



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, 2014

Certified correct this 1st day of April , 2015, to the best of my knowledge and belief:

GOVERNMENT INFORMATION:

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Michael R. Wilson – General Manager

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West Sound Utility District
Elected and Appointed Officials, 2014

WSUD Elected Officials

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

WSUD Appointed Officials

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

MANAGEMENT DISCUSSION & 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, 2014 and 2013. 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 exceeded its liabilities at the close of the most recent fiscal year 2014 by \$36,720,609 and in 2013 by \$34,751,595. Of this amount, \$14,249,051 in 2014 may be used to meet the District's ongoing obligations to citizens and creditors compared to \$14,024,960 in 2013.
- The District's total net position increased by \$1,969,014 in 2014 and \$673,625 in 2013. The increase in net position is primarily to due to capital contributions received from developers such as new meter connections and general facility charges.
- The District's total long-term debt decreased by \$1,022,781 during the fiscal year. As of December 31, 2014, the total outstanding debt was \$9,418,290.
- The District's total cash and cash equivalents increased by \$210,107 in 2014 due to increase in developer contribution.

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 balance sheet presents information concerning the District's assets, liabilities and net position. Net position is the difference between assets and liabilities. 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, 2014 and 2013.

West Sound Utility District
Management Discussion & Analysis
For the Years Ending December 31, 2014 and 2013

December 31,	Net Position		
	2014	2013	2012
Current and other assets	16,448,374	16,106,243	16,044,065
Capital assets, net	30,722,293	30,068,607	30,494,762
Total Assets	\$ 47,170,667	\$ 46,174,850	\$ 46,538,827
Other Liabilities	582,266	617,570	653,413
Long-term liabilities	9,867,792	10,805,684	11,807,443
Total Liabilities	\$ 10,450,058	\$ 11,423,254	\$ 12,460,856
Net Position:			
Net Invested in capital assets,	21,304,001	19,627,536	19,264,287
Restricted assets	1,111,878	1,129,314	1,028,401
Unrestricted	14,304,730	13,994,745	13,785,283
Total Net Position	\$ 36,720,609	\$ 34,751,595	\$ 34,077,971

The 2014 total net position were \$36.7 million, which is an increase of 5.67% from 2013. The 2013 total net position were \$34.8 million. At the end of 2014 and 2013, net capital assets represent 65.13% and 65.12%, respectively, of total assets.

As of December 31, 2014 and 2013, the District had long-term liabilities of \$9.8 million, \$10.8 million, respectively. As a result of the continued debt payments, long-term liabilities decreased. The District's investment in capital assets, less any related debt, is \$21.3 million as of December 31, 2014, and \$19.6 million as of December 31, 2013. This has increased over last year due to declining balance in debt service. Restricted for debt service represents debt service reserve, and developers deposits.

The overall financial position of the District has not significantly changed from the prior years. There are no restrictions, commitments or other 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. 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).

West Sound Utility District
Management Discussion & Analysis
For the Years Ending December 31, 2014 and 2013

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

	Change in Net Position		
	2014	2013	2012
Revenues			
Operating Revenue			
Charges for services	\$ 6,418,639	\$ 6,341,915	\$ 6,103,038
Other revenue - interlocal service fees	73,107	53,489	41,853
Non-Operating revenues			
Equity in Income of Joint Venture Subsidiaries	216,014	183,621	581,579
Interest and Dividend Income	34,054	80,509	44,135
Other Non-operating Revenues	4,393	57,504	54,899
Gain (loss) on Capital Asset Disposition	5,471	5,809	2,263
Total revenues	\$ 6,751,678	\$ 6,722,847	\$ 6,827,767
Expenses			
Operating expenses	5,930,687	6,059,519	5,748,857
Non-Operating expenses	232,897	251,694	272,259
Total expenses	6,163,584	6,311,213	6,021,116
Income Before Contributions & Special Item	588,094	411,634	806,651
Excise Tax Refund	-	-	538,918
Capital Contributions	1,380,920	261,991	466,533
Change in Net Position	1,969,014	673,625	1,812,102
Net Position, Beginning of Year	34,751,595	34,077,970	32,265,868
Net Position, Ending of Year	\$ 36,720,609	\$ 34,751,595	\$ 34,077,970

Total operating revenues for the District in 2014 and 2013 were \$6.4 million and \$6.3 million, respectively. The increase between 2014 and 2013 is 1.21%.

The \$1,118,929 increase in capital contributions between 2014 and 2013 represents an increase in capital contributions from developers and capital contribution.

Total operating expenses for 2014 and 2013 were \$5.9 million and \$6.1 million, respectively with a decrease of (2.13%). The largest percentage decrease was in amortization expense due to GASB Statement 65 implementation. \$223,635 deferred debt issuance costs were added and expensed in 2013.

West Sound Utility District
Management Discussion & Analysis
For the Years Ending December 31, 2014 and 2013

The decrease of \$18,797 in non-operating expenses in 2014 was due to the declining amount of interest expense in debt service.

Notes to the basic financial statements

The notes to the District's basic financial statements can be found on pages 12 - 31 of this report. These notes provide additional information that is essential to a full understanding of the basic financial statements.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The District's investment in capital assets as of December 31, 2014, amounted to \$21,304,001 (net of accumulated depreciation). The District's investment in capital assets includes land, property held for future use, construction in progress, plant, building, and machinery and equipment. A total increase of \$1,676,465 in the District's investment in capital assets for the current year was 8.54%. Although the construction on progress went down, the plant and machinery went up due to capital contribution from developers and the purchase of a Vactor truck.

	<u>Capital Assets</u>		
	2014	2013	2012
Property held for future use	156,091	156,091	156,091
Land	451,338	451,338	451,338
Construction in progress	1,049,447	1,519,455	1,197,259
Plant	38,804,839	37,397,596	37,145,135
Building	4,495,570	4,469,844	4,469,844
Machinery and Equipment	3,051,404	2,698,396	2,961,879
Less Accumulated			
Depreciation	(17,286,396)	(16,624,113)	(15,886,784)
Total Capital Assets	<u>30,722,293</u>	<u>30,068,607</u>	<u>30,494,762</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, 2014 and 2013, the District had total outstanding debt of \$9,418,290 and \$10,441,071, respectively. Of this debt, \$5,105,000 (2014) and \$5,625,000 (2013) 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 \$4,313,290 (2014) and \$ 4,816,071 (2013) consists of Public Works Trust Fund Loans, which are secured by rates. Additionally, \$449,501 is payable for accrued compensated absences at December 31, 2014, - \$420,758 of this amount 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 2014 due to the community's recovering economy. There was a decrease of 1.15% in water and sewer consumption in 2014. During this economic slowdown, 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
Balance Sheet
As of December 31, 2014 and 2013

	2014	2013
ASSETS		
Current Assets:		
Cash, Cash Equivalents and Pooled Investment	\$ 6,002,622	\$ 5,775,079
Restricted Cash, Cash Equivalents and Investments	152,220	107,250
Accounts Receivable, net	821,661	912,556
Prepaid Assets	92,906	86,001
Total Current Assets	7,069,409	6,880,886
Noncurrent Assets:		
Reserve cash for debt service	959,658	1,022,064
Investment in JWTF	8,419,307	8,203,293
Capital Assets not being depreciated		
Property held for future use	156,091	156,091
Land	451,338	451,338
Construction in progress	1,049,447	1,519,455
Total capital , not being depreciated	1,656,876	2,126,884
Capital Assets being depreciated		
Plant	38,804,839	37,397,596
Building	4,495,570	4,469,844
Machinery and Equipment	3,051,404	2,698,396
Less Accumulated Depreciation	(17,286,396)	(16,624,113)
	29,065,417	27,941,723
Total Capital Assets, net	30,722,293	30,068,607
Total Noncurrent Assets	40,101,258	39,293,964
TOTAL ASSETS	47,170,667	46,174,850
LIABILITIES		
Current Liabilities:		
Accounts payable	48,040	40,292
Settlement/Claims	-	17,938
Debt interest payable	70,041	77,720
Deposits and other payables	464,185	481,621
Current portion of Bonds and PWTF loans payable	1,032,781	1,022,781
Current portion of compensated absences	28,743	23,334
Total Current Liabilities	1,643,790	1,663,686
Noncurrent Liabilities:		
Bonds and PWTF loans payable, net	8,385,510	9,418,290
Accrued compensated absences, net	420,758	341,279
Total Noncurrent liabilities	8,806,268	9,759,569
TOTAL LIABILITIES	10,450,058	11,423,255
NET POSITION		
Net investments in capital assets	21,304,001	19,627,536
Restricted	1,111,878	1,129,314
Unrestricted	14,304,730	13,994,745
TOTAL NET POSITION	\$ 36,720,609	\$ 34,751,595
TOTAL NET POSITION AND LIABILITIES	47,170,667	46,174,850

* See accompanying notes to financial statements

West Sound Utility District
Comparative Statement of Revenues,
Expenses, and Changes in Fund Net Position
For the Years Ending December 31, 2014 and 2013

	2014	2013
OPERATING REVENUES:		
Water Sales and Service Fees	\$ 2,708,475	\$ 2,695,633
Other Charges for Services-Water	115,787	108,226
Sewer Sales and Service Fees	3,408,535	3,362,403
Other Charges for Services-Sewer	90,842	80,953
Other Revenue: Interlocal Service Fees	168,107	148,189
Total Operating Revenue	6,491,746	6,395,404
OPERATING EXPENSES:		
Operations:		
General Operations	1,317,583	1,327,916
Cost of Energy	244,992	246,955
Contracted Processing and Operations	1,420,032	1,417,500
Maintenance	185,331	214,162
Administration:		
General Administrations	1,441,776	1,383,739
Depreciation and Amortization	1,118,333	1,279,230
Property, Excise and B&O Taxes	202,640	190,017
Total Operating Expenses	5,930,687	6,059,519
OPERATING INCOME	561,059	335,885
NONOPERATING REVENUES (EXPENSES):		
Equity in Income of Joint Venture Subsidiaries	216,014	183,621
Interest and Dividend Income	34,054	80,509
Interest Expense	(232,897)	(251,694)
Other Nonoperating Revenues	4,393	57,504
Gain on Capital Asset Disposition	5,471	5,809
Total Nonoperating Revenues (Expenses)	27,035	75,749
INCOME BEFORE CONTRIBUTION	588,094	411,634
Capital Contributions-Water	652,985	148,243
Capital Contributions-Wastewater	727,935	113,748
Total Capital Contributions	1,380,920	261,991
CHANGE IN NET POSITION	1,969,014	673,625
TOTAL NET POSITION, January 1	34,751,595	34,077,970
TOTAL NET POSITION, December 31	\$ 36,720,609	\$ 34,751,595
*See accompanying notes to financial statements		

West Sound Utility District
Statement of Cash Flows
For the Years Ending December 31, 2014 and 2013

<u>Cash flows from operating activities:</u>	<u>2014</u>	<u>2013</u>
Receipts from customers	\$6,582,641	\$6,495,072
Payments to suppliers	(2,922,364)	(2,850,936)
Payments to employees	(1,839,633)	(1,944,563)
Net cash provided by operating activities	<u>1,820,644</u>	<u>1,699,573</u>
 <u>Cash flows from noncapital financing activities:</u>		
Excise Tax Refund		
Net cash from noncapital financing activities	-	586,139
 <u>Cash flows from capital and related financing activities:</u>		
Principal paid on revenue bond and PWTF debt	(1,022,780)	(1,013,039)
Proceeds from sale of fixed assets	8,840	22,314
Acquisition and construction of capital assets	(816,255)	(645,945)
Other Receipts	4,393	57,504
Interest paid on revenue bonds and PWTF debt	(240,576)	(259,252)
Contributions from Developers	421,787	261,991
Net cash used by capital financing activities	<u>(\$1,644,591)</u>	<u>(\$1,576,427)</u>
 <u>Cash flows from investing activities:</u>		
Interest and dividends on investments	<u>34,054</u>	<u>37,570</u>
Net cash provided by investing activities	<u>34,054</u>	<u>37,570</u>
Net (Decrease) in cash and cash equivalents	<u>210,107</u>	<u>746,855</u>
Cash and cash equivalents at beginning of year:	<u>6,904,393</u>	<u>6,157,538</u>
Cash and cash equivalents at the end of year:	<u>\$7,114,500</u>	<u>\$6,904,393</u>

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

West Sound Utility District
Statement of Cash Flows
For the Years Ending December 31, 2014 and 2013

	2014	2013
Net Utility Operating (loss) Income	\$ 561,059	\$ 331,604
Adjustments to reconcile net utility operating income to net cash provided by operating activities:		
Depreciation and amortization	1,118,333	1,279,230
Taxes		
Change in Assets and Liabilities:		
Decrease (Increase) in Receivables	90,895	103,950
Decrease (Increase) in Prepaid Expenses	(6,905)	1,795
Increase (Decrease) in Accrued Comp Absences	84,888	11,280
Increase (Decrease) in Payables	(10,190)	(36,941)
Increase (Decrease) in Customer Deposits	(17,436)	8,656
Total adjustments	<u>1,259,585</u>	<u>1,367,970</u>
Net cash provided by operating activities	<u>\$ 1,820,644</u>	<u>\$ 1,699,573</u>
Noncash investing, capital and financing activities:		
Contributions of capital assets from developers	959,133	-
Gain in equity of the Joint Venture - JWWTF	216,014	183,621
Gain on disposition of capital assets	5,471	\$ 5,809

* The accompanying notes to the financial statements 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 2014 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 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. Budget and Budgetary Accounting

The District's accounting and budgeting system are organized and operated on a "Fund" basis. Funds are accounting entities used to record revenues and expenditures. Each fund is balanced, meaning total revenues equal total expenditures. The budgeted funds are grouped into categories: *Enterprise, Capital Projects, Internal Service, Debt Service and Reserve Funds*.

Budgetary control is established at the "Fund" level (i.e., expenditures for a Fund may not exceed that Fund's total appropriation amount). The District's General Manager may authorize transfers of appropriation within a Fund, but the Board must approve by resolution any increase in total Fund appropriations. Any unexpended appropriation balances lapse at the end of the budget period.

E. 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.

F. Capital Assets

See Note (5)

G. 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 .58%. Noncurrent assets consists of reserve cash, assets, and real estate held for future use. It is displayed on the "Balance Sheet" at historical cost.

H. 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.

West Sound Utility District
Notes to Financial Statements
For the Years Ending December 31, 2014 and 2013

I. 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 6.

	2014	2013
Revenue Bond Reserve	647,694	647,694
Fund 91929 FCF	461,965	474,371
Lien Deposit	720	-
Developers Deposits	1,500	7,250
Total	1,111,878	1,129,314

J. 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 modified straight line methods over the following estimated useful life:

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

K. 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 (1040) hours of the current month shall be deposited into a VEBA account for the employee. Annual leave and sick leave are payable as follows:

West Sound Utility District
Notes to Financial Statements
For the Years Ending December 31, 2014 and 2013

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%

L. Long-Term Debt
See Note (6)

M. 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.

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, 2014, the District has the following cash and investments:

	Cash	Investments	Total
Washington State Investment Pool		5,831,395	\$5,831,395
Kitsap County	1,265,505		\$1,265,505
Bank of America	17,000		\$17,000
Cash on Hand	600		\$600
Total	\$1,283,105	\$5,831,395	\$7,114,500

West Sound Utility District
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As of December 31, 2013, the District has the following cash and investments:

	Cash	Investments	Total
Washington State Investment Pool		6,490,200	\$6,490,200
Kitsap County	396,593		\$396,593
Bank of America	17,000		\$17,000
Cash on Hand	600		\$600
Total	\$414,193	\$6,490,200	\$6,904,393

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.

In April 2014, West Sound Utility District's credit rating of AA- issued by Standard & Poor's was raised to a AA rating.

NOTE 3 – CONSTRUCTION IN PROGRESS

The District had active construction projects as of Dec. 31, 2014, as follows:

Project Description	Project Budget	Expended 12/31/2014	Require Future Financing
Well 9 (Drilling)	150,000	148,212	None
Well 22 Infrastructure	752,000	714,592	None
Paint Fircrest Standpipe	100,000	7,718	None
Replace Villa Carmel Pump Station	-	38,241	None
Aidan Lift Station	-	101,056	None
Replace Pump at Sinclair Lift Station	85,000	39,628	None
Total Construction in Progress	1,087,000	1,049,447	

West Sound Utility District
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The District had active construction projects as of December 31, 2013, as follows:

Project Description	Project Budget	Expended 12/31/2013	Require Future Financing
Well 9 (Drilling)	150,000	148,212	None
Well 22 Infrastructure	752,000	714,592	None
Tar wrap- E. Ellionis	75,000	51,798	None
PVC w/8'- E. Washington	100,000	71,475	None
Standard Meters	13,000	11,626	None
Radio Read Meters	13,000	18,084	None
Fire Hydrant Replacement Parts	6,000	6,707	None
SCADA Improvements	40,000	5,711	None
Replace 750' 2" PVC on Sarann	80,000	145,097	None
Repair Electrical sys Well 17	30,000	18,619	None
Replace 3 Pump Starters	30,000	10,335	None
Annual Pipeline Replacement prog	50,000	17,005	None
Krista Firs Well Rehab	43,000	41,002	None
Misc. Water Capital Equipment	180,150	28,495	None
Replace 20 Eone Units	80,000	128,537	None
Cross Jackson at mid-point	50,000	38,372	None
Replace Pumps @ Brada Lift Sta	50,000	45,741	None
Misc. Wstwater Capital Equipment	75,425	18,048	None
Total Construction in Progress	\$ 1,817,575	\$ 1,519,455	

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, 2014 amounted to \$16,464. Future minimum rental commitments for these leases are as follow:

YEAR	AMOUNT
2015	17,322
2016	17,094
2017	16,410
2018	16,410
2019	5,707
Thereafter	35,670
Total	108,613

West Sound Utility District
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Lease expense for the year ended December 31, 2013, amounted to \$18,466. Future minimum rental commitments for these leases are as follows:

YEAR	AMOUNT
2014	17,322
2015	17,322
2016	17,094
2017	16,410
2018	16,410
Thereafter	41,377
Total	\$ 125,935

NOTE 5 – CAPITAL ASSETS

Capital Assets activity for the year ended December 31, 2014, was as follows:

	Beg. Balance 01/01/2014	Increases	Decreases	Transfers	Ending Bal. 12/31/2014
Capital assets, not being depreciated:					
Property held for future use	156,091				156,091
Land	451,338				451,338
Construction in progress	1,519,455	878,867	(62,611)	(1,286,264)	1,049,447
Total capital assets, not being depreciated	2,126,884	878,867	(62,611)	(1,286,264)	1,656,876
Capital Assets, being depreciated:					
Buildings	4,469,844	-		25,726	4,495,570
Utility Infrastructure and improvements	37,397,596	959,132	(376,932)	825,043	38,804,839
Machinery and equipment	2,698,396	-	(82,487)	435,495	3,051,404
Total capital assets being depreciated	44,565,836	959,132	(459,419)	1,286,264	46,351,813
Less accumulated depreciation for:					
Buildings	(1,341,319)	(127,913)		-	(1,469,232)
Utility infrastructure and improvements	(13,500,503)	(796,010)	373,563		(13,922,950)
Machinery and equipment	(1,782,291)	(194,410)	82,487		(1,894,214)
Total accumulated depreciation	(16,624,113)	(1,118,333)	456,050	-	(17,286,396)
Total capital assets being depreciated, net	27,941,723	(159,201)	(3,369)	1,286,264	29,065,417
Total capital assets, net	30,068,607	719,666	(65,980)	-	30,722,293

West Sound Utility District
Notes to Financial Statements
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Capital Assets activity for the year ended December 31, 2013, was as follows:

	Beg. Balance 01/01/2013	Increases	Decreases	Transfers	Ending Bal. 12/31/2013
Capital assets, not being depreciated:					
Property held for future use	156,091				156,091
Land	451,338				451,338
Construction in progress	1,197,259	748,064	(102,119)	(323,749)	1,519,455
Total capital assets, not being depreciated	1,804,688	748,064	(102,119)	(323,749)	2,126,884
Capital Assets, being depreciated:					
Buildings	4,469,844	-			4,469,844
Utility Infrastructure and improvements	37,145,135	-	(5,536)	257,997	37,397,596
Machinery and equipment	2,961,879	-	(329,235)	65,752	2,698,396
Total capital assets being depreciated	44,576,858	-	(334,771)	323,749	44,565,836
Less accumulated depreciation for:					
Buildings	(1,213,716)	(127,603)	-		(1,341,319)
Utility infrastructure and improvements	(12,747,334)	(758,645)	5,476	-	(13,500,503)
Machinery and equipment	(1,925,734)	(169,347)	312,790		(1,782,291)
Total accumulated depreciation	(15,886,784)	(1,055,595)	318,266	-	(16,624,113)
Total capital assets being depreciated, net	28,690,074	(1,055,595)	(16,505)	323,749	27,941,723
Total capital assets, net	30,494,762	(307,531)	(118,624)	-	30,068,607

NOTE 6 – LONG-TERM DEBT AND LIABILITIES

A. 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 contains a list of outstanding debt at December 31, 2014. The annual requirements to amortize all debts outstanding as of December 31, 2014, including interest, are as follows:

Year Ending	Principal	Interest	Total
December 31			
2015	1,032,781	220,482	1,253,263
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
2020-2024	2,934,057	348,219	3,282,276
2025-2029	1,237,568	98,660	1,336,228
2030-2031	32,760	246	33,006
Total	9,418,290	1,319,670	10,737,960

West Sound Utility District
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All debts outstanding as of December 31, 2013, including interest, are as follows:

Year Ending			
December 31	Principal	Interest	Total
2014	1,022,781	240,576	1,263,357
2015	1,032,781	220,482	1,253,263
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
2019-2023	3,587,462	425,826	4,013,288
2024-2028	1,600,563	146,133	1,746,696
2029-2031	49,141	246	49,387
Total	10,441,071	1,560,122	12,001,193

B. Change in Long Term Liabilities

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

	Beginning Balance 1/1/2014	Additions	Reduction	Ending Balance 12/31/2014	Due Within One Year 2015
Revenue Bonds	5,625,000	-	520,000	5,105,000.00	530,000
Government Loans	4,816,071		502,781	4,313,290.00	502,781
Compensated absences	364,614	84,887		449,501.00	28,743
Total	10,805,685	84,887	1,022,781	9,867,791	1,061,523
Less Current Portion				1,061,523	
Total Long-Term Liabilities, net				8,806,268	

West Sound Utility District
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During the year ended December 31, 2013 the following changes occurred in long-term liabilities:

	Beginning Balance 1/1/2013	Additions	Reduction	Ending Balance 12/31/2013	Due Within One Year 2014
Revenue Bonds	6,135,000	-	510,000	5,625,000	520,000
Government Loans	5,319,110		503,039	4,816,071	502,781
Compensated absences	353,333	11,280		364,613	23,334
Total	11,807,443	11,280	1,013,039	10,805,685	1,046,115
Less Current Portion				1,046,115	
Total Long-Term Liabilities, net				9,759,570	

NOTE 7 – RESTRICTED CASH

The District's statement of restricted net position reports, \$1,111,878, as of December 31, 2014, and \$1,129,314, as of December 31, 2013, 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 2014, each entity contributed \$150,000 from these capital fees.

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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 2014, the change in the District's equity in the JWWTF was an increase of \$216,014. The District's equity interest in the JWWTF as of December 31, 2014, was \$8,419,307. (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

Substantially all West Sound Utility District full-time and qualifying part-time employees participate in one of the following statewide retirement systems administered by the Washington State Department of Retirement Systems, under cost-sharing multiple-employer public employee defined benefit retirement plans. The Department of Retirement Systems (DRS), a department within the primary government of the State of Washington, issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for each plan. The DRS CAFR may be obtained by writing to: Department of Retirement Systems, Communications Unit, P.O. Box 48380, Olympia, WA 98504-8380; or it may be downloaded from the DRS website at www.drs.wa.gov.

The following disclosures are made pursuant to GASB Statements No. 27, Accounting for Pensions by State and Local Government Employers and the GASB Statement No. 50, Pension Disclosures, an Amendment of GASB Statements No. 25 and No. 27.

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

Plan Description

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

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

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

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

PERS Plan 1 and Plan 2 retirement benefits are financed from a combination of investment earnings and employer and employee contributions. Employee contributions to the PERS Plan 1 and Plan 2 defined benefit plans accrue interest at the rate specified by the Director of DRS. During DRS' Fiscal Year 2013, the rate was five and one-half percent (5.5%) compounded quarterly. Members in PERS Plan 1 and Plan 2 can elect to withdraw total employee contributions and interest thereon, in lieu of any retirement benefit, upon separation from PERS-covered employment.

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

PERS Plan 1 members are eligible for retirement from active status at any age with at least 30 years of service, at age 55 with 25 years of service, or at age 60 with at least 5 years of service.

Plan 1 members retiring from inactive status prior to the age of 65 may receive actuarially reduced benefits.

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

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

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

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

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

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

PERS Plan 2 members who have at least 20 years of service credit and are 55 years of age or older are eligible for early retirement with a reduced benefit. The benefit is reduced by an early retirement factor (ERF) that varies according to age, for each year before age 65.

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

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- With a benefit that is reduced by three percent (3%) of each year before age 65: or
- With a benefit that has a smaller (or not) reduction (depending on age) that imposes stricter return-to-work rules.

PERS Plan 2 members hired on or after May 1, 2013 have the option to retire early by accepting a reduction of five percent (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.

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

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

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

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

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

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

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

- If they have at least ten service credit years and are at least 55 years old, the benefit is reduced by ERF that varies with age, for each year before age 65.
- If they have 30 service credit years, and are at least 55 years old, and were hired after May 1, 2013, they have the choice of a benefit that is reduced by three percent (3%) for each

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year before age 65: or a benefit with a smaller (or no) reduction factor (depending on age) that imposes stricter return-to-work rules.

- If they have thirty (30) service credit years, are at least 55 years old, and were hired after May 1, 2013, they have the option to retire early by accepting a reduction of 5 percent for each year before age 65.

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

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

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

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

Retirees and Beneficiaries Receiving Benefit	85,328
Terminated Plan Members Entitled to But not Yet Receiving Benefits	31,047
Active Plan Members Vested	150,706
Active Plan Members Non-vested	101,191
Total	368,272

Funding Policy

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

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

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

	PERS Plan 1	PERS Plan 2	PERS Plan 3
Employer*	9.21%**	9.21%**	9.21%***
Employee	6.00%****	4.92%****	*****

- * The employer rates include the employer administrative expense fee currently set at 0.18%.
- ** The employer rate for state elected officials is 13.73% for Plan 1 and 9.21% for Plan 2 and Plan 3.
- *** Plan 3 defined benefit portion only
- **** The employee rate for state elected officials is 7.50% for Plan 1 and 4.92% for Plan 2.
- ***** Variable from 5.0% minimum to 15.0% maximum based on rate selected by the PERS 3 member.

The District and the employees made the required contributions. The District’s required contributions for the year ending December 31, 2014 were:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
2014	19,572	155,412	7,874
2013	10,967	138,428	14,678
2012	-	121,650	25,449

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 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:

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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; and bonds of various types. All coverage's 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 - \$10,000 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 (25,000,000 dedicated to Alderwood and \$50,000,000 shared by all members)
Terrorism	\$1,000 - \$10,000	\$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-\$10,000	\$25,000	\$10,000,000
Liability:			
Commercial General Liability	\$1,000 - \$10,000	\$200,000	\$10,000,000
Auto Liability	\$1,000 - \$10,000	\$200,000	\$10,000,000
Public Officials Errors and Omissions	\$1,000 - \$10,000	\$200,000	\$10,000,000
Employment Practices	\$1,000 - \$10,000	\$200,000	\$10,000,000
Other:			
Public Officials Bonds	Various	N/A	Various
Crime	\$1,000 - \$10,000	\$25,000	\$2,000,000
Identity Fraud	\$0	\$25,000	\$0

A. \$100,000 member deductibles, per occurrence, in Flood zones except Zones A&V; \$250,000 member deductible per occurrence, in Flood Zones A&V.

B. Member deductible for earthquakes is 5% subject to \$100,000 minimum Earthquake Shock. If the stated deductible is on a percentage basis, the deductible will apply per occurrence on a per unit basis, as defined in the policy form, subject to the stated minimum.

C. Member deductible for Cyber liability is \$100,000 and where applicable the dollar amount of the business interruption loss during the policy's required 8 hour waiting period

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

Machinery deductible which exceeds \$25,000. Under the Schedule of the deductibles for 2014 member districts, West Sound Utility District chose a deductible level of \$10,000.

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, 2015, written notice must be in possession of the Pool by April 30, 2015). 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.

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 consists of seven representatives who are responsible for overseeing the business affairs of the Pool and providing policy direction to the Pool's Executive Director and staff.

West Sound Utility District
Notes to Financial Statements
For the Years Ending December 31, 2014 and 2013

Coverage	Insurance Co. and Limits	Pool/Member Deductibles
<u>Liability:</u>	<u>Water and Sewer Risk Management Pool Effective 11/1/14 to 10/31/15</u>	<u>Pool Self-Insured Retention:</u>
	Reinsured by Munich Reinsurance America, Inc.	\$200,000 per occurrence
Primary Layer	\$10M per occurrence for all members/\$10M annual aggregate per member for General Liability	<u>Member Ductible:</u>
	\$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
	\$10M per occurrence for all members/\$10M ann agg per member for Employment Practices Liability	practices storney, or terminates againt the advice of the employment practices
	\$10M per occurrence for all members/\$10M ann agg per member for Employee Benefits Liability	attorney, then the member's applicable deductible on that employment claim
	\$10M per occurrence for all members for Auto Liability	shall be increased to \$10,000 and the member shall have a 20% co-pay for the next \$100,000 of claim expenses for that claim.
<u>Property:</u>	<u>Public Entity Property Insurance Program (PEPIP)</u>	
<u>Incl. Autos</u>	<u>Effective 7/1/14 to 7/1/15</u>	<u>Pool Self-Insured Retention:</u>
	<i>Insurance Carriers (Various)</i>	\$25,000 per occurrence, which
	\$1,000,000,000 per occurrence "All Risk"	applies in the event that a more
	\$ 50,000,000 Flood limit per occurrence and annual aggregate	specific deductible is not applicable to a
	\$75,000,000 Earthquake limit per occurrence and annual aggregate shared by all members. \$25,000,000 dedicated to Alderwood Water & Wastewater District	loss
	\$ 100,000,000 Combined Business Interruption, Rental Income, Tax Interruption and Tuition Income	<u>Member Ductible:</u>
	\$ 50,000,000 Per occurrence for Extra Expense	Damage to District Property and
	\$ 1,000,000 Unscheduled Landscaping (\$25,000/25 gallon max per tree)	Automobile - \$1,000, \$5,000, \$10,000 or \$25,000 per occurrence
	\$ 5,000,000 Scheduled landscaping (\$25,000/25 gallon max per tree)	Flood - \$100,000 All Flood Zones
	\$ 25,000,000 Miscellaneous Unnamed Locations excl. EQ and Zone A&V flood	per occurrence excl. Flood Zones A & V
	\$ 25,000,000 Automatic Acquisition for new locations excl. EQ and Zone A&V flood	Flood Zones A & V - \$250,000
	\$ 50,000,000 Errors & Omissions	per occurrence Flood Zones A & V
	\$ 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
	\$ 250,000 Accidental Contamination per occurrence and annual aggregate per member with \$500,000 annual aggregate for all insureds per member declaration	minimum for buildings constructed prior to 1940 where EQ coverageis purchased.
	\$ 2,000,000 Unscheduled tunnels, bridges, dams, catwalks, roadways, etc. (except EO)	\$500,000 per occurrence for
	\$100,000,000 Primary Terrorism per occurrence \$200,000,000 Ann. Aggregate (all PEPIP Members)	Unscheduled tunnels, bridges, roadways, highways, streets, sidewalks, culverts, street lights and traffic signals unless a
	\$300,000,000 Excess Terrorism per member/entity	specific value has been declared
	\$800,000,000 Excess Terrorism all PEPIP members combined	(excluding coverage for the peril of
	\$800,000,000 Excess Terrorism annual aggregate shared by all members/entities	Federal Emergency Management Agency (FEMA) and/or Office of

West Sound Utility District
Notes to Financial Statements
For the Years Ending December 31, 2014 and 2013

<u>Identify</u>	<u>St. Paul Travelers Bond Effective 11/1/14 to 11/1/15</u>	<u>Identity Fraud-Self Insured Retention:</u>
<u>Fraud Reimbursement</u>	\$25,000 Per Person (family members of employees who are residents of the same household, to include spouse, children under 25 years of age and parents)	\$25,000
<u>Program</u>	Lost Wages up to \$1,000 per week - maximum of 5 weeks	<u>Member Deductible:</u>
	Costs for notarizing fraud affidavits or similar documents	\$0
	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>Claims Made & Reported</u>	<u>Illinois Union Insurance Company 7/1/14 - 7/1/15</u>	<u>Pool Self-Insured Retention:</u>
<u>Pollution</u>	\$1,000,000 per Pollution Condition	N/A
<u>Legal Liability</u>	\$1,000,000 WSRMP Annual Aggregate	<u>Member Self-Insured Retention:</u>
	Written notice to the carrier required of any claim or pollution condition, within seven (7) days of discovery for pollution conditions requiring immediate emergency response.	\$75,000 per pollution condition
		\$750,000 underground storage tank specific 8 day waiting period on business income losses
<u>Regional Wtr Supply System</u>	<u>Torus Specialty Insurance Company Effective 11/1/14 to 11/1/15</u>	<u>Member Self-Insured Retention:</u>
<u>Excess Liability</u>	\$10,000,000 Per Occurrence / Other Aggregate / Products/Completed	N/A
	Operations Aggregate Excess of \$9,800,000 XS \$200K Pool SIR	
<u>Cascade Wtr Alliance</u>	<u>Torus Specialty Insurance Company Effective 11/1/14 to 11/1/15</u>	<u>Member Self-Insured Retention:</u>
<u>Excess</u>	\$15,000,000 Per Occurrence / Other Aggregate / Products/Completed	N/A
	Operations Aggregate Excess of \$9,800,000 XS \$200K Pool SIR	

NOTE 11 – SUBSEQUENT EVENTS

In September of 2016 the District refunded the 209 Revenue Bond. By refunding the 2009 Revenue Bond the District save interest rate from 4% tp 1.649% with a Net PV Savings of \$183,175.

West Sound Utility District
Schedule 01 – Revenue/Expenditures/Expenses
For the Year Ending December 31, 2014

West Sound Utility District					
Revenue/Expenditures/Expenses					
					Schedule 01
MCAG	Fund #	Fund Name	BARS Account	BARS Name	Amount
2946	401	Operations	3081000	Reserved Cash & Investments	\$1,129,314
2946	401	Operations	3088000	Unreserved Fund Balance	\$5,775,079
2946	401	Operations	3370000	Local Grants, Entitlements and Other Payments Water & Sewer	\$168,107
2946	401	Operations	3434000	Water Sales and Services	\$2,747,470
2946	401	Operations	3435000	Sewer/Reclaimed Water Sales & Services	\$3,408,535
2946	401	Operations	3590000	Non-Court Fines & Penalties	\$108,024
2946	401	Operations	3611000	Investment Interest	\$34,054
2946	401	Operations	3621000	Equipment and Vehicles	\$4,393
2946	401	Operations	3625000	Rentals (Short-Term)	
2946	401	Operations	3625000	Space and Facilities Leases (Long Term)	\$62,653
2946	401	Operations	3670000	Contributions and Donations from Nongovernmental Sources	\$315,430
2946	401	Operations	3691000	Sale of Scrap and Junk	\$4,709
2946	401	Operations	3699000	Other	\$98,605
2946	401	Operations	3951000	Proceeds from Sales of Capital Assets	\$8,840
2946	401	Operations	5340010	Water Utilities - Salaries	\$701,894
2946	401	Operations	5340020	Water Utilities - Benefits	\$270,946
2946	401	Operations	5340030	Water Utilities - Supplies	\$153,114
2946	401	Operations	5340040	Water Utilites - Services	\$654,928
2946	401	Operations	5340050	Water Utilities - Intergovernmental	\$7,828
2946	401	Operations	5350010	Sewer Utilities - Salaries	\$657,555
2946	401	Operations	5350020	Sewer Utilities - Benefits	\$249,328
2946	401	Operations	5350030	Sewer Utilities - Supplies	\$55,414

West Sound Utility District
Schedule 01 – Revenue/Expenditures/Expenses
For the Year Ending December 31, 2014

					Schedule 01
MCAG	Fund #	Fund Name	BARS Account	BARS Name	Amount
2946	401	Operations	5350040	Sewer Utilities - Services	\$308,395
2946	401	Operations	5350050	Sewer Utilities - Intergovernmental	\$1,494,593
2946	401	Operations	5380010	Combined Water/Sewer/Solid Waste Utilities - Salaries	\$83,945
2946	401	Operations	5380020	Combined Water/Sewer/Solid Waste Utilities - Benefits	\$27,780
2946	401	Operations	5380030	Combined Water/Sewer/Solid Waste Utilities - Supplies	\$1,253
2946	401	Operations	5380040	Combined Water/Sewer/Solid Waste Utilities - Services	\$122,015
2946	401	Operations	5913470	Redemption of Debt - Water Utilities	\$476,377
2946	401	Operations	5913570	Redemption of Debt - Sewer/Reclaimed Water Utilities	\$546,404
2946	401	Operations	5923480	Interest and other Debt Service Cost - Water	\$134,276
2946	401	Operations	5923580	Interest and other Debt Service Cost - Sewer	\$98,922
2946	401	Operations	5943860	Capital Expenditures/Expenses - Combined Water/Sewer/Solid Waste Utilities	\$23,064
2946	401	Operations	5081000	Reserved Cash & Investments	\$1,111,878
2946	401	Operations	5088000	Unreserved Fund Balance	\$6,002,622

West Sound Utility District
Schedule 09 - Liabilities
For the Year Ending December 31, 2014

SCHEDULE 9

SCHEDULE OF LIABILITIES

_ G.O. Debt
 PWTF Debt
 Revenue Debt
 Current Liab.&
_ LT Liab

I.D. No.	Description	Date of Maturity	Outstanding Debt 01/01/2014	Additions	Reductions	Code for Redemptions of Debt	Ending Balance Debt 12/31/2014
252.11	2009 Revenue Bond-Wtr & Wstwtr Capital Improvement	11/01/2028	2,615,000	-	175,000	58238	2,440,000
252.11	2010 Revenue Bond-Refunding Lund Avenue	02/01/2021	3,010,000	-	345,000	58238	2,665,000
263.82	PWTF 99-791-002-Greendale/Sieford Water Pipeline Replc	06/01/2019	138,434	-	23,072	58234	115,362
263.82	PWTF 00-691-002-Well 21 Water Supply & Storage Imprvmt	06/01/2020	243,202	-	34,744	58234	208,458
263.82	PWTF 00-691-003-Mains Water Distribution Sys Imprvmt	06/01/2020	92,528	-	13,218	58234	79,310
263.82	PWTF 01-691-003-Storage Tank Painting	06/01/2021	40,512	-	5,064	58234	35,448
263.82	PWTF 01-691-004-Bethel Road Distribution Sys Imprvmt	06/01/2021	395,610	-	49,451	58234	346,159
263.82	PWTF 03-691-001-Well 6 & 7 Decommissioning	06/01/2023	78,808	-	7,881	58234	70,927
263.82	PWTF 07-962-002-Salmonberry Reservoir Painting & Repair	06/01/2027	438,421	-	31,316	58234	407,105
263.82	PWTF 12-951-047-Firmont Beach	06/01/2031	294,857	-	16,381	58234	278,476
263.82	PWTF 99-791-018-Wastewater Pump Station Imprvmt	06/01/2019	317,563	-	52,927	58234	264,636
263.82	PWTF 99-791-019-Retsil Wartime Sewer Replacem Ph 1	06/01/2019	318,202	-	53,034	58234	265,168
263.82	PWTF 00-691-032-Retsil Wartime Sewer Replacem Ph2	06/01/2020	320,588	-	45,798	58234	274,790
263.82	PWTF 03-691-014-Crownwood Lift Station	06/01/2023	99,522	-	9,952	58234	89,570
263.82	PWTF 03-691-015-Beach Drive Pump Station Collection	06/01/2023	82,639	-	8,264	58234	74,375
263.82	PWTF 04-691-035-Retsil Area A and B Improvement	06/01/2024	880,000	-	80,000	58234	800,000
263.82	PWTF PC08-951-017-Sedgwick Rd Sewer System	06/01/2028	1,075,186	-	71,679	58234	1,003,507
263.12	Claims & Judgements	11/04/14	10,450	-	10,450	59134	-
259.12	Compensated Absences	07/01/2033	364,614	84,888	-	-	449,502
			10,816,136	84,888	1,033,231		9,867,793