 1 employer contribution rates. The PERS Plan 1 required contribution rates (expressed as a percentage of covered payroll) for 2018 were as follows:

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

\* 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% 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 3% 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 5% 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.

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**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.

**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%. Each biennium, the state Pension Funding Council adopts Plan 2 employer and employee contribution rates and Plan 3 contribution rates. The PERS Plan 2/3 required contribution rates (expressed as a percentage of covered payroll) for 2018 were as follows:

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

\* For employees participating JBM, the contribution rate was 18.45 to 18.53%.

The District's actual PERS plan contributions were \$66,114 to PERS Plan 1 and \$97,936 to PERS Plan 2/3 for the year ended December 31, 2018.

**Actuarial Assumptions**

The total pension liability (TPL) for each of the DRS plans was determined using the most recent actuarial valuation completed in 2018 with valuation date of June 30, 2017. The actuarial assumptions used in the valuation were based on the results of the Office of the State Actuary's (OSA) *2007-2012 Experience Study* and the *2017 Economic Experience Study*.

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Additional assumptions for subsequent events and law changes are current as of the 2017 actuarial valuation report. The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2018. Plan liabilities were rolled forward from June 30, 2017, to June 30, 2018, reflecting each plan's normal cost (using the entry-age cost method), assumed interest and actual benefit payments.

- Inflation: 2.75% total economic inflation; 3.50% salary inflation.
- Salary increases: In addition to the base 3.50% salary inflation assumption, salaries are also expected to grow by promotions and longevity.
- Investment rate of return: 7.4%

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

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

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

### **Discount Rate**

The discount rate used to measure the total pension liability for all DRS plans was 7.4%.

To determine that rate, an asset sufficiency test included an assumed 7.5% long-term discount rate to determine funding liabilities for calculating future contribution rate requirements. (All plans use 7.5% except LEOFF 2). Consistent with the long-term expected rate of return, a 7.4% future investment rate of return on invested assets was assumed for the test. Contributions from plan members and employers are assumed to continue being made at contractually required rates (including PERS 2/3, 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 7.4% was used to determine the total liability.

### **Long-Term Expected Rate of Return**

The long-term expected rate of return on the DRS pension plan investments of 7.4% was determined using a building-block-method. In selecting this assumption, the Office of the State Actuary (OSA) reviewed the historical experience data, considered the historical conditions that produced past annual investment returns, and considered capital market assumptions and



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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, 2018, are summarized in the table below. The inflation component used to create the table is 2.2% and represents the WSIB's most recent long-term estimate of broad economic inflation.

Asset Class	Target Allocation	% Long-Term Expected Real Rate of Return Arithmetic
Fixed Income	20%	1.70%
Tangible Assets	7%	4.90%
Real Estate	18%	5.80%
Global Equity	32%	6.30%
Private Equity	23%	9.30%
	100%	

**Sensitivity of the Net Pension Liability**

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

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
PERS 1	\$557,245	\$453,436	\$363,517
PERS 2/3	\$914,442	\$199,921	\$(385,907)

**Pension Plan Fiduciary Net Position**

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

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

At June 30, 2018, the District reported a total pension liability of \$653,357 for its proportionate share of the net pension liabilities as follows:



**West Sound Utility District**  
**Notes to Financial Statements**  
**For the Year Ended December 31, 2018**

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	Liability
PERS 1	\$453,436
PERS 2/3	\$199,921

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

	Proportionate Share 6/30/17	Proportionate Share 6/30/18	Change in Proportion
PERS 1	0.012476%	0.010153%	(0.002323%)
PERS 2/3	0.012673%	0.011709%	(0.000964%)

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

### **Pension Expense**

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

	Pension Expense
PERS 1	\$(75,393)
PERS 2/3	\$(15,596)
TOTAL	\$(90,990)

### **Deferred Outflows of Resources and Deferred Inflows of Resources**

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

PERS 1	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual investment earnings on pension plan investments		\$ (18,019)
Contributions subsequent to the measurement date	\$34,203	
TOTAL	\$34,203	\$ (18,019)

**West Sound Utility District**  
**Notes to Financial Statements**  
**For the Year Ended December 31, 2018**

PERS 2/3	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$24,505	\$ (35,002)
Net difference between projected and actual investment earnings on pension plan investments		\$ (122,681)
Changes of assumptions	\$2,399	\$(56,896)
Changes in proportion and differences between contributions and proportionate share of contributions		\$ (41,300)
Contributions subsequent to the measurement date	\$50,418	
<b>TOTAL</b>	<b>\$77,261</b>	<b>\$ (255,879)</b>

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
2019	\$ 788	\$ (29,867)
2020	\$ (3,939)	\$ (47,107)
2021	\$ (11,820)	\$ (80,707)
2022	\$ (3,048)	\$ (33,422)
2023		\$ (15,907)
Thereafter		\$ (22,025)
<b>Total</b>	<b>\$ (18,019)</b>	<b>\$ (229,035)</b>

**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 eight (68) 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:

**West Sound Utility District**  
**Notes to Financial Statements**  
**For the Year Ended December 31, 2018**

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Property (including Building, Electronic Data Processing, Boiler and Machinery, and Mobile Equipment); General Liability; Automotive Liability; Excess Liability, Crime; Public Officials Liability; Identity Fraud Reimbursement Program; Deadly Weapon/Active Shooter Response Program; and bonds of various types. Most coverages are on an “occurrence” basis.

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

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	\$700,000,000 Primary layer
Boiler & Machinery	\$1,000 - \$350,000 depending on object	\$25,000 - \$350,000 depending on object	\$100,000,000
Auto - Physical Damage	\$1,000-\$25,000	\$25,000	\$15,000,000
Liability:			
Commercial General Liability	\$1,000 - \$25,000	\$200,000, subject to \$150,000 Corridor Deductible	\$15,000,000
Auto Liability	\$1,000 - \$25,000	Same as above	\$15,000,000
Public Officials Errors and Omissions	\$1,000 - \$25,000	Same as above	\$15,000,000
Employment Practices	\$1,000 - \$25,000	Same as above	\$15,000,000
Other:			
Cyber Liability	\$100,000	N/A	\$2,000,000
Deadly Weapon/Active Shooter	\$10,000	N/A	\$500,000

**West Sound Utility District**  
***Notes to Financial Statements***  
***For the Year Ended December 31, 2018***

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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, 2019, written notice must be in possession of the Pool by April 30, 2019). The Interlocal Governmental Agreement is renewed automatically each year. Even after termination of relationship with the Pool, a member is still responsible for contributions to the Pool for any unresolved, unreported, and in process claims, for the period that the District was a signatory to the Interlocal Governmental Agreement.

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

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

**West Sound Utility District**  
**Notes to Financial Statements**  
**For the Year Ended December 31, 2018**

WATER AND SEWER RISK MANAGEMENT POOL  
Summary of Insurance – November 1, 2018 to October 31, 2019  
Insurance Coverage, Policy Limits and Pool/Member Deductibles\*\*

Coverage	Insurance Co. and Limits	Pool/Member Deductibles
<u>Liability:</u>	<u>Water and Sewer Risk Management Pool Effective 11/1/18 to 10/31/19</u>	<u>Pool Self-Insured Retention:</u>
	<i>Reinsured by Munich Reinsurance America, Inc.</i>	\$200,000 per occurrence; \$150,000 corridor deductible
Primary Layer	\$10M per occurrence for all members/\$10M annual aggregate per member for General Liability	<u>Member Deductible:</u>
	\$10M per occurrence for all members/\$10M annual agg per member for Products Completed Liability	BI or PD - \$1,000, \$5,000, \$10,000 or \$25,000 per occurrence
	\$10M per occurrence for all members/\$10M annual agg per member for Public Officials Errors & Omissions	If a member terminates any employee without first notifying WSRMP and obtaining a formal consultation with an practices attorney selected by WSRMP, or fails to follow the advice of the employment
	\$10M per occurrence for all members/\$10M ann agg per member for Employment Practices Liability	attorney, then the member shall be responsible for the first \$100,000 of claim expenses for that claim, and that responsibility shall supersede the member's ordinary deductible for liability claims.
	\$10M per occurrence for all members/\$10M ann agg per member for Employee Benefits Liability	
	\$10M per occurrence for all members for Auto Liability	
	Subject to a \$10M Annual Aggregate Limit per Member	
<u>Property:</u>	<u>Public Entity Property Insurance Program (PEPIP)</u>	
	<u>Effective 7/1/18 to 7/1/19</u>	<u>Pool Self-Insured Retention:</u>
<u>Included</u>	<i>Lexington, Lloyds of London and Various AM Best "A" Rated Carriers</i>	\$25,000 per occurrence, which applies in the event that a more specific deductible is not applicable to a loss
<u>Autos</u>	\$1,000,000,000 per occurrence "All Risk"	<u>Member Deductible:</u>
	\$ 50,000,000 Flood limit per occurrence and annual aggregate	Damage to District Property and Automobile - \$1,000, \$5,000, \$10,000 or \$25,000 per occurrence
	\$110,000,000 Earthquake limit per occurrence and annual aggregate shared by all members. \$75M shared by all members including Alderwood and Sammamish Plateau.	
	\$ 100,000,000 Combined Business Interruption, Rental Income, Tax Interruption and Tuition Income	Earthquake - 5% per occurrence for Earthquake Shock per unit of insurance subject to \$100,000 minimum except;
	\$ 50,000,000 Per occurrence for Extra Expense	
	\$ 1,000,000 Unscheduled Landscaping (\$25,000/25 gallon max per tree)	
	\$ 5,000,000 Scheduled landscaping (\$25,000/25 gallon max per tree)	
	\$ 25,000,000 Miscellaneous Unnamed Locations excl. EQ and Zone	
	\$ 25,000,000 Automatic Acquisition for new locations excl. EQ and Zone A&V flood	
	\$ 50,000,000 Errors & Omissions	
	\$ 25,000,000 Course of Construction including new projects	
	\$ 2,500,000 Money & Securities	Flood - \$100,000 All Flood Zones per occurrence excl. Flood Zones A&V
	\$ 2,500,000 Unscheduled Fine Arts	Flood Zones A&V - \$250,000 per occurrence.
	\$ 250,000 Accidental Contamination per occurrence and annual aggregate per member with \$500K annual aggregate for all insureds per member declaration	\$500,000 per occurrence for unscheduled tunnels, bridges, roadways, highways, streets, sidewalks, culverts, street lights and signals unless a specific value has been declared (excluding coverage for the peril Earthquake Shock, and excluding Federal Emergency Management (FEMA) and/or Office of Emergency Services (OES) declared disasters or proclamations of emergency).
	\$ 2,000,000 Unscheduled tunnels, bridges, dams, catwalks, roadways, etc. (except EQ)	
	\$100,000,000 Primary Terrorism per occurrence \$200,000,000 Ann. Aggregate (all PEPiP Members)	
	\$300,000,000 Excess Terrorism per member/entity	
	\$800,000,000 Excess Terrorism per occurrence all PEPiP members combined	
	\$800,000,000 Excess Terrorism annual aggregate shared by all members/entities	
	\$ 5,000,000 Per Occurrence Per Declaration Upgrade to Green Coverage	
	<i>Property, Contents, EDP, and Contractor's Equipment limits based on property values at beginning of policy subject to additions/deletions of property</i>	

**West Sound Utility District**  
**Notes to Financial Statements**  
**For the Year Ended December 31, 2018**

<u>Cyber Liability</u>	\$2,000,000 Third Party Liability-annual aggregate limit of liability for each insured/members for Information Security & Privacy Liability but sublimited to: \$500,000 Privacy Notification Costs \$2,000,000 Penalties for Regulatory Defense and Penalties. PCI fines and penalties and fines coverage added with sblimit of \$100,000 \$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	<u>Pool Self-Insured Retention:</u> N/A <u>Member Deductible:</u> \$100,000 per occurrence 8 Hour waiting period for first party Business Income Interruption Claims
<u>Boiler &amp; Machinery</u>	<u>Public Entity Property Insurance Program (PEPIP)</u> <u>Effective 7/1/18 to 7/1/19</u> <u>Insurance Carriers (Various)</u> \$100,000,000 Limits of Liability per occurrence Included: Jurisdictional and Inspection Included: per occurrence consequential damage/perishable goods/spoilage \$10,000,000 per occurrence electronic data processing media and data restoratin \$10,000,000 per occurrence hazardous Included: per occurrence machine or apparatus used for diagnosis, medication, surgical, therapeutic, dental or purposes \$25,000,000 newly acquired locations. Values greater than \$25,000,000 or power generating facilities must be reported within 120 days and must have prior underwriting approval prior to binding	<u>Pool Self-Insured Retention:</u> \$25,000 per occurrence, which applies in the event that a more specific deductible is not applicaable to a loss. <u>Member Deductible:</u> \$1,000, \$5,000, \$10,000 or \$25,000 per occurrence \$50,000 for objects over 350 hp \$100,000 for objects over 500 hp \$250,000 for objects over 750 hp \$350,000 for objects over 25,000 hp \$10 per ft/\$2,500 min. for Deep Water 24 hr waiting period for Utility 24 hr waiting period for BI except 30 day Revenue Bond
<u>Crime:</u>	<u>National Union Fire Insurance Company Effective 11/1/18 to 11/1/19</u> \$2,000,000 Employee Theft - Per Loss Coverage \$2,000,000 Forgery or Alteration \$1,000,000 Inside the Premises - robbery , safe burglary - other proerty \$1,000,000 Outside the Premises \$1,000,000 Computer Fraud \$1,000,000 Money Orders and Counterfeit Paper Currency \$1,000,000 Funds Transfer Fraud \$2,000,000 Credit Card Forgery \$25,000 Prior Theft or Dishonesty \$75,000/100% Included expenses incurred to establish amount of	<u>Pool Self-Insured Retention:</u> \$20,000 Employee Theft – per loss, \$5,000 Inside the Premises - theft of & securities, robbery, safe burglary other property, outside the computer fraud, money orders and counterfeit paper currency <u>Member Deductible:</u> \$1,000, \$5,000 or \$10,000, or \$25,000 occurrence
<u>Identify Reimburse Program</u>	<u>St. Paul Travelers Bond Effective 11/1/18 to 10/31/19</u> \$25,000 per person (family members of employees who are residents of household, to include spouse, children under 25 years of age and 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	<u>Pool Self-Insured Retention:</u> N/A <u>Member Deductible:</u> N/A
<u>Claims Made and Reported</u> <u>Pullution</u> <u>Legal Liability</u>	<u>Illinois Union Insurance Company Effective 7/1/18 - 7/1/19</u> \$1,000,000 per Pollution Condition \$1,000,000 WSRMP Annual Aggregate Written notice to the carrier is required of any claim or pollution condition, within seven (7) days of discovery for pollution conditions requiring immediate emergency response. \$200,000 per occurrence \$800,000 annual aggregate	<u>Pool Self-Insured Retention:</u> N/A <u>Member Self-Insured Retentions:</u> \$100,000 per pollution condition \$750,000 underground storage tank specific 8 day waiting period on business income losses Clash coverage offsets the risk of the Pool paying multiple SIRs when more than one member is involved in a loss.
<u>Clash Coverage</u>		

**West Sound Utility District**  
***Notes to Financial Statements***  
***For the Year Ended December 31, 2018***

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**NOTE 11 – SUBSEQUENT EVENT**

The board approved the resolution of “Modifying Vacation (Annual Leave) Policy” on January 7, 2019. This new policy gives an option to employees to receive compensation for up to one or two standard workweeks with a calendar year according to certain criteria. The estimation for the current portion of compensated absences will increase \$20,028 in 2019.

**West Sound Utility District**  
**Required Supplementary Information**  
**Schedule of Proportionate Share of the Net Pension Liability**  
**As of June 30, 2019**  
**Last Six Fiscal Years**

**PERS 1**

	2019	2018	2017	2016	2015	2014
Employer's proportion of the net pension liability (asset)	0.009395%	0.010153%	0.012476%	0.012645%	0.012739%	0.012934%
Employer's proportionate share of the net pension liability	\$ 361,271	\$ 453,436	\$ 591,996	\$ 679,097	\$ 666,363	\$ 651,550
Covered payroll	\$1,312,961	\$1,279,635	\$1,334,524	\$1,339,663	\$1,291,735	\$1,285,562
Employer's proportionate share of the net pension liability as a % of covered payroll	27.52%	35.43%	44.36%	50.69%	51.59%	50.68%
Plan fiduciary net position as a % of the total pension liability	67.12%	63.22%	61.24%	57.03%	59.10%	61.19%

**PERS 2/3**

	2019	2018	2017	2016	2015	2014
Employer's proportion of the net pension liability (asset)	0.012140%	0.011709%	0.012673%	0.012742%	0.013042%	0.013402%
Employer's proportionate share of the net pension liability	\$ 117,921	\$ 199,921	\$ 440,326	\$ 641,530	\$ 465,988	\$ 270,899
Covered payroll	\$1,312,961	\$1,231,290	\$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 payroll	8.98%	16.24%	36.97%	53.52%	40.27%	23.38%
Plan fiduciary net position as a % of the total pension liability	97.77%	95.77%	90.97%	85.82%	89.20%	93.29%



**West Sound Utility District**  
**Required Supplementary Information**  
**State Sponsored Plans**  
**Schedule of Proportionate Share of Net Pension Liability**  
**As of June 30, 2018**  
**Last Five Fiscal Year**

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**PERS 1**

	2018	2017	2016	2015	2014
Employer's proportion of the net pension liability (asset)	0.010153%	0.012476%	0.012645%	0.012739%	0.012934%
Employer's proportionate share of the net pension liability	\$ 453,436	\$ 591,996	\$ 679,097	\$ 666,363	\$ 651,550
Employer's covered employee payroll	\$ 1,279,635	\$ 1,334,524	\$ 1,339,663	\$ 1,291,735	\$ 1,285,562
Employer's proportionate share of the net pension liability as a % of covered employee payroll	35.43%	44.36%	50.69%	51.59%	50.68%
Plan fiduciary net position as a % of the total pension liability	63.22%	61.24%	57.03%	59.10%	61.19%

**PERS 2/3**

	2018	2017	2016	2015	2014
Employer's proportion of the net pension liability (asset)	0.011709%	0.012673%	0.012742%	0.013042%	0.013402%
Employer's proportionate share of the net pension liability	\$ 199,921	\$ 440,326	\$ 641,530	\$ 465,988	\$ 270,899
Employer's covered employee payroll	\$ 1,231,290	\$ 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	16.24%	36.97%	53.52%	40.27%	23.38%
Plan fiduciary net position as a % of the total pension liability	95.77%	90.97%	85.82%	89.20%	93.29%

**West Sound Utility District**  
**Required Supplementary Information**  
**State Sponsored Plans**  
**Schedule of Employer Contributions**  
**As of December 31, 2019**  
**Last Six Fiscal Year**

**PERS 1**

	2019	2018	2017	2016	2015	2014
Statutorily or contractually required contributions	\$ 62,366	\$ 66,114	\$ 73,431	\$ 71,669	\$ 64,567	\$ 58,109
Contributions in relation to the statutorily or contractually required contributions	\$ (62,366)	\$ (66,114)	\$ (73,431)	\$ (71,669)	\$ (64,567)	\$ (58,109)
Contribution deficiency (excess)						
Covered payroll	\$1,259,795	\$1,305,822	\$1,338,162	\$1,318,206	\$1,319,486	\$1,287,001
Contributions as a percentage of covered payroll	4.95%	5.06%	5.49%	5.44%	4.89%	4.52%

**PERS 2/3**

	2019	2018	2017	2016	2015	2014
Statutorily or contractually required contributions	\$ 97,182	\$ 97,936	\$ 81,236	\$ 73,341	\$ 65,218	\$ 57,572
Contributions in relation to the statutorily or contractually required contributions	\$ (97,182)	\$ (97,936)	\$ (81,236)	\$ (73,341)	\$ (65,218)	\$ (57,572)
Contribution deficiency (excess)						
Covered payroll	\$1,259,795	\$1,305,822	\$1,204,539	\$1,177,154	\$1,180,819	\$1,158,655
Contributions as a percentage of covered payroll	7.71%	7.50%	6.74%	6.23%	5.52%	4.97%

**West Sound Utility District**  
**Required Supplementary Information**  
**State Sponsored Plans**  
**Schedule of Employer Contributions**  
**As of December 31, 2018**  
**Last Five Fiscal Year**

**PERS 1**

	2018	2017	2016	2015	2014
Statutorily or contractually required contributions	\$ 66,114	\$ 73,431	\$ 71,669	\$ 64,567	\$ 58,109
Contributions in relation to the statutorily or contractually required contributions	\$ (66,114)	\$ (73,431)	\$ (71,669)	\$ (64,567)	\$ (58,109)
Contribution deficiency (excess)					
Covered employer payroll	\$ 1,305,822	\$ 1,338,162	\$ 1,318,206	\$ 1,319,486	\$ 1,287,001
Contributions as a percentage of covered employee payroll	5.06%	5.49%	5.44%	4.89%	4.52%

**PERS 2/3**

	2018	2017	2016	2015	2014
Statutorily or contractually required contributions	\$ 97,936	\$ 81,236	\$ 73,341	\$ 65,218	\$ 57,572
Contributions in relation to the statutorily or contractually required contributions	\$ (97,936)	\$ (81,236)	\$ (73,341)	\$ (65,218)	\$ (57,572)
Contribution deficiency (excess)					
Covered employer payroll	\$ 1,305,822	\$ 1,204,539	\$ 1,177,154	\$ 1,180,819	\$ 1,158,655
Contributions as a percentage of covered employee payroll	7.50%	6.74%	6.23%	5.52%	4.97%

**West Sound Utility District**  
***Notes to Required Supplemental Information – Pension***  
***For the Year Ending December 31, 2019***

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**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 Facility's contributions.

The District 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 3: Covered Payroll**

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

**Note 4: Change in Contribution Rate**

The employer contribution rates for both PERS 1 and PERS 2/3 plans increased from 12.83% to 12.86% for pay periods beginning July 2019.

**West Sound Utility District**  
***Notes to Required Supplemental Information – Pension***  
***As of December 31, 2018***

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**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 3: Covered Payroll**

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

**Note 4: Change in Contribution Rate**

The employer contribution rates for both PERS 1 and PERS 2/3 plans increased from 11.18% to 12.7% for pay periods beginning July 2017.

## ABOUT THE STATE AUDITOR'S OFFICE

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

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

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

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

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

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

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

Contact information for the State Auditor's Office	
Public Records requests	<a href="mailto:PublicRecords@sao.wa.gov">PublicRecords@sao.wa.gov</a>
Main telephone	(564) 999-0950
Toll-free Citizen Hotline	(866) 902-3900
Website	<a href="http://www.sao.wa.gov">www.sao.wa.gov</a>