



ANNUAL REPORT

West Sound Utility District

2946

MCAG No.

Submitted pursuant to RCW 43.09.230 to the STATE AUDITOR'S OFFICE

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2015

Certified correct this 12th day of May, 2016, to the best of my knowledge and belief:

GOVERNMENT INFORMATION:

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PREPARER INFORMATION and CERTIFICATION:

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Signature

Michael R. Wilson – General Manager

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WSUD Elected Officials

Commissioner, James J. Hart
Commissioner, Jerry Lundberg
Commissioner, Susan Way

WSUD Appointed Officials

General Manager, Michael R. Wilson
Water/Sewer Operations Manager, Brent Winters
Information Technology Manager, Michael Whitehead
Plant Manager, Randy Screws
District's Attorney, Kenneth W. Bagwell

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 years ended December 31, 2015. 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, the Board of Commissioners approved in 2012 Resolution 403-12, "Financial Management Policies" and Resolution 337-12, "Capital Assets Policy". These "financial management policies" direct the decision-making process of the District's Board of Commissioners and District administration while operating to provide stability of changing services and financial conditions. These policies also provide guidelines for evaluating both current activities and proposals for future programs and direct the District's financial resources toward meeting the goals and programs identified in the District water and wastewater utility system's comprehensive plans. The implementation of wise fiscal policies enables the District officials to protect the public interest and ensure public trust and confidence in the District's management of water and wastewater operations. The Board approved new "capital assets policies" since tracking and managing the District's capital assets is a critical accounting and financial management function. It is important for the District to have a comprehensive policy that provides proper control and accountability of capital assets and collect and maintain complete and accurate capital assets information required for the preparation of the District's financial statements in accordance with generally accepted accounting principles.

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

The District's Financial Statements were prepared on the full accrual basis of accounting in conformity with Generally Accepted Accounting Principles (GAAP). The District uses fund accounting to demonstrate and ensure compliance with finance-related legal requirements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities (i.e. potable water supply and sewer service). The District reports

the activities of the water and sewer utilities as an *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 2015 was \$36,981,794. Of this amount, \$13,014,098 may be used to meet the District's ongoing obligations to citizens and creditors.
- The District's total net position increased by \$1,494,597 in 2015 (w/o adjustment on the change in Accounting Principle). The increase in 2015 was attributable to income from operations and capital contributions received during the year.
- The District's pension liabilities per GASB 68 implementation was \$1,132,351.
- The District's total long-term debt decreased by \$1,032,781 during the fiscal year. As of December 31, 2015, the total outstanding debt was \$8,385,510.
- The District's total cash and cash equivalents decreased by \$82,193 in 2015 due to decreased in developer contribution, construction and operation.

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.

Statement of net position information

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

West Sound Utility District
Management Discussion and Analysis
For the Year Ending December 31, 2016

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

December 31,	<u>Net Position</u>	
	2015	2014
Current and other assets	16,214,123	16,448,374
Capital assets, net	31,325,711	30,722,293
Total Assets	\$47,539,834	\$47,170,667
Deferred Outflows of Resources		
Deferred Outflows Related to Pensions	120,531	-
Other Liabilities	1,613,378	582,266
Long-term liabilities	8,893,317	9,867,792
Total Liabilities	\$10,506,695	\$10,450,058
Deferred Inflows of Resources		
Deferred Inflows Related to Pensions	171,311	
Net Position:		
Net Invested in capital assets,	22,940,200	21,304,001
Restricted assets	1,027,496	1,111,878
Unrestricted	13,014,662	14,304,730
Total Net Position	\$36,982,358	\$36,720,609

The 2015 total net position was about \$37 million. Net capital assets represent 66% of total assets.

As of December 31, 2015, the District had long-term liabilities of \$8,893,317 million. Due to implementation of GASB 68 Net Pension liabilities in 2015, \$1,132,351 was added to the long-term liabilities. The District's investment in capital assets, less any related debt, was \$22.9 million as of December 31, 2015. This has increased over last year due to declining balance in debt service. Restricted cash for debt service represents debt service reserve, FCF reserve, customer lien satisfaction and developers' deposits.

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

West Sound Utility District
Management Discussion and Analysis
For the Year Ending December 31, 2016

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. 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:

	<u>Change in Net Position</u>	
	2015	2014
Revenues		
Operating Revenue		
Charges for services	6,688,239	6,418,639
Other revenue - interlocal service fees	211,539	73,107
Non-Operating revenues		
Equity in Income of Joint Venture Subsidiaries	(46,764)	216,014
Interest and Dividend Income	39,248	34,054
Other Non-operating Revenues	5,446	4,393
Gain (loss) on Capital Asset Disposition	-	5,471
Total revenues	<u>\$6,897,708</u>	<u>\$6,751,678</u>
Expenses		
Operating expenses	6,028,157	5,930,687
Non-Operating expenses	212,587	232,897
Total expenses	<u>\$6,240,744</u>	<u>\$6,163,584</u>
Income Before Contributions	656,964	588,094
Capital Contributions	837,633	1,380,920
Change in Net Position	<u>1,494,597</u>	<u>1,969,014</u>
Net Position, Beginning of Year	<u>36,720,609</u>	<u>34,751,595</u>
Change in Accounting Principle for GASB68 Implementation	(1,232,848)	-
Net Position, End of Year	<u>\$36,982,358</u>	<u>\$36,720,609</u>

West Sound Utility District
Management Discussion and Analysis
For the Year Ending December 31, 2016

Total operating revenues for the District in 2015 was \$6.9 million. There were rate increases for both water and wastewater in 2015 and it reflected an increase in operating revenue.

The total contributions of 837,633 represent capital contributions from developers and a piece of property, 2243 Karcher Rd. donated by the State of Washington Department of Enterprise Service with a market value of \$514,760.

Total operating expenses for 2015 was 6,028,156, an increase of 1.64%.

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

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The District's investment in capital assets as of December 31, 2015, amounted to \$22,940,200 (net of accumulated depreciation). The District's capital assets include land, property held for future use, construction in progress, plant, building, and machinery and equipment. A total increase of \$1,636,199 in the District's net investment in capital assets for the current year was 7.68%. Construction in progress went up by 58%, and Land increased by 114.05%.

	<u>Capital Assets, Net</u>	
	<u>2015</u>	<u>2014</u>
Property held for future use	156,091	156,091
Land	966,098	451,338
Construction in progress	1,660,997	1,049,447
Plant	39,228,262	38,804,839
Building	4,495,570	4,495,570
Machinery and Equipment	3,217,814	3,051,404
Less: Accumulated Depreciation	<u>(18,399,121)</u>	<u>(17,286,396)</u>
Total Capital Assets, Net	<u>\$31,325,711</u>	<u>\$30,722,293</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, and Revenue Bonds and Compensated Absences. As of December 31, 2015, the District had total outstanding debt of \$8,385,511. Of this debt, \$4,575,000 (2015) is Revenue Bond debt, which is secured through sewer utility local improvement at Beach Drive and Watauga Beach, District assessments, rates charged to customers, and the full faith and credit of the District. The

remaining debt of \$3,810,511 consists of Public Works Trust Fund Loans, which are secured by rates. Additionally, \$485,333 is payable for accrued compensated absences at December 31, 2015 of this amount \$408,237 is classified as long-term.

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

CASH FLOW

The District expects to see continued, but limited, growth within its service areas, over the next few years, such that cash flow from operating activities should continue to meet the District's needs. In accordance with the District's financial management policies, the District is responsible for maintaining adequate fund balance (reserves) for each utility in order to provide sufficient cash flows to meet operating and capital expenses, while also providing the financial ability to address economic downturn and system emergencies. As a result, 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.

FUTURE YEARS BUDGETARY IMPACTS

The District experienced limited growth in 2015 due to the community's recovering economy. There was an increase of 6.85% in water consumption in 2015. Hot weather during the summer appears to have contributed to water consumed in 2015. During this economic recovery, the District is continuing to refine its operational procedures and seek means to reduce operational expenses and minimize the need for future debt financing. Furthermore, the District's financial management policies recognize the need to review utility rates annually to ensure sufficient revenues and necessary adjustments are made to reflect inflation, construction needs, maintain bonds covenants and avoid major periodical increases.

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

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

	2015
ASSETS	
Current Assets:	
Cash, Cash Equivalents and Pooled Investments	6,004,811
Restricted Cash, Cash Equivalents and Investments	204,800
Accounts Receivable, net	747,132
Prepaid Assets	62,140
Total Current Assets	\$7,018,883
Noncurrent Assets:	
Reserve Cash for Debt Service	822,696
Investment in JWWTF	8,372,544
Capital Assets Not Being Depreciated:	
Property Held for Future Use	156,091
Land	966,098
Construction in Progress	1,660,997
Total capital, not being depreciated	\$2,783,186
Capital Assets Being Depreciated:	
Plant	39,228,262
Building	4,495,570
Machinery and Equipment	3,217,814
Less Accumulated Depreciation	(18,399,121)
	\$28,542,525
Total Capital Assets, net	\$31,325,711
Total Noncurrent Assets	\$40,520,951
TOTAL ASSETS	\$47,539,834
DEFERRED OUTFLOWS OF RESOURCES	
Deferred Outflows Related to Pensions	120,531

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

LIABILITIES

Current liabilities

Accounts payable	30,586
Debt interest payable	62,729
Deposits and other payables	410,186
Current Portion of Bonds Payable	530,000
Current Portion of loans payable to other governments	502,781
Current Portion of compensated absences	77,096
Total Current Liabilities	\$1,613,378

Noncurrent Liabilities:

Bonds payable, net	4,045,000
Loans payable to other governments, net	3,307,729
Accrued compensated absences, net	408,237
Net Pension Liabilities	1,132,351
Total Noncurrent liabilities	\$8,893,317

TOTAL LIABILITIES**\$10,506,695****DEFERRED INFLOWS OF RESOURCES**

Deferred Inflows Related to Pensions	\$171,311
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NET POSITION

Net investment in capital assets	22,940,200
Restricted	1,027,496
Unrestricted	13,014,662
TOTAL NET POSITION	\$36,982,358

*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 Ending December 31, 2016

	2015
OPERATING REVENUES:	
Water Sales and Service Fees	\$2,971,844
Other Charges for Services-Water	103,802
Sewer Sales and Service Fees	3,530,463
Other Charges for Services-Sewer	82,129
Other Revenue: Interlocal Service Fees	211,539
Total Operating Revenue	\$6,899,777
OPERATING EXPENSES:	
Operations:	
General Operations	1,326,660
Cost of Energy	292,274
Contracted Processing and Operations	1,474,212
Maintenance	156,759
Administration:	
General Administration	1,457,187
Depreciation and Amortization	1,112,725
Property, Excise and B&O Taxes	208,339
Total Operating Expenses	\$6,028,156
OPERATING INCOME	\$871,621
NONOPERATING REVENUES (EXPENSES):	
Equity in Income of Joint Venture Subsidiaries	(46,764)
Interest and Dividend Income	39,248
Interest Expense	(212,587)
Other Nonoperating Revenues	5,446
Gain on Capital Asset Disposition	-
Total Nonoperating Revenues (Expenses)	(214,657)
INCOME BEFORE CONTRIBUTION	\$656,964
Capital Contributions-Water	708,598
Capital Contributions-Wastewater	129,035
Total Capital Contributions	837,633
CHANGE IN NET POSITION	\$1,494,597
TOTAL NET POSITION, January 1	\$36,720,609
CHANGE IN ACCOUNTING PRINCIPLE for GASB 68 Implementation	(\$1,232,848)
TOTAL NET POSITION, December 31	\$36,982,358

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

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

<u>Cash flows from operating activities:</u>	<u>2015</u>
Receipts from customers	\$6,974,306
Payments to suppliers	(3,010,237)
Payments to employees	(1,959,767)
Net cash provided by operating activities	<u>2,004,302</u>
<u>Cash flows from capital and related financing activities:</u>	
Principal paid on revenue bond and PWTF debt	(1,032,781)
Proceeds from sale of fixed assets	-
Acquisition and construction of capital assets	(1,201,462)
Other Receipts	5,446
Interest paid on revenue bonds and PWTF debt	(219,820)
Contributions from Developers	322,873
Net cash used by capital financing activities	<u>(2,125,743)</u>
<u>Cash flows from investing activities:</u>	
Interest and dividends on investments	<u>39,248</u>
Net cash provided by investing activities	<u>39,248</u>
Net (Decrease) in cash and cash equivalents	<u>(82,193)</u>
Cash and cash equivalents at beginning of year:	<u>7,114,500</u>
Cash and cash equivalents at the end of year:	<u>\$7,032,307</u>

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

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

	<u>'2015</u>
Net Utility Operating (loss) Income	\$871,621
Adjustments to reconcile net utility operating income to net cash provided by operating activities:	
Depreciation and amortization	1,112,725
GASB 68 Implementation - Pension Expense	(49,718)
Change in Assets and Liabilities:	
Decrease (Increase) in Receivables	74,529
Decrease (Increase) in Prepaid Expenses	30,766
Increase (Decrease) in Accrued Comp Absences	35,832
Increase (Decrease) in Payables	(17,454)
Increase (Decrease) in Customer Deposits	<u>(53,999)</u>
Total adjustments	<u>1,132,681</u>
Net cash provided by Operating Activities	<u><u>\$2,004,302</u></u>

Noncash investing, capital and financing activities:

Contributions of capital assets from developers	514,760
Gain in equity of the Joint Venture - JWWTF	(46,764)
Gain on disposition of capital assets	\$ -

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING AND FINANCIAL POLICIES

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

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

A. Reporting Entity

West Sound Utility District is a municipal corporation formed on November 27, 2007, through a merger of Annapolis Water District and Karcher Creek Sewer District. The District was governed in 2015 by an elected three- member Board of Commissioners. As required by generally accepted accounting principles, management has considered all potential component units in defining the reporting entity.

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

B. Basis of Accounting and Presentation

The accounting records of the District are maintained in accordance with methods prescribed by the State Auditor under the authority of Chapter 43.09 RCW. The District uses the *Uniform System of Accounts for Class B Utilities*.

The District's "proprietary funds" ("Enterprise Utilities" and "Internal Service" funds) are accounted for using the full-accrual basis of accounting where revenues are recognized when earned and expenses are recognized when incurred. Capital asset purchases are capitalized and long-term liabilities are accounted for in the appropriate funds.

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

C. Financial Management Policies:

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

West Sound Utility District
Notes to Financial Statements
For the Year Ending December 31, 2016

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

D. Cash and Cash Equivalents

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

E. Capital Assets

See Note (5)

F. Investments

Investments are stated at fair value. Interest on debt securities is recognized in non-operating revenues as earned. Changes in the fair value of investments are also included in non-operating revenues (expenses). The average interest rate earned from these investments was at .64%. Noncurrent assets consist of reserve cash, assets, and real estate held for future use. It is displayed on the "Statement of Net Position" at historical cost.

G. Receivables

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

H. Restricted Cash, Cash Equivalent and Investments

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

	2015
Revenue Bond Reserve	634,559
Fund 91929 FCF	388,137
Lien Deposit	800
Developers Deposits	4,000
Total	\$1,027,496

West Sound Utility District
Notes to Financial Statements
For the Year Ending December 31, 2016

I. Capital Assets and Depreciation

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

All capital assets are valued at historical cost or estimated cost. Estimated costs are established where historical cost is not known. Donations by developers and customers are recorded at the donor cost.

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

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

J. Compensated Absences

Compensated absences are absences for which employees will be paid, such as vacation and sick leave. Additionally, employees may accumulate up to 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 240 hours and may be carried over to the next calendar year. Accrued vacation pay is payable upon an employee taking a vacation or upon resignation, retirement, or death. Sick leave in excess of one thousand forty (1,040) hours of the current month shall be deposited into a VEBA account for the employee. Annual leave and sick leave are payable as follows:

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

K. Long-Term Debt

See Note (6)

L. Infrastructure

Governmental Accounting Standards Board Statement No. 34 allows for two methods of reporting for a local government. One is called the “modified approach” and the other is

West Sound Utility District
Notes to Financial Statements
For the Year Ending December 31, 2016

based upon “historical cost”. The District has always reported its infrastructure on a historical cost basis with a corresponding offset as accumulated depreciation. The District will continue to use “historical cost” as the basis of reporting its infrastructure and use straight-line depreciation as the methods to depict the value of the asset being used over time.

M. Pensions

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

NOTE 2 – DEPOSITS AND INVESTMENTS

A. Deposits

Kitsap County is the Treasurer for the District’s funds. The District’s deposits with the Kitsap County Treasurer 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.

B. Investments

As required by state law, all investments of the District’s funds must be obligations of the U.S Government, U.S. agency issues, obligations of the State of Washington, general obligations of Washington State municipalities, the Kitsap County’s Investment Pool, or certificates of deposit with Washington State banks and savings and loan institutions. All temporary investments are stated at fair value.

As of December 31, 2015, the District has the following cash and investments:

	Cash	Investments	Total
Washington State Investment Pool		6,550,362	\$6,550,362
Kitsap County	464,345		\$464,345
Bank of America	17,000		\$17,000
Cash on Hand	600		\$600
Total	\$481,945	\$6,550,362	\$7,032,307

Custodial credit risk is the risk that in event of a failure of the counterparty to an investment transaction the District would not be able to recover the value of the investment or collateral securities. The District only has investments held by the Kitsap County Investment Pool.

West Sound Utility District
Notes to Financial Statements
For the Year Ending December 31, 2016

NOTE 3 – CONSTRUCTION IN PROGRESS

The District had active construction projects as of December 31, 2015, as follows:

Project Description	Project Budget	Expended 12/31/2015	Required Future Financing
Well 9 (Drilling)	150,000	148,212	None
Well 22 Infrastructure	752,000	714,592	None
SCADA Improvements	50,000	30,246	None
Demolish Old Reservoir & Karcher	65,000	1,193	None
Annual Well Rehabilitation	-	2,160	None
Paint Fircrest Standpipe	120,000	25,925	None
Paint Exterior of Powell Tank	129,000	15,994	None
Replace Well #1 Reservoir	305,000	9,468	None
Construct Well #22 Pump House	-	10,038	None
Replace Villa Carmel Pump Station	300,000	328,194	None
Upgrades @ Grandridge Lift Station	85,000	92,303	None
Replace Brada Pump Controller	40,000	19,311	None
Replace Crownwood Pump Control	40,000	19,311	None
Replace Conifer Park Pumps & Control	85,000	151,748	None
Replace Orchard Bluff Pumps & Control	85,000	92,303	None
Total Construction in Progress	2,206,000	1,660,997	

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, 2015 amounted to \$18,999. Future minimum rental commitments for these leases are as follow:

YEAR	AMOUNT
2016	19,850
2017	19,166
2018	19,166
2019	19,166
2020	17,866
Thereafter	32,103
Total	\$127,317

NOTE 5 – CAPITAL ASSETS

Capital Assets activity for the year ended December 31, 2015, was as follows:

	Beginning Balance 01/01/2015	Increases	Decreases	Transfers	Ending Balance 12/31/2015
Capital Assets, not being depreciated:					
Property held for future use	156,091				156,091
Land	451,338	514,760			966,098
Construction in progress	1,049,447	1,090,886	-61,437	-417,899	1,660,997
Total Capital Assets, not being Depreciated	\$1,656,876	\$1,605,646	(\$61,437)	(\$417,899)	\$2,783,186
Capital Assets, being Depreciated:					
Buildings	4,495,570				4,495,570
Utility Infrastructure and Improvements	38,804,839	5,524		417,899	39,228,262
Machinery and Equipment	3,051,404	166,410			3,217,814
Total Capital Assets being Depreciated	\$46,351,813	\$171,934	\$0	\$417,899	\$46,941,646
Less Accumulated Depreciation for:					
Buildings	-1,469,232	-128,882			-1,598,114
Utility Infrastructure and Improvements	-13,922,950	-804,994			-14,727,944
Machinery and Equipment	-1,894,214	-178,849			-2,073,063
Total Accumulated Depreciation	(17,286,396)	(1,112,725)			(18,399,121)
Total Capital Assets being Depreciated, net	29,065,417	(940,791)		417,899	28,542,525
Total Capital Assets, net	\$30,722,293	\$664,855	(\$61,437)	\$0	\$31,325,711

NOTE 6 – LONG-TERM DEBT AND LIABILITIESA. Long-Term Debt

The District issues special revenue bonds and government loans to finance the purchase and construction of capital assets.

Schedule 09 which accompanies this report on page 39 contains a list of outstanding debt at December 31, 2015. The annual requirements to amortize all debts outstanding as of December 31, 2015, including interest, are as follows:

West Sound Utility District
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Year Ending December 31	Principal	Interest	Total
2016	1,032,781	198,968	1,231,749
2017	1,052,781	176,380	1,229,161
2018	1,062,781	151,511	1,214,292
2019	1,032,781	125,204	1,157,985
2020	918,748	100,644	1,019,392
2021-2025	2,319,685	286,115	2,605,800
2026-2030	949,574	60,202	1,009,776
2031-2031	16,380	41	16,421
Total	\$8,385,511	\$1,099,065	\$9,484,576

B. Change in Long Term Liabilities

During the year ended December 31, 2015 the following changes occurred in long-term liabilities:

	Beginning Balance 1/1/2015	Additions	Reduction	Ending Balance 12/31/2015	Due within One Year
Revenue Bonds	5,105,000		530,000	4,575,000	530,000
Government Loans	4,313,291		502,780	3,810,511	502,781
Net Pension Liabilities *	922,450	209,901	-	1,132,351	-
Compensated Absences	449,502	35,831		485,333	77,096
Total	\$10,790,243	\$245,732	\$1,032,780	\$10,003,195	\$1,109,877
Less Current Portion				\$1,109,877	
Total Long-Term Liabilities, net				\$8,893,317	

* Beginning balance was restated for implementation of GASB 68

NOTE 7 – RESTRICTED CASH

The District's statement of net position reports, \$1,027,496, at December 31, 2015 of restricted for revenue debt service, none of which are restricted by enabling legislation. These are restricted for Revenue Bonds reserve requirement, FCF reserve, customer lien satisfaction and Developers deposits.

NOTE 8 – INVESTMENT IN JOINT WASTEWATER TREATMENT FACILITY

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

In 2002, the District and City continued the expansion plans of the Facility. The cost of this expansion was \$21.5 million. This project funding was approved for a \$10 million Public Works Trust Fund (PWTF) loan in 2002 and a \$6.8 million PWTF loan in 2004. The City of Port Orchard was the lead agency for the expansion project and funding, with the City being the borrowing governmental entity on the PWTF loans. Funds from the JWWTF operating budget are transferred to the City to pay for the two loans. The City transferred the related assets and liabilities to the Facility upon completion of the project. The City and District have approved using a part of the wastewater treatment capital fees collected by each entity to assist with the annual debt payments on the PWTF loans. This cost sharing formula was 50/50%, and in 2015, 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 2015, the change in the District's equity in the JWWTF was a decreased of \$46,764. The District's equity interest in the JWWTF as of December 31, 2015, was \$8,372,544 (see JWWTF Financial Statements for further information).

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

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

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

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

NOTE 9 – PENSION PLANS

The following table represents the aggregate pension amounts for all plans subject to the requirements of the GASB Statement 68, *Accounting and Financial Reporting for Pensions* for the year 2015:

Aggregate Pension Amounts – All Plans	
Pension liabilities	\$1,132,351
Deferred outflows of resources	\$120,531
Deferred inflows of resources	\$171,311
Pension expense/expenditures	\$80,068

State Sponsored Pension Plans

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

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

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

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

Public Employees' Retirement System (PERS)

Plan Description

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

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

PERS 1 members were vested after the completion of five years of eligible service. The plan was closed to new entrants on September 30, 1977.

Contributions

The **PERS Plan 1**-member contribution rate is established by State statute at 6 percent. The employer contribution rate is developed by the Office of the State of Actuary and includes an administrative expense component that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates. The PERS Plan 1 required contribution rates (expressed as a percentage of covered payroll) for 2015 were as follows:

PERS Plan 1		
Actual Contribution Rates:	Employer	Employee *
January through June 2015	9.21%	6.00%
July through December 2015	11.18%	6.00%

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

The District's actual contributions to the plan were \$64,567 for the year ended December 31, 2015.

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

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

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

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

Contributions

The PERS Plan 2/3 employer and employee contribution rates are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit of Plan 3. The Plan 2/3 employer rates include a component to address the PERS Plan 1 UAAL and an administrative expense that is currently set at 0.18 percent. 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 2015 were as follows:

PERS Plan 2/3		
Actual Contribution Rates:	Employer 2/3	Employee 2*
January through June 2015	9.21%	4.92%
July through December 2015	11.18%	6.12%
Employee PERS Plan 2		varies

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

The District's actual contributions to the plan were \$65,218 for the year ended December 31, 2015.

Actuarial Assumptions

The total pension liability (TPL) for each of the DRS plans was determined using the most recent actuarial valuation completed in 2015 with valuation date of June 30, 2014. The actuarial assumptions used in the valuation were based on the results of the Office of the State Actuary's (OSA) *2007-2012 Experience Study*.

Additional assumptions for subsequent events and law changes are current as of the 2014 actuarial valuation report. The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2015. Plan liabilities were rolled forward from June 30, 2014, to June 30, 2015, reflecting each plan's normal cost (using the entry-age cost method), assumed interest and actual benefit payments.

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

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

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

- The OSA updated demographic assumptions, consistent with the changes from the *2007-2012 Experience Study Report*, used when valuing the PERS 1 and TERS 1 Basic Minimum COLA.
- The OSA corrected how valuation software calculates a member's entry age under the entry age normal actuarial cost method. Previously, the funding age was rounded, resulting in an entry age one year higher in some cases.
- For purposes of calculating the Plan 2/3 Entry Age Normal Cost contribution rates, the OSA now uses the current blend of Plan 2 and Plan 3 salaries rather than using a long-term membership assumption of two-thirds Plan 2 members and one-third Plan 3 members.
- The OSA changed the way it applies salary limits, as described in the *2007-2012 Experience Study Report*.

Discount Rate

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

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

Long-Term Expected Rate of Return

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

times. The long-term expected rate of return of 7.5 percent approximately equals to median of the simulated investments over a 50-year time horizon

Estimated Rates of Return by Asset Class

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2015, are summarized in the table below. The inflation component used to create the table is 2.2 percent and represents the WSIB's most recent long-term estimate of broad economic inflation.

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

Sensitivity of NPL

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

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
PERS 1	\$811,305	\$666,363	\$541,736
PERS 2/3	\$1,362,572	\$465,988	(\$220,493)

Pension Plan Fiduciary Net Position

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

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

At June 30, 2015, the District reported a total pension liability of \$1,132,351 for its proportionate share of the net pension liabilities as follows:

	Liability (or Asset)
PERS 1	\$666,363
PERS 2/3	\$465,988

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

	Proportionate Share 6/30/14	Proportionate Share 6/30/15	Change in Proportion
PERS 1	0.012934%	0.012739%	-0.000195%
PERS 2/3	0.013402%	0.013042%	-0.000360%

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

The collective net pension liability (asset) was measured as of June 30, 2015, and the actuarial valuation date on which the total pension liability (asset) is based was as of June 30, 2014, with update procedures used to roll forward the total pension liability to the measurement date.

Pension Expense

For the year ended December 31, 2015, the District recognized pension expense as follows:

	Pension Expense
PERS 1	\$28,343
PERS 2/3	\$51,725
TOTAL	\$80,068

Deferred Outflows of Resources and Deferred Inflows of Resources

At December 31, 2015, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

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PERS 1	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual investment earnings on pension plan investments		\$36,457
Contributions subsequent to the measurement date	\$35,218	
TOTAL	\$35,218	\$36,457

PERS 2/3	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$48,404	
Net difference between projected and actual investment earnings on pension plan investments		\$124,397
Changes of assumptions	\$751	
Changes in proportion and differences between contributions and proportionate share of contributions		\$10,457
Contributions subsequent to the measurement date	\$36,158	
TOTAL	\$85,313	\$134,854

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, 2016. 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
2016	\$ (14,130)	\$ (37,182)
2017	\$ (14,130)	\$ (37,182)
2018	\$ (14,130)	\$ (37,182)
2019	\$ 5,931	\$ 25,848
Total	\$ (36,457)	\$ (85,698)

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,

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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 66 members. The Pool's fiscal year is November 1 through October 31.

The Pool allows members to jointly purchase insurance coverage, establish a plan of self-insurance coverage, and provide related services, such as risk management and loss prevention. The Pool provides the following forms of group purchased insurance coverage for its members:

Property (including Building, Electronic Data Processing, Boiler and Machinery, and Mobile Equipment); General Liability; Automotive Liability; Excess Liability, Crime; Public Officials Liability; Identity Fraud Reimbursement Program; and bonds of various types. All coverages are on an "occurrence" basis.

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

TYPE OF COVERAGE	MEMBER DEDUCTIBLE	SELF-INSURED RETENTION	EXCESS LIMITS
Property Loss:			
Buildings and Contents	\$1,000 - \$25,000 and See (C) below	\$25,000	\$1,000,000,000
Flood	See (A) below	See (A) below	\$50,000,000
Earthquake	See (B) below	See (B) below	\$75,000,000 (\$50,000,000 shared by all members and \$25,000,000 dedicated to Alderwood)
Terrorism	\$1,000 - \$25,000	\$25,000 Primary layer	\$100,000,000 Primary layer
Boiler & Machinery	\$1,000 - \$350,000 depending on object	\$25,000 - \$350,000 depending on object	\$100,000,000
Auto - Physical Damage	\$1,000-\$25,000	\$25,000	\$10,000,000
Liability:			
Commercial Liability	General \$1,000 - \$25,000	\$200,000	\$10,000,000

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Auto Liability	\$1,000 - \$25,000	\$200,000	\$10,000,000
Public Officials Errors and Omissions	\$1,000 - \$25,000	\$200,000	\$10,000,000
Employment Practices	\$1,000 - \$25,000	\$200,000	\$10,000,000
Other:			
Public Officials Bonds	Various	N/A	Various
Crime	\$1,000 - \$25,000	\$25,000	\$2,000,000
Identity Fraud	\$0	\$25,000	\$0

- A. \$100,000 member deductibles, per occurrence, in Flood zones except Zones A&V; \$250,000 member deductible per occurrence, in Flood Zones A&V.
- B. Member deductible for earthquakes is 5% subject to \$100,000 minimum Earthquake Shock. If the stated deductible is on a percentage basis, the deductible will apply per occurrence on a per unit basis, as defined in the policy form, subject to the stated minimum.
- C. Member deductible for Cyber liability is \$100,000 and where applicable the dollar amount of the business interruption loss during the policy's required 8 hour waiting period.
- D. In the past three years, the District did not have any settlements that exceeded the insurance coverage.

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

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, 2016, written notice must be in possession of the Pool by April 30, 2016). 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.

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WATER AND SEWER RISK MANAGEMENT POOL
Summary of Insurance – November 1, 2015 to October 31, 2016
*Insurance Coverage, Policy Limits and Pool/Member Deductibles***

<u>Coverage</u>	<u>Insurance Co. and Limits</u>	<u>Pool/Member Deductibles</u>
Liability:	<i>Water and Sewer Risk Management Pool Effective 11/1/15 to 10/31/16</i>	Pool Self-Insured Retention:
	<i>Reinsured by Munich Reinsurance America, Inc.</i>	\$200,000 per occurrence
Primary Layer	\$10M per occurrence for all members/\$10M annual aggregate per member for General Liability	Member Deductible:
	\$10M per occurrence for all members/\$10M annual agg per member for Products Completed Liability	BI or PD - \$1,000, \$5,000 or \$10,000 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 obtaining a formal consultation with a qualified employment practices attorney, or terminates against the advice of the employment practices attorney, then the member shall be responsible for the first \$100,000 of claim or indemnity expenses for that claim, and that responsibility shall supersede the member deductible.
	\$10M per occurrence for all members/\$10M ann agg per member for Employment Practices Liability	
	\$10M per occurrence for all members/\$10M ann agg per member for Employee Benefits Liability	
	\$10M per occurrence for all members for Auto Liability	
Property:	<i>Public Entity Property Insurance Program (PEPIP)</i>	Pool Self-Insured Retention:
	<i>Effective 7/1/15 to 7/1/16</i>	\$25,000 per occurrence, which
Included	<i>Insurance Carriers (Various)</i>	applies in the event that a more specific deductible is not applicable to a loss
Autos	\$1,000,000,000 per occurrence "All Risk"	Member Deductible:
	\$ 50,000,000 Flood limit per occurrence and annual aggregate	Damage to District Property and
	\$50,000,000 Earthquake limit per occurrence and annual aggregate shared by all members. \$25,000 dedicated to Alderwood Water & Wastewater District	Automobile - \$1,000, \$5,000, \$10,000 or \$25,000 per occurrence
	\$ 100,000,000 Combined Business Interruption, Rental Income, Tax Interruption and Tuition Income	
	\$ 50,000,000 Per occurrence for Extra Expense	
	\$ 1,000,000 Unscheduled Landscaping (\$25,000/25 gallon max per tree)	Flood - \$100,000 All Flood Zones
	\$ 5,000,000 Scheduled landscaping (\$25,000/25 gallon max per tree)	per occurrence excl. Flood Zones A & V
	\$ 25,000,000 Miscellaneous Unnamed Locations excl. EQ and Zone	Flood Zones A & V - \$250,000
	\$ 25,000,000 Automatic Acquisition for new locations excl. EQ and Zone A&V flood	per occurrence Flood Zones A & V
	\$ 50,000,000 Errors & Omissions	
	\$ 25,000,000 Course of Construction including New Projects	Earthquake - 5% per occurrence
	\$ 2,500,000 Money & Securities	for Earthquake Shock per unit
	\$ 2,500,000 Unscheduled Fine Arts	of insurance subject to \$100,000 minimum
	\$ 250,000 Accidental Contamination per occurrence and annual aggregate per member with \$500,000 annual aggregate for all insureds	minimum for buildings constructed prior to 1940 where EQ coverage is purchased.
	\$ 2,000,000 Unscheduled tunnels, bridges, dams, catwalks, roadways, etc. (except EQ)	\$500,000 per occurrence for Unscheduled tunnels, bridges, roadways,
	\$100,000,000 Primary Terrorism per occurrence \$200,000,000 Ann. Aggregate (all PEPIP Members)	highways, streets, sidewalks, culverts, street lights and traffic signals unless a specific value has been declared
	\$300,000,000 Excess Terrorism per member/entity	(excluding coverage for the peril of
	\$800,000,000 Excess Terrorism all PEPIP members combined	Earthquake Shock, and excluding Federal Emergency Management
	\$800,000,000 Excess Terrorism annual aggregate shared by all members/entities	(FEMA) and/or Office of Emergency
	\$ 5,000,000 Per Occurrence Per Declaration Upgrade to Green Coverage	Services (OES) declared disasters or
	<i>Property, Contents, EDP, and Contractor's Equipment limits based on property values at beginning of policy subject to additions/deletions of property</i>	proclamations of emergency).

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Notes to Financial Statements
For the Year Ending December 31, 2016

<u>Cyber Liability</u>	\$2,000,000 Third Party Liability-annual aggregate limit of liability for each insured/members for Information Security & Privacy Liability (aggregate for all coverages combined, including claims expenses but \$500,000 Privacy Notification Costs \$2,000,000 Penalties for Regulatory Defense and Penalties. PCI fines and penalties and fines coverage added with sublimit 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 \$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 & Machinery</u>	<u>Public Entity Property Insurance Program (PEPIP)</u> <u>Effective 7/1/15 to 7/1/16</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 Expediting Expenses per occurrence \$10,000,000 electronic data processing media and data restoration \$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 of generating facilities must be reported within 90 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 applicable to a loss. <u>Member Deductible:</u> \$1,000, \$5,000 or \$10,000 per \$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 foot/\$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 11/1/15 to 11/1/16</u> \$2,000,000 Employee Theft - Per Loss Coverage \$2,000,000 Forgery or Alteration \$250,000 Computer Fraud \$250,000 Money Orders and Counterfeit Paper Currency \$250,000 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> \$25,000 Employee Theft – Per Loss, Forgery or Alteration \$5,000 Inside the Premises - Theft of money & securities, robbery, safe burglary - other property, outside the premises, computer fraud, money orders and counterfeit paper currency <u>Member Deductible:</u> \$1,000, \$5,000 or \$10,000 per
<u>Identify Reimbursement Program</u>	<u>St. Paul Travelers Bond Effective 11/1/15 to 10/31/16</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 consent)	<u>Pool Self-Insured Retention:</u> N/A <u>Member Deductible:</u> N/A
<u>Claims Made and Reported Pollution legal Liability</u>	<u>Illinois Union Insurance Company Effective 7/1/15 - 7/1/16</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.	<u>Pool Self-Insured Retention:</u> N/A <u>Member Self-Insured Retentions:</u> \$75,000 per pollution condition \$750,000 underground storage tank specific 8 day waiting period on business income losses
<u>Clash Coverage</u>	\$2000,000 per occurrence \$800,000 annual aggregate Clash coverage offsets the risk of the Pool paying multiple SIRs when more than one member is involved in a loss.	

NOTE 11 – OTHER DISCLOSURES

Implementation of New Governmental Accounting Standards Board Pronouncements. The District implemented GASB 68, *Accounting and Financial Reporting for Pensions* and GASB 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. These statements establish standards for measuring and recognizing liabilities, deferred outflows of resources, and deferred inflows of resources and expense/expenditures related to pensions. As a result of implementing this standard, the District recognized an adjustment to beginning net position of \$1,232,848, presented as a change in accounting principles.

NOTE 12 – SUBSEQUENT EVENTS

In September of 2016 the District refunded the 2009 Revenue Bond. By refunding the 2009 Revenue Bond the District save interest rate from 4% to 1.649% with a Net PV Savings of \$183,175.

West Sound Utility District
Required Supplementary Information
Schedule of Proportional Share of Net Pension Liability
As of June 30, 2016

	PERS 1		PERS 2/3	
	2015	2014	2015	2014
Employer's proportion of the net pension liability (Asset)	0.012739%	0.012934%	0.013042%	0.013402%
Employer's proportion share of the net pension liability	666,363	651,550	465,988	270,899
Employer's covered employee payroll	134,344	94,411	1,157,058	1,158,854
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	496.01%	690.12%	40.27%	23.38%
Plan fiduciary net position as a percentage of the total pension liability	59.10%	61.19%	89.20%	93.29%

West Sound Utility District
Required Supplementary Information
Schedule of Employer Contributions
As of December 31, 2065

PERS 1

	<u>2015</u>	<u>2014</u>
Statutorily or contractually required contributions	\$64,567	\$58,109
Contributions in relation to the statutorily or contractually required contributions	(\$64,567)	(\$58,109)
Contribution deficiency (excess)	-	-
Covered employer payroll	\$138,000	\$128,346
Contributions as a percentage of covered employee payroll	46.79%	45.28%

PERS 2/3

	<u>2015</u>	<u>2014</u>
Statutorily or contractually required contributions	\$65,218	\$57,572
Contributions in relation to the statutorily or contractually required contributions	(\$65,218)	(\$57,572)
Contribution deficiency (excess)	-	-
Covered employer payroll	\$1,180,819	\$1,158,655
Contributions as a percentage of covered employee payroll	5.52%	4.97%

Note 1: Information Provided

The District shared the Organization Identification Number under Washington State Department of Retirement System with Joint Wastewater Treatment Facility (JWWTF). All pension data including allocation percentage were recalculated according to the percentage of the District and the Plant'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: Change in Contribution Rate

The employer contribution rates for both PERS 1 and PERS 2/3 plans increased from 9.21% to 11.18% for pay periods beginning July 2015.

West Sound Utility District
Schedule 01 – Revenue/Expenditures
For the Year End of December 31, 2016

MCAG	Fund #	Fund Name	BARS Account	BARS Name	Amount
2946	401	Operations	3081900	Restricted Net Position - Beginning	\$1,111,878
2946	401	Operations	3086000	Net Investment in Capital Assets - Beginning	\$21,304,001
2946	401	Operations	3088900	Unrestricted Net Position - Beginning	\$13,071,882
2946	401	Operations	3337000	Local Grants, Entitlements and other Payments	\$211,539
2946	401	Operations	3434000	Water Sales and Services	\$3,005,740
2946	401	Operations	3435000	Sewer/Reclaimed Water Sales & Services	\$3,530,463
2946	401	Operations	3590000	Non-Court Fines & Penalties	\$105,341
2946	401	Operations	3611000	Investment Interest	\$39,248
2946	401	Operations	3621000	Equipment and Vehicles Rentals (Short-Term)	\$5,446
2946	401	Operations	3625000	Space and Facilities Leases (Long Term)	\$63,147
2946	401	Operations	3670000	Contributions and Donations from Nongovernmental Sources	\$514,760
2946	401	Operations	3691000	Sale of Scrap and Junk	\$108
2946	401	Operations	3699200	Other	\$80,590
2946	401	Operations	3710000	Sewer Equity Income	\$47,328
2946	401	Operations	3790000	Water Capital Contributions from Developers	\$96,796
2946	401	Operations	3790000	Sewer Capital Contributions from Developers	\$128,927
2946	401	Operations	5013400	Depreciation/Depletion/Amort - Water	\$571,032
2946	401	Operations	5013500	Depreciation/Depletion/Amort - Sewer	\$541,693
2946	401	Operations	5340010	Water Utilities - Salaries	\$676,177
2946	401	Operations	5340020	Water Utilities - Benefits	\$251,694
2946	401	Operations	5340030	Water Utilities - Supplies	\$113,294
2946	401	Operations	5340040	Water Utilites - Services	\$650,041
2946	401	Operations	5340050	Water Utilities - Intergovernmental	\$27,151

West Sound Utility District
Schedule 01 – Revenue/Expenditures
For the Year End of December 31, 2016

MCAG	Fund #	Fund Name	BARS Account	BARS Name	Amount
2946	401	Operations	5350010	Sewer Utilities - Salaries	\$676,273
2946	401	Operations	5350020	Sewer Utilities - Benefits	\$242,072
2946	401	Operations	5350030	Sewer Utilities - Supplies	\$41,535
2946	401	Operations	5350040	Sewer Utilities - Services	\$270,374
2946	401	Operations	5350050	Sewer Utilities - Intergovernmental	\$1,560,316
2946	401	Operations	5380010	Combined Water/Sewer/Solid Waste Utilities - Salaries	\$84,655
2946	401	Operations	5380020	Combined Water/Sewer/Solid Waste Utilities - Benefits	\$16,704
2946	401	Operations	5380030	Combined Water/Sewer/Solid Waste Utilities - Supplies	\$818
2946	401	Operations	5380040	Combined Water/Sewer/Solid Waste Utilities - Services	\$177,203
2946	401	Operations	5913470	Redemption - Water Utilities	\$480,877
2946	401	Operations	5913570	Redemption - Sewer Utilities	\$551,904
2946	401	Operations	5923480	Interest and other Debt Service Cost - Water	\$124,720
2946	401	Operations	5923580	Interest and other Debt Service Cost - Sewer	\$87,867
2946	401	Operations	5943860	Capital Expenditures/Expenses - Combined Water/Sewer/Solid Waste Utilities	\$115,537
2946	401	Operations	5081900	Restricted Net Position - Ending	\$1,027,496
2946	401	Operations	5086000	Net Investment in Capital Assets -	\$22,940,200
2946	401	Operations	5088900	Unrestricted Net Position - Ending	\$13,014,098
2946	401	Operations	8100000	Cash, Cash Equivalents and	\$7,032,307
2946	401	Operations	8200000	Other Current Assets	\$809,272
2946	401	Operations	8300000	Noncurrent Assets	\$36,697,690
2946	401	Operations	8400000	Deferred Outflows	\$121,662
2946	401	Operations	8500000	Current Liabilities	\$1,613,378
2946	401	Operations	8600000	Noncurrent Liabilities	\$8,893,317

West Sound Utility District
Schedule 09 – Liabilities
For the Year End of December 31, 2016

I.D. No.	Description	Due Date	Beginning Outstanding Debt. 01/01/2015	Additions	Reductions	Ending Balance Debt. 12/31/2015
251.11	2009 Revenue Bond-Wtr & Wstwtr Capital Improvement	11/01/2028	\$ 2,440,000		\$ 175,000	\$ 2,265,000
251.11	2010 Revenue Bond-Refunding Lund Avenue	02/01/2021	2,665,000		355,000	2,310,000
263.81	PWTF 99-791-002-Greendale/Sieford Water Pipeline Replc	07/14/2019	115,362		23,072	92,290
263.81	PWTF 00-691-002-Well 21 Water Supply & Storage Imprvmt	07/01/2020	208,458		34,743	173,715
263.81	PWTF 00-691-003-Mains Water Distribution Sys Imprvmt	07/01/2020	79,310		13,218	66,092
263.81	PWTF 01-691-003-Storage Tank Painting	07/01/2021	35,448		5,064	30,384
263.81	PWTF 01-691-00-Bethel Road Distribution Sys Imprvmt	07/01/2021	346,159		49,451	296,708
263.81	PWTF 03-691-001-Well 6 & 7 Decommissioning	07/01/2023	70,927		7,881	63,046
263.81	PWTF 07-962-002-Salmonberry Reservoir Painting & Repair	07/01/2027	407,105		31,316	375,789
263.81	PWTF 12-951-047-Firmont Beach	07/01/2031	278,476		16,381	262,095
263.81	PWTF 99-791-018-Wastewater Pump Station Imprvmt	07/01/2019	264,636		52,927	211,709
263.81	PWTF 99-791-019-Retsil Wartime Sewer Replacemt Ph 1	07/01/2019	265,168		53,034	212,134
263.81	PWTF 00-691-032-Retsil Wartime Sewer Replacemt Ph2	07/01/2020	274,790		45,798	228,992
263.81	PWTF 03-691-014-Crownwood Lift Station	07/01/2023	89,570		9,952	79,618
263.81	PWTF 03-691-015-Beach Drive Pump Station Collection	07/01/2023	74,375		8,264	66,111
263.81	PWTF 04-691-035-Retsil Area A and B Improvement	07/01/2024	800,000		80,000	720,000
263.81	PWTF PC08-951-017-Sedgwick Rd Sewer System	07/01/2028	1,003,507		71,679	931,828
263.93	Pension Liabilities		-	1,132,351.00		1,132,351
259.12	Accrued Compensated Absences	07/01/2033	449,502	35,831.00		485,333
			\$9,867,793	\$1,168,182	\$1,032,780	\$10,003,195