Office of the Washington State Auditor
Pat McCarthy

Financial Statements Audit Report

South Kitsap Water Reclamation Facility

For the period January 1, 2020 through December 31, 2021

Published December 29, 2022

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Office of the Washington State Auditor
Pat McCarthy

December 29, 2022

Board of Commissioners
South Kitsap Water Reclamation Facility
Port Orchard, Washington

Report on Financial Statements

Please find attached our report on the South Kitsap Water Reclamation Facility's financial statements.

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

Sincerely,

Pat McCarthy

Pat McCarthy, State Auditor

Olympia, WA

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INDEPENDENT AUDITOR'S REPORT

Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

South Kitsap Water Reclamation Facility
January 1, 2020 through December 31, 2021

Board of Commissioners
South Kitsap Water Reclamation Facility
Port Orchard, Washington

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the South Kitsap Water Reclamation Facility, as of and for the years ended December 31, 2021 and 2020, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated December 22, 2022.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

Our consideration of internal control was for the limited purpose described above and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified.

Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses.

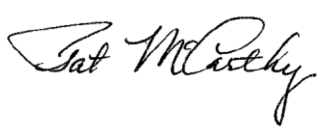
REPORT ON COMPLIANCE AND OTHER MATTERS

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

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

PURPOSE OF THIS REPORT

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



Pat McCarthy, State Auditor

Olympia, WA

December 22, 2022

INDEPENDENT AUDITOR'S REPORT

Report on the Audit of the Financial Statements

South Kitsap Water Reclamation Facility
January 1, 2020 through December 31, 2021

Board of Commissioners
South Kitsap Water Reclamation Facility
Port Orchard, Washington

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinions

We have audited the accompanying financial statements of the South Kitsap Water Reclamation Facility, as of and for the years ended December 31, 2021 and 2020, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the financial section of our report.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the South Kitsap Water Reclamation Facility, as of December 31, 2021 and 2020, and the changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the District and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

Performing an audit in accordance with GAAS and *Government Auditing Standards* includes the following responsibilities:

- Exercise professional judgment and maintain professional skepticism throughout the audit;
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements;
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, no such opinion is expressed;
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements;
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for a reasonable period of time; and
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

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

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated December 22, 2022 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Pat McCarthy, State Auditor

Olympia, WA

December 22, 2022

FINANCIAL SECTION

South Kitsap Water Reclamation Facility
January 1, 2020 through December 31, 2021

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2021
Management's Discussion and Analysis – 2020

BASIC FINANCIAL STATEMENTS

Statement of Net Position – 2021
Statement of Net Position – 2020
Statement of Revenues, Expenses and Changes in Net Position – 2021
Statement of Revenues, Expenses and Changes in Net Position – 2020
Statement of Cash Flows – 2021
Statement of Cash Flows – 2020
Notes to Financial Statements – 2021
Notes to Financial Statements – 2020

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Proportionate Share of Net Pension Liability – PERS 1, PERS 2/3 – 2021
Schedule of Proportionate Share of Net Pension Liability – PERS 1, PERS 2/3 – 2020
Schedule of Employer Contributions – PERS 1, PERS 2/3 – 2021
Schedule of Employer Contributions – PERS 1, PERS 2/3 – 2020
Notes to the Required Supplemental Information – Pensions – 2021
Notes to the Required Supplemental Information – Pensions – 2020

MANAGEMENT DISCUSSION & ANALYSIS

As Management of the South Kitsap Water Reclamation Facility (Facility), we offer readers of the financial statements this narrative overview and analysis of the Facility's financial activities for the fiscal years ended December 31, 2021. The intent of this discussion and analysis is to review the Facility's financial performance as a whole. This MD&A provides an overview of the Facility'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 Facility is jointly owned by the City of Port Orchard (City) and West Sound Utility District (District). In 1983, the City and District entered into an interlocal partnership agreement for the management and operation of the joint wastewater treatment facility. Under the terms and condition of this agreement, a Sewer Advisory Committee was established to plan for future Facility capital improvements, recommend an appropriate level of operation and capital funding, and oversee the preparation of the annual budget for the City's and District's final approval.

The Facility provides secondary wastewater treatment of City and District wastewater utility customers' wastewater. The mission of the Facility has expanded from merely wastewater treatment to reclamation. The goal of the Facility is to achieve higher levels of sustainability.

The District is responsible for the daily operation and maintenance of the Facility. Cost containment and reduction is a priority for the Facility. The Facility had obtained grants from Puget Sound Energy to reduce electrical demand with blowers that are more efficient, better pump controls, disk thickener, booster pumps, HVAC modifications, lighting fixtures and solar heating of the water supply. This benefits both the City and District. Cost sharing of the operations and maintenance is based on the number of equivalent residential units (ERUs) for each entity. In 2021, the cost sharing was forty nine point five percent (49.23%) contribution by the City and fifty point five percent (50.77%) from the District, which was 0.27 percent increase from the District's contribution in 2020.

The Facility's financial statements are prepared as a joint venture of the City and District. The Facility operates as a political subdivision of the two municipalities. The Facility 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., sewer treatment). The Facility reports its activities 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. As such, the Facility uses the enterprise fund to account for its activities. The financial statements are presented in a manner similar to a private-sector business.

The District's Board of Commissioners adopted an annual budget as a measure of monitoring revenues and controlling expenses. The Commissioners also use the budget as a financial planning tool for the District's future needs. Also, in 2012 the Board of Commissioners approved Resolution 403-12 "Financial Management Policies" and Resolution 337-12, "Capital Assets Policy." These Financial Management Policies, which are reviewed and updated with the adoption of the Facility budget, direct the decision-making process of the District's Board of Commissioners and District administration while operating to provide stability of changing services and financial conditions. The implementation of wise fiscal policies enables the Facility officials to protect the public interest and ensure public trust and confidence in the Facility's management of wastewater treatment operations.

The Facility's Financial Statements were prepared on the full accrual basis of accounting in conformity with Generally Accepted Accounting Principles (GAAP). The Facility uses fund accounting to demonstrate and ensure compliance with finance-related legal requirements.

Financial Highlights

- The assets and deferred outflows of the Facility exceeded its liabilities and deferred inflows at the close of the 2021 fiscal year by $22,034,174. Of this amount, $3,990,447 was depicted as unrestricted and may be used to meet the Facility's ongoing financial obligations. The Facility does not currently have any restricted net assets.

- From 2020 to 2021 the Facility's total net position increased by $857,264, or 4%.

- The Facility's total long-term debt on capital facility loans decreased by $912,595 during the fiscal year. As of December 31, 2021, the total outstanding debt was $1,632,596.

- The Facility's total cash and cash equivalents was $4,058,294, which increased by $659,982 in 2021.

OVERVIEW OF THE FINANCIAL STATEMENTS

The Facility's financial statements include two components: 1) the Facility'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 Facility's basic financial statements.

Condensed Financial Position Information

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

The following condensed financial information provides an overview of the Facility's financial position for the fiscal years ended December 31, 2021, and 2020.

	Net Position	
December 31	2021	2020
Current Assets	4,208,946	3,486,559
Non-current Assets	20,287,169	20,651,929
Total Assets	$ 24,496,115	$ 24,138,489
Deferred Outflows of Resources	$ 93,203	$ 91,784
Current Liabilities	974,421	968,400
Non-current Liabilities	922,385	1,981,620
Total Liabilities	$ 1,896,806	$ 2,950,020
Deferred Inflows of Resources	$ 658,339	$ 103,343
Net Investment in Capital Assets	18,043,727	18,106,739
Restricted for Pension	96,286	
Unrestricted	3,894,161	3,070,171
Total Net Position	$ 22,034,174	$ 21,176,910

The 2021 total net position was $22 million, which was an increase of four percent (4%) from 2020.

At the end of 2021, capital assets represent nearly 80.3% of total assets and in 2020 capital assets represent 85.6% of total assets. On December 31, 2021 and 2020, the Facility had non-current liabilities of near $1 million and $2 million, respectively. The decrease is due to the Facility making scheduled debt payments.

The Facility's net investment in capital assets was $18 million at December 31, 2021 and $18.1 million at December 31, 2020. This capital asset value has decreased as asset depreciation and construction in progress projects reduction. Unrestricted net position represents the amount that may be used to meet the Facility's ongoing non-capital obligations.

The overall financial position of the Facility has not significantly changed fronr the prior years. There are no restrictions, conrnritnrents or other linritations that will significantly affect the availability of fund resources. The Facility reports positive balances in both 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 Facility's net positions changed during fiscal year 2021. 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 flow (e.g., uncollected receivables).

The following is a condensed version of the Statement of Changes in Net Position for the Facility.

	Change in Net Position			
		2021		2020
Operating Revenue		3,394,982		3,393,618
Non-operating Revenue		11,822		25,691
Total Revenues	$	3,406,803	$	3,419,308
Operating Expenses		2,844,544		2,850,877
Non-operating Expenses		104,995		15,007
Total Expenses	$	2,949,539	$	2,865,885
Capital Contributions		400,000		400,000
Change in Net Position	$	857,264	$	953,423
Net Position, Beginning of Year	$	21,176,910	$	20,223,486

Total operating revenues for the Facility in both 2021 and 2020 were $3.4 million.

Total operating expense for both 2021 and 2020 were around $2.8 million. The 2021 operating expenses only decreased $6,333 from the 2020 expenses.

Notes to the Basic Financial Statements

The notes to the Facility's basic financial statements can be found on pages 12 - 25 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 Facility's capital assets as of December 31, 2021, amounted to $19.7 million (net of accumulated depreciation). The Facility's investment in capital assets includes land, construction in progress, structures and improvements, facility equipment, tools and vehicles. The total decrease of the Facility's investment in capital assets for 2021 was 0.3%. The change in capital assets was from accumulated depreciation and construction in progress.

December 31	2021	2020
Land	$ 309,540	$ 309,540
Construction in Progress	67,653	150,716
Structures and Improvements	31,354,598	31,354,598
Plant Equipment	7,925,937	8,048,946
Tools and Equipment	137,861	137,861
Vehicles	110,030	110,030
Less: Accumulated Depreciation	(20,229,296)	(19,459,761)
Total Capital Assets, Net	$ 19,676,323	$ 20,651,929

Additional information on the Facility's capital assets can be found in Note 2 of this report.

Long-Term Debt

The construction cost of the Facility expansion was approximately $21.5 million. The City of Port Orchard applied for and received a Public Works Trust Fund (PWTF) loan in 2002 for $10 million. Another PWTF loan in the amount of $6.8 million was applied for and received in 2004. The City of Port Orchard was the lead agency on the wastewater treatment facility expansion project and is the signatory on both of these loans. The project and related debt was turned over to the Facility on December 31, 2007. Each loan is for twenty (20) years. Loan repayment is scheduled by the PWTF and debt payments are being made by the Facility. The City and District have approved using part of the wastewater treatment capital fees collected by each entity to assist with the annual debt payments on the PWTF loans. In 2021, the City and District each contributed $200,000 from these capital fees into the Facility's Operating Fund. Balances owing on the loans, as of December 31, are as follows:

	2021	2020
PW-02-691-043 Facility Expansion Loan #1	$ 552,595	$ 1,105,191
PW-04-691-056 Facility Expansion Loan #2	$ 1,080,000	$ 1,440,000

Additional information on the Facility's long-term debt can be found in Note 3 of this report.

CASH FLOW

The community served by the Facility experienced continued growth discharge in 2021. The share of the operation costs of the Facility are computed on an ERU basis (1 ERU equals 167 gallons of water used per day for commercial accounts, and each home or apartment unit represents one ERU). The ERU cost in 2021 was $23.50. These are adjusted each year as needed. The cash flow contributions from both the City and District are expected to meet the needs of the Facility operations for the coming year. In accordance with the District's financial management policies, the District strives to maintain adequate fund balance and reserves for the Facility 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 the Facility 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 Facility expects to see some increases in sewage flows over the next year due to the community's economic growth. It is anticipated that there will be some increase of wastewater flow volumes in the Facility due to the projected growth in new housing units or commercial activity over the next few years. During this period, the Facility will continuing to refine its operational procedures and seek means to reduce operational expenses and debt.

REQUESTS FOR INFORMATION

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

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

MANAGEMENT DISCUSSION & ANALYSIS

As Management of the South Kitsap Water Reclamation Facility (Facility), we offer readers of the financial statements this narrative overview and analysis of the Facility's financial activities for the fiscal years ended December 31, 2020. The intent of this discussion and analysis is to review the Facility's financial performance as a whole. This MD&A provides an overview of the Facility'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 Facility is jointly owned by the City of Port Orchard (City) and West Sound Utility District (District). In 1983, the City and District entered into an interlocal partnership agreement for the management and operation of the joint wastewater treatment facility. Under the terms and condition of this agreement, a Sewer Advisory Committee was established to plan for future Facility capital improvements, recommend an appropriate level of operation and capital funding, and oversee the preparation of the annual budget for the City's and District's final approval.

The Facility provides secondary wastewater treatment of City and District wastewater utility customers' wastewater. The mission of the Facility has expanded from merely wastewater treatment to reclamation. The goal of the Facility is to achieve higher levels of sustainability.

The District is responsible for the daily operation and maintenance of the Facility. Cost containment and reduction is a priority for the Facility. The Facility had obtained grants from Puget Sound Energy to reduce electrical demand with blowers that are more efficient, better pump controls, disk thickener, booster pumps, HVAC modifications, lighting fixtures and solar heating of the water supply. This benefits both the City and District. Cost sharing of the operations and maintenance is based on the number of equivalent residential units (ERUs) for each entity. In 2020, the cost sharing was forty nine point five percent (49.5%) contribution by the City and fifty point five percent (50.5%) from the District, which was half point percent decrease from the District's contribution in 2019.

The Facility's financial statements are prepared as a joint venture of the City and District. The Facility operates as a political subdivision of the two municipalities. The Facility 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., sewer treatment). The Facility reports its activities 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. As such, the Facility uses the enterprise fund to account for its activities. The financial statements are presented in a manner similar to a private-sector business.

The District's Board of Commissioners adopted an annual budget as a measure of monitoring revenues and controlling expenses. The Commissioners also use the budget as a financial planning tool for the District's future needs. Also, in 2012 the Board of Commissioners approved Resolution 403-12 "Financial Management Policies" and Resolution 337-12, "Capital Assets Policy." These Financial Management Policies, which are reviewed and updated with the adoption of the Facility budget, direct the decision-making process of the District's Board of Commissioners and District administration while operating to provide stability of changing services and financial conditions. The implementation of wise fiscal policies enables the Facility officials to protect the public interest and ensure public trust and confidence in the Facility's management of wastewater treatment operations.

The Facility's Financial Statements were prepared on the full accrual basis of accounting in conformity with Generally Accepted Accounting Principles (GAAP). The Facility uses fund accounting to demonstrate and ensure compliance with finance-related legal requirements.

Financial Highlights

- The assets and deferred outflows of the Facility exceeded its liabilities and deferred inflows at the close of the 2020 fiscal year by $21,176,910. Of this amount, $3,070,171 was depicted as unrestricted and may be used to meet the Facility's ongoing financial obligations. The Facility does not currently have any restricted net assets.

- From 2019 to 2020 the Facility's total net position increased by $953,423, or 4.7%.

- The Facility's total long-term debt on capital facility loans decreased by $912,595 during the fiscal year. As of December 31, 2020, the total outstanding debt was $2,545,191.

- The Facility's total cash and cash equivalents was $3,398,312, which increased by $655,841 in 2020.

OVERVIEW OF THE FINANCIAL STATEMENTS

The Facility's financial statements include two components: 1) the Facility'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 Facility's basic financial statements.

Condensed Financial Position Information

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

The following condensed financial information provides an overview of the Facility's financial position for the fiscal years ended December 31, 2020, and 2019.

	Net Position	
December 31	2020	2019
Current Assets	3,486,559	2,825,962
Non-current Assets	20,651,929	21,405,434
Total Assets	$ 24,138,489	$ 24,231,396
Deferred Outflows of Resources	$ 91,784	$ 86,816
Current Liabilities	968,400	1,004,327
Non-current Liabilities	1,981,620	2,920,046
Total Liabilities	$ 2,950,020	$ 3,924,373
Deferred Inflows of Resources	$ 103,343	$ 170,353
Net Investment in Capital Assets	18,106,739	17,947,649
Unrestricted	3,070,171	2,275,837
Total Net Position	$ 21,176,910	$ 20,223,486

The 2020 total net position was $21.2 million, which was an increase of five percent (5%) from 2019.

At the end of 2020, capital assets represent nearly 85.6% of total assets and in 2019 capital assets represent 88.3% of total assets. On December 31, 2020 and 2019, the Facility had non-current liabilities of $2 million and $2.9 million, respectively. The decrease is due to the Facility making scheduled debt payments.

The Facility's net investment in capital assets was $18.1 million at December 31, 2020 and $17.9 million at December 31, 2019. This capital asset value has increased as the Facility is depreciating assets and paying down the loans. Unrestricted net position represents the amount that may be used to meet the Facility's ongoing non-capital obligations.

The overall financial position of the Facility 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 Facility reports positive balances in both 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 Facility's net positions changed during fiscal year 2020. 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 flow (e.g., uncollected receivables).

The following is a condensed version of the Statement of Changes in Net Position for the Facility.

	Change in Net Position	
	2020	2019
Operating Revenue	3,393,618	3,310,314
Non-operating Revenue	25,691	49,101
Total Revenues	$ 3,419,308	$ 3,359,415
Operating Expenses	2,850,877	2,899,322
Non-operating Expenses	15,007	26,524
Total Expenses	$ 2,865,885	$ 2,925,846
Capital Contributions	400,000	400,000
Change in Net Position	$ 953,423	$ 833,569
Net Position, Beginning of Year	$ 20,223,486	$ 19,389,917

Total operating revenues for the Facility in both 2020 and 2019 were nearly $3.4 million.

Total operating expense for both 2020 and 2019 were nearly $2.9 million. The 2020 operating expenses decreased by 1.8% from the 2019 expenses.

Notes to the Basic Financial Statements

The notes to the Facility's basic financial statements can be found on pages 13 - 29 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 Facility's capital assets as of December 31, 2020, amounted to $20.7 million (net of accumulated depreciation). The Facility's investment in capital assets includes land, construction in progress, structures and improvements, facility equipment, tools and vehicles. The total increase of the Facility's investment in capital assets for 2020 was 0.9%. The change in capital assets was from accumulated depreciation and construction in progress.

December 31	2020	2019
Land	$ 309,540	$ 309,540
Construction in Progress	150,716	176,536
Structures and Improvements	31,354,598	31,178,062
Plant Equipment	8,048,946	8,048,946
Tools and Equipment	137,861	144,627
Vehicles	110,030	110,030
Less: Accumulated Depreciation	(19,459,761)	(18,562,307)
Total Capital Assets, Net	$ 20,651,929	$ 21,405,434

Additional information on the Facility's capital assets can be found in Note 2 of this report.

Long-Term Debt

The construction cost of the Facility expansion was approximately $21.5 million. The City of Port Orchard applied for and received a Public Works Trust Fund (PWTF) loan in 2002 for $10 million. Another PWTF loan in the amount of $6.8 million was applied for and received in 2004. The City of Port Orchard was the lead agency on the wastewater treatment facility expansion project and is the signatory on both of these loans. The project and related debt was turned over to the Facility on December 31, 2007. Each loan is for twenty (20) years. Loan repayment is scheduled by the PWTF and debt payments are being made by the Facility. The City and District have approved using part of the wastewater treatment capital fees collected by each entity to assist with the annual debt payments on the PWTF loans. In 2020, the City and District each contributed $200,000 from these capital fees into the Facility's Operating Fund. Balances owing on the loans, as of December 31, are as follows:

	2020	2019
PW-02-691-043 Facility Expansion Loan #1	$ 1,105,191	$ 1,657,786
PW-04-691-056 Facility Expansion Loan #2	$ 1,440,000	$ 1,800,000

Additional information on the Facility's long-term debt can be found in Note 3 of this report.

CASH FLOW

The community served by the Facility experienced continued slow growth discharge in 2020. The share of the operation costs of the Facility are computed on an ERU basis (1 ERU equals 180 gallons of water used per day for commercial accounts, and each home or apartment unit represents one ERU). The ERU cost in 2020 was $23.50. These are adjusted each year as needed. The cash flow contributions from both the City and District are expected to meet the needs of the Facility operations for the coming year. In accordance with the District's financial management policies, the District strives to maintain adequate fund balance and reserves for the Facility 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 the Facility 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 Facility expects to see some increases in sewage flows over the next year due to the community's economic growth. It is anticipated that there will be some increase of wastewater flow volumes in the Facility due to the projected growth in new housing units or commercial activity over the next few years. During this period, the Facility will continuing to refine its operational procedures and seek means to reduce operational expenses and debt.

REQUESTS FOR INFORMATION

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

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

Joint Wastewater Treatment Facility
aka South Kitsap Water Reclamation Facility
Statement of Net Position
As of December 31, 2021

ASSETS	
Cash and Cash Equivalents	$ 4,058,294
Accounts Receivable	$ 57,330
Prepaid Expenses	93,323
TOTAL CURRENT ASSETS	4,208,946
Land	309,540
Construction in Progress	67,653
Structures and Improvements	31,354,598
Plant Equipment	7,925,937
Tools & Equipment	137,861
Vehicles	110,030
Less Accumulated Depreciation	(20,229,296)
TOTAL CAPITAL ASSETS	19,676,323
PENSION ASSET	610,846
TOTAL ASSETS	$ 24,496,115
DEFERRED OUTFLOWS OF RESOURCES	
Deferred Outflows Related to Pensions	$ 93,203
LIABILITIES	
Accounts Payable	34,301
Payroll Payable	5,898
Contractors - Retainage	1,229
Debt Interest	4,082
Current Portion of Accrued Compensated Absences	16,317
Current Portion of Long-Term Debt	912,595
TOTAL CURRENT LIABILITIES	974,421
Loans payable	720,001
Accrued Compensated Absence	144,156
Net Pension Liabilities	58,228
TOTAL LONG-TERM LIABILITIES	922,385
TOTAL LIABILITIES	$ 1,896,806
DEFERRED INFLOWS OF RESOURCES	
Deferred Inflows Related to Pensions	$ 658,339
NET POSITION	
Net Investment in Capital Assets	18,043,727
Restricted for Pension	96,286
Unrestricted	3,894,161
TOTAL NET POSITION	**$ 22,034,174**

*The accompanying notes are an integral part of this statement

Joint Wastewater Treatment Facility
aka South Kitsap Water Reclamation Facility
Statement of Net Position
As of December 31, 2020

ASSETS	
Cash and Cash Equivalents	$ 3,398,312
Prepaid Expenses	88,248
TOTAL CURRENT ASSETS	3,486,559
Land	309,540
Construction in Progress	150,716
Structures and Improvements	31,354,598
Plant Equipment	8,048,946
Tools & Equipment	137,861
Vehicles	110,030
Less Accumulated Depreciation	(19,459,761)
TOTAL CAPITAL ASSETS	20,651,929
TOTAL ASSETS	$ 24,138,489
DEFERRED OUTFLOWS OF RESOURCES	
Deferred Outflows Related to Pensions	$ 91,784
LIABILITIES	
Accounts Payable	31,675
Contractors - Retainage	1,229
Debt Interest	6,363
Current Portion of Accrued Compensated Absences	16,538
Current Portion of Long-Term Debt	912,595
TOTAL CURRENT LIABILITIES	968,400
Loans payable	1,632,596
Accrued Compensated Absence	128,666
Net Pension Liabilities	220,359
TOTAL LONG-TERM LIABILITIES	1,981,620
TOTAL LIABILITIES	$ 2,950,020
DEFERRED INFLOWS OF RESOURCES	
Deferred Inflows Related to Pensions	$ 103,343
NET POSITION	
Net Investment in Capital Assets	18,106,739
Unrestricted	3,070,171
TOTAL NET POSITION	**$ 21,176,910**

*The accompanying notes are an integral part of this statement

Joint Wastewater Treatment Facility
aka South Kitsap Water Reclamation Facility
Statement of Revenues, Expenses and Changes in Fund Net Position
For the Year Ending December 31, 2021

OPERATING REVENUES:		
Operating Utility Fee	$	3,334,650
Other Operating Revenue		60,332
Total Operating Revenue		3,394,982
OPERATING EXPENSES:		
Operations:		
General Operations		920,302
Utilities		189,980
Maintenance:		
General Administration		779,241
Depreciation/Amortization		876,155
Taxes		67,129
Other Operating Expenses		11,737
Total Operating Expenses		2,844,544
OPERATING INCOME	$	550,438
NONOPERATING REVENUES (EXPENSES):		
Interest Expense		(10,444)
Interest Income		11,822
Loss Disposal of Property		(94,550)
NONOPERATING REVENUE (EXPENSE)		(93,173)
INCOME BEFORE CONTRIBUTION	$	457,264
CAPITAL CONTRIBUTIONS:		
Grants		
District and City of Port Orchard		400,000
CAPITAL CONTRIBUTIONS	$	400,000
CHANGE IN NET POSITION	**$**	**857,264**
NET POSITION BEGINNING OF YEAR	$	21,176,910
NET POSITION END OF YEAR	$	22,034,174

*The accompanying notes are an integral part of this statement

Joint Wastewater Treatment Facility
aka South Kitsap Water Reclamation Facility
Statement of Revenues, Expenses and Changes in Fund Net Position
For the Year Ending December 31, 2020

OPERATING REVENUES:		
Operating Utility Fee	$	3,334,368
Other Operating Revenue		59,250
Total Operating Revenue		3,393,618
OPERATING EXPENSES:		
Operations:		
General Operations		834,595
Utilities		181,464
Maintenance:		
General Administration		860,696
Depreciation/Amortization		904,221
Taxes		64,394
Other Operating Expenses		5,507
Total Operating Expenses		2,850,877
OPERATING INCOME	$	542,740
NONOPERATING REVENUES (EXPENSES):		
Interest Expense		(15,007)
Interest Income		25,691
Loss Disposal of Property		
NONOPERATING REVENUE (EXPENSE)		10,683
INCOME BEFORE CONTRIBUTION	$	553,423
CAPITAL CONTRIBUTIONS:		
Grants		
District and City of Port Orchard		400,000
CAPITAL CONTRIBUTIONS	$	400,000
CHANGE IN NET POSITION	**$**	**953,423**
NET POSITION BEGINNING OF YEAR	$	20,223,486
NET POSITION END OF YEAR	$	21,176,910

*The accompanying notes are an integral part of this statement

Joint Wastewater Treatment Facility
aka South Kitsap Water Reclamation Facility
Statement of Cash Flows
For the year ended December 31, 2021

Cash Flows From Operating Activities:		
Receipts from customers and agencies	$	3,337,652
Payments to suppliers		(1,111,194)
Payments to employees		(980,585)
Net Cash Provided by Operating Activities	$	1,245,874
Cash Flows From Capital and Related Financing Activities:		
Proceeds from sale of property and equipment		
Grants and othe receipts		
Capital contributions from City and District		400,000
Proceeds from Insurance Recovery		
Repayment of long-term debt		(912,595)
Interest paid on long-term debt		(12,726)
Acquisition and construction of capital assets		(72,392)
Net Cash Used for Capital Financing Activities	$	(597,713)
Cash Flow From Investing Activities:		
Interest and dividends on investments		11,822
Net Cash Provided by Investing Activities	$	11,822
Net Increase (Decrease) In Cash and Cash Equivalents	**$**	**659,982**
CASH AND CASH EQUIVALENTS BEGINNING OF YEAR	$	3,398,312
CASH AND CASH EQUIVALENTS END OF YEAR	$	4,058,294

*The accompanying notes are an integral part of this statement

Joint Wastewater Treatment Facility
aka South Kitsap Water Reclamation Facility
Statement of Cash Flows
For the year ended December 31, 2021

RECONCILIATION

Operating Income	$	550,438
Adjustments to reconcile net operating income to net cash provided by operating activities:		
Depreciation and Amortization		876,155
GASB 68 Implementation-Pension Expense		(219,400)
CIP Expenses		77,293
Change in Assets and Liabilities:		
Decrease (Increase) in Receivables		(57,330)
Decrease (Increase) in Prepaid Expenses		(5,075)
Increase (Decrease) in Accrued Compensated Absences		15,269
Increase (Decrease) in Payroll Taxes		(947)
Increase (Decrease) in Contractor Retainage		
Increase (Decrease) in Payables		9,470
Total Adjustments	$	695,436
Net Cash Provided by Operating Activities	**$**	**1,245,874**

*The accompanying notes are an integral part of this statement

Joint Wastewater Treatment Facility
aka South Kitsap Water Reclamation Facility
Statement of Cash Flows
For the year ended December 31, 2020

Cash Flows From Operating Activities:	
Receipts from customers and agencies	3,393,618
Payments to suppliers	(1,135,267)
Payments to employees	(954,407)
Net Cash Provided by Operating Activities	1,303,944
Cash Flows From Capital and Related Financing Activities:	
Proceeds from sale of property and equipment	
Grants and othe receipts	
Capital contributions from City and District	400,000
Proceeds from Insurance Recovery	
Repayment of long-term debt	(912,595)
Interest paid on long-term debt	(17,289)
Acquisition and construction of capital assets	(143,910)
Net Cash Used for Capital Financing Activities	(673,794)
Cash Flow From Investing Activities:	
Interest and dividends on investments	25,691
Net Cash Provided by Investing Activities	25,691
Net Increase (Decrease) In Cash and Cash Equivalents	**655,841**
CASH AND CASH EQUIVALENTS BEGINNING OF YEAR	2,742,471
CASH AND CASH EQUIVALENTS END OF YEAR	3,398,312

*The accompanying notes are an integral part of this statement

Joint Wastewater Treatment Facility
aka South Kitsap Water Reclamation Facility
Statement of Cash Flows
For the year ended December 31, 2020

RECONCILIATION

Operating Income	542,740
Adjustments to reconcile net operating income to net cash provided by operating activities:	
Depreciation and Amortization	904,221
GASB 68 Implementation-Pension Expense	(110,018)
Change in Assets and Liabilities:	
Decrease (Increase) in Receivables	
Decrease (Increase) in Prepaid Expenses	(4,757)
Increase (Decrease) in Accrued Compensated Absences	13,636
Increase (Decrease) in Payroll Taxes	
Increase (Decrease) in Contractor Retainage	
Increase (Decrease) in Payables	(41,879)
Total Adjustments	761,204
Net Cash Provided by Operating Activities	**1,303,944**

*The accompanying notes are an integral part of this statement

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING AND FINANCIAL POLICIES

The accounting policies of the South Kitsap Water Reclamation Facility (Facility) conform to generally accepted accounting principles (GAAP) as applicable to proprietary funds of governments. This and consecutive statements are reflected in the accompanying financial statements (including notes to financial statements).

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).

A. Reporting Entity

The Facility is a subdivision of the City of Port Orchard (City) and West Sound Utility District (District) that operates with oversight by a six-member Sewer Advisory Board comprised of three City Council members and three District Commissioners. As required by generally accepted accounting principles, management has considered all potential component units in defining the reporting entity. The Facility has no component units.

B. Basis of Accounting And Presentation

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

The Facility's "proprietary funds" ("Enterprise Utilities" and "Internal Service" funds) are accounted for using the full-accrual basis of accounting for the Facility 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 Facility distinguishes between operating revenues and expenses from non-operating items. Operating revenues and expenses are derived from the sewer services provided to the City and District. Operating expenses include the cost of providing these sewer services as well as depreciation on capital assets. All revenues and expenses not meeting the above criteria are reported as non-operating revenues and expenses. Unbilled receivables are recorded at year-end. Other income includes gains and losses from disposal of capital assets.

C. Financial Management Policies

The Board of Commissioners adopted comprehensive financial management policies which are reviewed and updated during the District's budget process. The financial health and welfare of the District is highly dependent upon establishing and maintaining sound, financial-planning objectives and strategies of implementation. As a result, the implementation of these policies provides direction in the decision-making process of the District's Board of Commissioners and District Administration while operating to provide stability of changing service and financial conditions. Such policies enable District 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 Facility considers all highly liquid investments with a maturity of three months or less purchased to be cash equivalents.

E. Capital Assets

See Note (2)

F. Investments

See Note (5)

G. Compensated Absences

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

Vacation pay may be accumulated up to a maximum accrual of two hundred forty (240) hours and may be carried over to employee anniversary month. The board of Commissioners approved resolution 795-18 "Modifying Vacation (Annual Leave) Policy" on January 7, 2019. This policy revision provides an option to employees to receive compensation for up to one or two standard workweeks of accrued vacation leave within a calendar year based on certain criteria. Accrued vacation pay is payable upon an employee taking a vacation or upon termination of employment, retirement, or death. Sick leave in excess of one thousand forty (1040) hours of the current year shall be deposited into a VEBA account for the employee at a rate of fifty (50) percent of the overage amount. Annual leave and sick leave are payable as follows:

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

H. Long-Term Debt

See Note 3

I. Infrastructure

Governmental Accounting Standards Board Statement No. 34 allows two methods of reporting for a local government. One is called the "modified approach" and the other is based upon "historical cost". The Facility has always reported its infrastructure on a historical cost basis with a corresponding offset as accumulated depreciation. The Facility 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.

J. 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.

For purposes of calculating the restricted net position related to the net pension asset, the District includes the net pension asset and the related deferred outflows and deferred inflows.

NOTE 2 – CAPITAL ASSETS

Major expenses for capital assets, including capital leases and major repairs that increase useful life, are capitalized. The Facility capitalizes purchases that meet these criteria when the individual cost threshold exceeds $5,000, as set forth in Resolution 337-12, "Capital Asset Policy". Maintenance, repairs, and minor renewals are accounted for as expenses when incurred.

The Facility in service and other capital assets are recorded at cost where historical cost is known. Where historical cost is not known, assets are recorded at fair market value.

The original cost of operating property retired or disposed of and the cost of installation, less salvage, is charged to accumulated depreciation. However, in the case of the sale of a significant operating unit or system, the original cost is removed from the Facility accounts, accumulated depreciation is charged with the accumulated depreciation related to the property sold, and the net gain or loss on disposition is credited or charged to income.

Depreciation was computed on the straight-line method. The initial depreciation on the Facility is recorded in the year subsequent to purchase. Structures and Improvements have a useful life of thirty five to fifty years, Facility Equipment has ten to fifteen years and Vehicles have ten years. Preliminary costs incurred for proposed projects are deferred pending construction. Costs relating to projects ultimately constructed are transferred to the Facility; charges that relate to abandoned projects are expensed.

The Facility's activity for the year ending December 31, 2021 was as follows:

	Beginning Balance 01/01/2021	Increase	Decrease	Transfers	Ending Balance 12/31/2022
The Facility not being depreciated:					
Land	309,540				309,540
CIP	150,716		83,063		67,653
Total the Facility not depreciated	$ 460,256		$ 83,063		$ 377,193
The Facility being depreciated:					
Structures & Improvements	31,354,598				31,354,598
Plant Equipment	8,048,946	78,162	201,171		7,925,937
Tools & Equipment	137,861				137,861
Vehicles	110,030				110,030
Total the Facility being depreciated	$ 39,651,434	$ 78,162	$ 201,171		$ 39,528,426
Accumulated Depreciation	19,459,761	876,155	106,621		20,229,296
Total the Facility depreciated, net	20,191,673	(797,993)	94,550		19,299,130
Total the Facility capital assets, net	$ 20,651,929	$(797,993)	$ 177,614		$ 19,676,323

NOTE 3 – LONG-TERM DEBT AND LIABILITIES

A. Long-Term Debt

The Facility has two Public Work Trust Fund loans for its expansion. Loan #1 and #2 will mature in 2022 and 2024. Both loans were issued at interest rates of one half percent (0.5%). The annual requirements to amortize all debts outstanding as of December 31, 2021, including interest, are as follows:

Year Ending December 31	Principal	Interest	Total
2022	912,595	8,163	920,758
2023	360,000	3,600	363,600
2024	360,000	1,800	361,800
Total	$ 1,632,595	$ 13,563	$ 1,646,158

B. Change in Long Term Liabilities

During the year ended December 31, 2021, the following changes occurred in long-term liabilities:

	Beginning Balance 1/1/2021	Additions	Reduction	Ending Balance 12/31/2021	Due within One Year 2022
PWTF Loan #1	1,105,191		552,595	552,596	552,595
PWTF Loan #2	1,440,000		360,000	1,080,000	360,000
Compensated Absences	145,204	15,269		160,473	16,317
Net Pension Liabilities	220,359		162,131	58,228	
Total	2,910,753	15,269	1,074,726	1,851,297	928,912
Less Current Portion				$ 928,912	
Total Long-Term Liabilities				$ 922,385	

NOTE 4 – COVID-19 PANDEMIC

In February 2020, the Governor of the state of Washington declared a state of emergency in response to the spread of the deadly new virus known as COVID-19. Precautionary measures to slow the spread of the virus continued throughout 2021. These measures included limitations on business operations, public events, gatherings, travel, and in-person interactions.

On March 23, 2020, the Board approved Resolution 880 – 20 "Declaration of Emergency – Covid 19". On May 18, 2020, the Board approved Resolution 890-20 "Extending Annual Leave Maximum Accrual in Response to The COVID-19 Emergency" which allow employees to accumulate annual leave above 240 hours until May 31, 2021. The Plant proactively implemented safety measures with regular operations schedule. Management continues to monitor the situation for any operational or financial effects and is ready to respond appropriately as needed. To date, the Plant has not experienced any direct financial impacts due to the pandemic.

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

NOTE 5 – DEPOSITS AND INVESTMENTS

A. Deposits

Custodial credit risk (deposits). Custodial risk for deposits is the risk that, in the event of a bank failure, the government's deposits may not be returned. The Plant has not adopted a policy that addresses deposit custodial risk; however, Kitsap County is the Treasurer for the District' funds. The Plant's deposits are covered by Federal Depository Insurance (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (PDPC). In the event of a bank failure, claims for the District's deposits would be satisfied by FDIC or from the sale of collateral held in the PDPC pool.

B. Investments

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

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

As of December 31, 2021, the Facility has the following cash and investments:

	Cash	Investments	Total
Washington State Investment Pool		$ 3,538,077	$ 3,538,077
Kitsap County Treasurer	$ 520,117		$ 520,117
Petty Cash	$ 100		$ 100
Total	$ 520,217	$ 3,538,077	$ 4,058,294

NOTE 6 – JOINT VENTURE

In 1983, the City and the District (Formerly Kitsap County Sewer District #5) entered into an interlocal cooperative agreement and created a utility local improvement district (ULID) to help finance construction a jointly owned wastewater treatment facility. Construction of the Facility was completed in 1985. The participants pay their share of the operating and maintenance expenses based on their portion of flow into the facility. The cost sharing for 2021 was 49.23% for the City and 50.77% for the District, where each entity contributes an adequate amount of revenue generated from the sewer utility customer rates to fund the Facility's operational costs. In addition, the City and District also transfer each year an established amount of general facility charges to assist in funding the Facility's debt obligations. In 2014, the District and City negotiated and executed a new interlocal agreement that resulted in extending the responsibilities of the District in managing and operating the Facility, in addition to resolving issues pertaining to property, asset ownership, liability and insurance.

A Sewer Advisory Board comprised of the three City Council members and three District Commissioners, review and approves the revenue allocation formula each year to ensure that the revenue contributions from the City and District are equitable and the amount is sufficient to cover the Facility's current and future maintenance, capital, debt obligation and operations expenses. In accordance with the joint venture agreement, the District manages the operations of the Facility.

A major expansion of the Facility was approved in 2002 and cost approximately $21.5 million. This project was approved for a $10 million Public Works Trust Fund Loan (PWTF Loan #1) in 2002. Another Public Works Trust Fund Loan was approved in 2004 for $6.8 million (PWTF Loan #2). The City was the lead agency for the expansion project. The City transferred the related assets and liabilities to the Facility upon completion of the project on December 31, 2007. On that date, all assets and liabilities related to the expansion project were included in the financial statements of the Facility.

The District maintains separate accounting records and prepares separate financial statements of the operations of the Facility. The District's Finance Department provides accounting and financial support services to the Facility. Financial 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.

NOTE 7 – PENSION PLANS

The following table represents the aggregate pension amounts for all plans for the year 2021:

Aggregate Pension Amounts – All Plans	
Pension liabilities	$(58,228)
Pension Assets	$ 610,846
Deferred outflows of resources	$93,203
Deferred inflows of resources	$(658,338)
Pension expense/expenditures	$(133,704)

State Sponsored Pension Plans

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

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

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

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

Public Employees' Retirement System (PERS)

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

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

Contributions

The PERS Plan 1 member contribution rate is established by State stature at 6%. The employer contribution rate is developed by the Office of the State of Actuary and includes an administrative expense component that is currently set at 0.18%. Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates. The PERS Plan 1 required contribution rates (expressed as a percentage of covered payroll) for 2021 were as follows:

PERS Plan 1		
Actual Contribution Rates	Employer	Employee
January – June 2021		
PERS Plan 1	7.92%	6.00%
PERS Plan 1 UAAL	4.87%	
Administrative Fee	0.18%	
Total	12.97%	6.00%
July – December 2021		

PERS Plan 1	10.07%	6.00%
Administrative Fee	0.18%	
Total	10.25%	6.00%

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

- With a benefit that is reduced by 3% for each year before age 65; or
- With a benefit that has a smaller (or no) reduction (depending on age) that imposes stricter return-to-work rules.

PERS Plan 2/3 members hired on or after May 1, 2013, have the option to retire early by accepting a reduction of 5% for each year of retirement before age 65. This option is available only to those who are age 55 or older and have at least 30 years of service credit. PERS Plan 2/3 requirement benefits are also actuarially reduced to reflect the choice of a survivor benefit. Other PERS Plan 2/3 benefits include duty and non-duty disability payments, a cost-of-living allowance (based on the CPI), capped at three percent annually and a one-time duty related death benefit, if found eligible by the Department of Labor and Industries. PERS 2 members are vested after completing five years of eligible service. Plan 3 members are vested in the defined benefit portion of their plan after ten years of service; or after five years of service if 12 months of that service is earned after age 44.

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

Contributions

The PERS Plan 2/3 employer and employee contribution rates are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit of Plan 3. The Plan 2/3 employer rates include a component to address the PERS Plan 1 UAAL and an administrative expense that is currently set at 0.18%. Each biennium, the state Pension Funding Council adopts Plan 2 employer 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 2021 were as follows:

PERS Plan 2/3		
Actual Contribution Rates	Employer 2/3	Employee 2
January – June 2021		
PERS Plan 2/3	7.92%	7.9%
PERS Plan 1 UAAL	4.87%	
Administrative Fee	0.18%	
Employee PERS Plan 3		Varies
Total	12.97%	7.90%
July – December 2021		
PERS Plan 2/3	6.36%	6.36%
PERS Plan 1 UAAL	3.71%	
Administrative Fee	0.18%	
Employee PERS Plan 3		Varies
Total	10.25%	6.36%

The Facility's actual PERS plan contributions were $32,165 to PERS Plan 1 and $53,531 to PERS Plan 2/3 for the year ended December 31, 2021.

Actuarial Assumptions

The total pension liability (TPL) for each of the DRS plans was determined using the most recent actuarial valuation completed in 2021 with valuation date of June 30, 2020. The actuarial assumptions used in the valuation were based on the results of the Office of the State Actuary's (OSA) *2013-2018 Experience Study* and the *2019 Economic Experience Study.*

Additional assumptions for subsequent events and law changes are current as of the 2019 actuarial valuation report. The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2021. Plan liabilities were rolled forward from June 30, 2019, to June 30, 2021, reflecting each plan's normal cost (using the entry-age cost method), assumed interest and actual benefit payments.

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

Mortality rates were developed using the Society of Actuaries' Pub. H-2020 mortality rates, which vary by member status, as the base table. The OSA applied age offsets for each system, as appropriate, to better tailor the mortality rates to the demographics of each plan. OSA applied the long-term MP-2017 generational improvement scale, also developed by the Society Actuaries, to project mortality rates for every year after the 2010 base table. Mortality rates are applied on a generational basis; meaning, each member is assumed to receive additional mortality improvements in each future year throughout his or her lifetime.

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

- For purpose of the June 30, 2020 Actuarial Valuation Repost (AVR), a non-contribution rate setting valuation under current funding policy, the Office of the Sate Actuary (OSA) introduced temporary method changes to produce asset and liability measures as of the valuation date. See high-level summary below. OSA will revert back to the methods outlined in the 2019 AVR when preparing the 2021 AVR, a contribution rate-setting valuation, which will serve as the basis for 2022 ACFR results.

- To produce measures at June 30, 2020, unless otherwise noted in the 2020 AVR, OSA relied on the same data, assets, methods, and assumptions as the June 30, 2019 AVR. OSA projected the data forward one year reflecting assumed new hires and current members exiting the plan as expected. OSA estimated June 30, 2020, assets by relying on the fiscal year end 2019 assets, reflecting actual investment performance over FY 2020, and reflecting assumed contribution amounts and benefit payments during FY 2020. OSA reviewed the actual June 30, 2020, participant and financial data to determine if any material changes to projection assumptions were necessary. OSA also considered any material impacts to the plans from 2021 legislation. See the 2020 AVR for more information.

Discount Rate

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

To determine that rate, an asset sufficiency test was completed to test whether each pension plan's fiduciary net position was sufficient to make all projected future benefit payments for current plan members. Based on OSA's assumptions, the pension plans' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return of 7.4 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 7.4% was determined using a building-block-method. In selecting this assumption, the OSA reviewed the historical experience data, considered the historical conditions that produced past annual investment returns, and considered Capital Market Assumptions (CMA's) and simulated expected investment returns provided by the Washington State Investment Board (WSIB). The WSIB uses the CMA's and their target asset allocation to simulate future investment returns at various future times.

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, 2021, are summarized in the table below. The inflation component used to create the table is 2.2% and represents the WSIB's most recent long-term estimate of broad economic inflation.

Asset Class	Target Allocation	% Long-Term Expected Real Rate of Return Arithmetic
Fixed Income	20%	2.20%
Tangible Assets	7%	5.10%
Real Estate	18%	5.80%
Global Equity	32%	6.30%
Private Equity	23%	9.30%
	100%	

Sensitivity of the Net Pension Liability/ (Asset)

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

	1% Decrease (6.4%)	Current Discount Rate (7.4%)	1% Increase (8.4%)
PERS 1	$99,195	$58,228	$22,501
PERS 2/3	$(174,018)	$(610,846)	$(970,574)

Pension Plan Fiduciary Net Position

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

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

At June 30, 2021, the Facility reported a total pension liability of $58,228 and a total pension asset of $610,846 for its proportionate share of the net pension liabilities (or assets) as follows:

	Liability (or Asset)
PERS 1	$58,228
PERS 2/3	$(610,846)

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

	Proportionate Share 6/30/20	Proportionate Share 6/30/21	Change in Proportion
PERS 1	0.004235%	0.004768%	0.000533%
PERS 2/3	0.005539%	0.006132%	0.000593%

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.

Pension Expense

For the year ended December 31, 2021, the Facility recognized pension expense as follows:

	Pension Expense
PERS 1	$8,182
PERS 2/3	$(141,887)
TOTAL	$(133,704)

Deferred Outflows of Resources and Deferred Inflows of Resources

At December 31, 2021, the Facility reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

PERS 1	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual investment earnings on pension plan investments		$ (64,614)
Contributions subsequent to the measurement date	$14,039	
TOTAL	$14,039	$ (64,614)

PERS 2/3	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$29,668	$ (7,488)
Net difference between projected and actual investment earnings on pension plan investments		$ (510,524)

Changes of assumptions	$893	$ (43,380)
Changes in proportion and differences between contributions and proportionate share of contributions	$24,552	$ (32,332)
Contributions subsequent to the measurement date	$24,052	
TOTAL	$79,165	$ (593,724)

Deferred outflows of resources related to pensions resulting from the Facility's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2022. 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
2022	$ (17,116)	$ (143,151)
2023	$ (15,685)	$ (133,979)
2024	$ (14,831)	$ (124,434)
2025	$ (16,983)	$ (134,450)
2026		$ (3,562)
Thereafter		$ 964
Total	$ (64,614)	$ (538,612)

NOTE 8 – RISK MANAGEMENT

The Facility 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 72 members. The Pool's fiscal year is November 1st through October 31st.

The Pool allows members to jointly purchase insurance coverage, establish a plan of self-insurance coverage, and provide related services, such as risk management and loss prevention. The Pool provides the following forms of group purchased insurance coverage for its members: All-Risk Property (including Building, Electronic Data Processing, Boiler and Machinery, and Mobile Equipment); General Liability; Automotive Liability; Excess Liability, Crime; Public

Officials Liability; Employment Practices Liability, Cyber Liability, Identity Fraud, Reimbursement Program; Deadly Weapon/Active Shooter Response Program; and bonds of various types. Most coverages are on an "occurrence" basis.

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

TYPE OF COVERAGE	MEMBER DEDUCTIBLE	SELF-INSURED RETENTION/ GROUP	EXCESS LIMITS
Property Loss:			
Buildings and Contents	$1,000 - $25,000 and See (C) below	$25,000	$275,000,000
Flood	See (A) below	See (A) below	$50,000,000
Earthquake	See (B) below	See (B) below	$110,000,000 ($75,000,000 shared by all members, $25,000,000 dedicated to Alderwood, $10,000,000 dedicated to Sammamish Plateau)
Terrorism	$1,000 - $25,000	$25,000 Primary layer	$700,000,000 Primary layer
Boiler & Machinery	$1,000 - $350,000 depending on object	$25,000 - $350,000 depending on object	$100,000,000
Auto - Physical Damage	$1,000-$25,000	$25,000	Replacement Value Coverage
Liability:			
Commercial General Liability	$1,000 - $25,000	$500,000	$10,000,000
Auto Liability	$1,000 - $25,000	Same as above	$10,000,000
Public Officials Errors and Omissions	$1,000 - $25,000	Same as above	$10,000,000
Employment Practices	$1,000 - $25,000	Same as above	$10,000,000
Other:			
Cyber Liability	$50,000	N/A	$2,000,000
Public Officials Bonds	Various	N/A	Various
Crime	$1,000 - $25,000	$25,000	$2,000,000
Identity Fraud	$0	$0	$25,000

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

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

Upon joining, the members contract to remain in the Pool for one full policy period. Following completion of one full policy period, members must give six months notice before terminating participation (e.g. to withdraw from the Pool on November 1, 2022, written notice must be in possession of the Pool by April 30, 2022). 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 Facility was a signatory to the Interlocal Governmental Agreement.

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

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

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

NOTE 9 – ASSET RETIREMENT OBLIGATIONS

Under state law, sewer treatment plants are required to decommission upon its closure. However the Plant is maintained in very good condition through keeping updates and expansion in the future. The Department of Ecology has not required any decommission during its annual permit process.

There is no closure prediction in 100 years so the Plant has no asset retirement obligations at this point.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING AND FINANCIAL POLICIES

The accounting policies of the South Kitsap Water Reclamation Facility (Facility) conform to generally accepted accounting principles (GAAP) as applicable to proprietary funds of governments. This and consecutive statements are reflected in the accompanying financial statements (including notes to financial statements).

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).

A. Reporting Entity

The Facility is a subdivision of the City of Port Orchard (City) and West Sound Utility District (District) that operates with oversight by a six-member Sewer Advisory Board comprised of three City Council members and three District Commissioners. As required by generally accepted accounting principles, management has considered all potential component units in defining the reporting entity. The Facility has no component units.

B. Basis of Accounting And Presentation

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

The Facility's "proprietary funds" ("Enterprise Utilities" and "Internal Service" funds) are accounted for using the full-accrual basis of accounting for the Facility 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 Facility distinguishes between operating revenues and expenses from non-operating items. Operating revenues and expenses are derived from the sewer services provided to the City and District. Operating expenses include the cost of providing these sewer services as well as depreciation on capital assets. All revenues and expenses not meeting the above criteria are reported as non-operating revenues and expenses. Unbilled receivables are recorded at year-end. Other income includes gains and losses from disposal of capital assets.

C. Financial Management Policies

The Board of Commissioners adopted comprehensive financial management policies which are reviewed and updated during the District's budget process. The financial health and welfare of the District is highly dependent upon establishing and maintaining sound, financial-planning objectives and strategies of implementation. As a result, the implementation of these policies provides direction in the decision-making process of the District's Board of Commissioners and District Administration while operating to provide stability of changing service and financial conditions. Such policies enable District 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 Facility considers all highly liquid investments with a maturity of three months or less purchased to be cash equivalents.

E. Capital Assets
See Note (2)

F. Receivables
The policy for writing off uncollectible receivables is made by the District's Board of Commissioners.

G. Investments
See Note (5)

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

Vacation pay may be accumulated up to a maximum accrual of two hundred forty (240) hours and may be carried over to employee anniversary month. The board of Commissioners approved resolution 795-18 "Modifying Vacation (Annual Leave) Policy" on January 7, 2019. This policy revision provides an option to employees to receive compensation for up to one or two standard workweeks of accrued vacation leave within a calendar year based on certain criteria. Accrued vacation pay is payable upon an employee taking a vacation or upon termination of employment, retirement, or death. Sick leave in excess of one thousand forty (1040) hours of the current year shall be deposited into a VEBA account for the employee at a rate of fifty (50) percent of the overage amount. Annual leave and sick leave are payable as follows:

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

I. Long-Term Debt
See Note (3)

J. Infrastructure
Governmental Accounting Standards Board Statement No. 34 allows two methods of reporting for a local government. One is called the "modified approach" and the other is based upon "historical cost". The Facility has always reported its infrastructure on a historical cost basis with a corresponding offset as accumulated depreciation. The Facility 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.

K. 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 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 – CAPITAL ASSETS

Major expenses for capital assets, including capital leases and major repairs that increase useful life, are capitalized. The Facility capitalizes purchases that meet these criteria when the individual cost threshold exceeds $5,000, as set forth in Resolution 337-12, "Capital Asset Policy". Maintenance, repairs, and minor renewals are accounted for as expenses when incurred.

The Facility in service and other capital assets are recorded at cost where historical cost is known. Where historical cost is not known, assets are recorded at fair market value.
The original cost of operating property retired or disposed of and the cost of installation, less salvage, is charged to accumulated depreciation. However, in the case of the sale of a significant operating unit or system, the original cost is removed from the Facility accounts, accumulated depreciation is charged with the accumulated depreciation related to the property sold, and the net gain or loss on disposition is credited or charged to income.

Depreciation was computed on the straight-line method. The initial depreciation on the Facility is recorded in the year subsequent to purchase. Structures and Improvements have a useful life of thirty five to fifty years, Facility Equipment has ten to fifteen years and Vehicles have ten years. Preliminary costs incurred for proposed projects are deferred pending construction. Costs relating to projects ultimately constructed are transferred to the Facility; charges that relate to abandoned projects are expensed.

The Facility's activity for the year ending December 31, 2020 was as follows:

	Beginning Balance 01/01/2020	Increase	Decrease	Transfers	Ending Balance 12/31/2020
The Facility not being depreciated:					
Land	309,540				309,540
CIP	176,536	150,716		(176,536)	150,716
Total the Facility not depreciated	$ 486,077	$ 150,716	$ -	$ (176,536)	$ 460,256
The Facility being depreciated:					
Structures & Improvements	31,178,062			176,536	31,354,598
Plant Equipment	8,048,946				8,048,946
Tools & Equipment	144,627		6,767		137,861
Vehicles	110,030				110,030
Total the Facility being depreciated	$ 39,481,665		$ 6,767	$ 176,536	$ 39,651,434
Accumulated Depreciation	18,562,307	904,221	6,767		19,459,761
Total the Facility depreciated, net	20,919,358	(904,221)		176,536	20,191,673
Total the Facility capital assets, net	$ 21,405,434	$ (753,505)	$ -	$ -	$ 20,651,929

NOTE 3 – LONG-TERM DEBT AND LIABILITIES

A. Long-Term Debt

The Facility has two Public Work Trust Fund loans for its expansion. Loan #1 and #2 will mature in 2022 and 2024. Both loans were issued at interest rates of one half percent (0.5%). The annual requirements to amortize all debts outstanding as of December 31, 2020, including interest, are as follows:

Year Ending December 31	Principal	Interest	Total
2021	912,595	12,726	925,321
2022	912,595	8,163	920,758
2023	360,000	3,600	363,600
2024	360,000	1,800	361,800
Total	$ 2,545,190	$ 26,289	$ 2,571,479

B. Change in Long Term Liabilities

During the year ended December 31, 2020, the following changes occurred in long-term liabilities:

	Beginning Balance 1/1/2020	Additions	Reduction	Ending Balance 12/31/2020	Due within One Year 2020
PWTF Loan #1	1,657,786		552,595	1,105,191	552,595
PWTF Loan #2	1,800,000		360,000	1,440,000	360,000
Compensated Absences	131,568	13,636		145,204	16,538
Net Pension Liabilities	258,399		38,040	220,359	
Total	3,847,752	13,636	950,635	2,910,753	929,133
Less Current Portion				$ 929,133	
Total Long-Term Liabilities				$ 1,981,620	

NOTE 4 – COVID-19 PANDEMIC

In February 2020, the Governor of the state of Washington declared a state of emergency in response to the spread of the deadly new virus known as COVID-19. In the months following the declaration, precautionary measures to slow the spread of the virus were ordered. These measures included closing schools, cancelling public events, limiting public and private gatherings, and restricting business operations, travel and non-essential activities.

On March 23, 2020, the Board approved Resolution 880 – 20 “Declaration of Emergency – Covid 19”. On May 18, 2020, the Board approved Resolution 890-20 “Extending Annual Leave Maximum Accrual In Response to The COVID-19 Emergency” which allowed employees to accumulate annual leave above 240 hours until May 31, 2021. It definitely increased the liability on compensated absences.

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

NOTE 5 – DEPOSITS AND INVESTMENTS

A. Deposits

Custodial credit risk (deposits). Custodial risk for deposits is the risk that, in the event of a bank failure, the government’s deposits may not be returned. The Plant has not adopted a policy that addresses deposit custodial risk; however, Kitsap County is the Treasurer for the District’ funds. The Plant’s deposits are covered by Federal Depository Insurance (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (PDPC). In the event of a bank failure, claims for the District's deposits would be satisfied by FDIC or from the sale of collateral held in the PDPC pool.

B. Investments

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

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

As of December 31, 2020, the Facility has the following cash and investments:

	Cash	Investments	Total
Washington State Investment Pool		$ 3,309,748	$ 3,309,748
Kitsap County Treasurer	$ 88,464		$ 88,464
Petty Cash	$ 100		$ 100
Total	$ 88,564	$ 3,309,748	$ 3,398,312

NOTE 6 – JOINT VENTURE

In 1983, the City and the District (Formerly Kitsap County Sewer District #5) entered into an interlocal cooperative agreement and created a utility local improvement district (ULID) to help finance construction a jointly owned wastewater treatment facility. Construction of the Facility was completed in 1985. The participants pay their share of the operating and maintenance expenses based on their portion of flow into the facility. The cost sharing for 2020 was 49.5% for the City and 50.5% for the District, where each entity contributes an adequate amount of revenue generated from the sewer utility customer rates to fund the Facility's operational costs. In addition, the City and District also transfer each year an established amount of general facility charges to assist in funding the Facility's debt obligations. In 2014, the District and City negotiated and executed a new interlocal agreement that resulted in extending the responsibilities of the District in managing and operating the Facility, in addition to resolving issues pertaining to property, asset ownership, liability and insurance.

A Sewer Advisory Board comprised of the three City Council members and three District Commissioners, review and approves the revenue allocation formula each year to ensure that the revenue contributions from the City and District are equitable and the amount is sufficient to cover the Facility's current and future maintenance, capital, debt obligation and operations expenses. In accordance with the joint venture agreement, the District manages the operations of the Facility.

A major expansion of the Facility was approved in 2002 and cost approximately $21.5 million. This project was approved for a $10 million Public Works Trust Fund Loan (PWTF Loan #1) in 2002. Another Public Works Trust Fund Loan was approved in 2004 for $6.8 million (PWTF Loan #2). The City was the lead agency for the expansion project. The City transferred the related assets and liabilities to the Facility upon completion of the project on December 31, 2007. On that date, all assets and liabilities related to the expansion project were included in the financial statements of the Facility.

The District maintains separate accounting records and prepares separate financial statements of the operations of the Facility. The District's Finance Department provides accounting and financial support services to the Facility. Financial 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.

NOTE 7 – PENSION PLANS

The following table represents the aggregate pension amounts for all plans for the year 2020:

Aggregate Pension Amounts – All Plans	
Pension liabilities	$(220,359)
Deferred outflows of resources	$91,784
Deferred inflows of resources	$(103,343)
Pension expense/expenditures	$(18,104)

State Sponsored Pension Plans

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

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

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

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

Public Employees' Retirement System (PERS)

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

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

Contributions

The PERS Plan 1 member contribution rate is established by State stature at 6%. The employer contribution rate is developed by the Office of the State of Actuary and includes an administrative expense component that is currently set at 0.18%. Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates. The PERS Plan 1 required contribution rates (expressed as a percentage of covered payroll) for 2020 were as follows:

PERS Plan 1		
Actual Contribution Rates	Employer	Employee*
January – August 2020		
PERS Plan 1	7.92%	6.00%
PERS Plan 1 UAAL	4.76%	
Administrative Fee	0.18%	

Total	12.86%	6.00%
September – December 2020		
PERS Plan 1	7.92%	6.00%
PERS Plan 1 UAAL	4.87%	
Administrative Fee	0.18%	
Total	12.97%	6.00%

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

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

- With a benefit that is reduced by 3% for each year before age 65; or
- With a benefit that has a smaller (or no) reduction (depending on age) that imposes stricter return-to-work rules.

PERS Plan 2/3 members hired on or after May 1, 2013, have the option to retire early by accepting a reduction of 5% for each year of retirement before age 65. This option is available only to those who are age 55 or older and have at least 30 years of service credit. PERS Plan 2/3 requirement benefits are also actuarially reduced to reflect the choice of a survivor benefit. Other PERS Plan 2/3 benefits include duty and non-duty disability payments, a cost-of-living allowance (based on the CPI), capped at three percent annually and a one-time duty related death benefit, if found eligible by the Department of Labor and Industries. PERS 2 members are vested after completing five years of eligible service. Plan 3 members are vested in the defined benefit portion of their plan after ten years of service; or after five years of service if 12 months of that service is earned after age 44.

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

Contributions

The PERS Plan 2/3 employer and employee contribution rates are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit of Plan 3. The Plan 2/3 employer rates include a component to address the PERS Plan 1 UAAL and an administrative expense that is currently set at 0.18%. Each biennium, the state Pension Funding Council adopts Plan 2 employer 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 2020 were as follows:

PERS Plan 2/3		
Actual Contribution Rates	Employer 2/3	Employee 2*
January – August 2020		
PERS Plan 2/3	7.92%	7.9%
PERS Plan 1 UAAL	4.76%	
Administrative Fee	0.18%	
Employee PERS Plan 3		Varies
Total	12.86%	7.41%
September – December 2020		
PERS Plan 2/3	7.92%	7.90%
PERS Plan 1 UAAL	4.87%	
Administrative Fee	0.18%	
Employee PERS Plan 3		Varies
Total	12.97%	7.90%

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

The Facility's actual PERS plan contributions were $34,669 to PERS Plan 1 and $57,245 to PERS Plan 2/3 for the year ended December 31, 2020.

Actuarial Assumptions

The total pension liability (TPL) for each of the DRS plans was determined using the most recent actuarial valuation completed in 2020 with valuation date of June 30, 2019. The actuarial assumptions used in the valuation were based on the results of the Office of the State Actuary's (OSA) *2007-2012 Experience Study* and the *2017 Economic Experience Study.*

Additional assumptions for subsequent events and law changes are current as of the 2019 actuarial valuation report. The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2020. Plan liabilities were rolled forward from June 30, 2019, to June 30, 2020, reflecting each plan's normal cost (using the entry-age cost method), assumed interest and actual benefit payments.

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

- Investment rate of return: 7.4%

Mortality rates were developed using the Society of Actuaries' Pub. H-2020 mortality rates, which vary by member status, as the base table. The OSA applied age offsets for each system, as appropriate, to better tailor the mortality rates to the demographics of each plan. OSA applied the long-term MP-2017 generational improvement scale, also developed by the Society Actuaries, to project mortality rates for every year after the 2010 base table. Mortality rates are applied on a generational basis; meaning, each member is assumed to receive additional mortality improvements in each future year throughout his or her lifetime.

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

- OSA updated its demographic assumptions based on the results of its latest demographic experience study. See OSA's 2013-2018 Demographic Experience Study at leg.wa.gov/osa.
- OSA updated the Early Retirement Factors and Joint-and-Survivor factors used in its model to match the ones implemented by DRS on October 1, 2020. These factors are used to value benefits for members who elect to retire early and for survivors of members that die prior to retirement.
- The valuation includes liabilities and assets for Plan 3 members purchasing Total Allocation Portfolio annuities when determining contribution rates and funded status.
- OSA simplified its modeling of medical premium reimbursements for survivors of duty-related deaths in LEOFF 2.
- OSA changed its method of updating certain data items that change annually, including the public safety duty-related death lump sum and Washington state average wage. OSA set these values at 2018 and will project them into the future using assumptions until the next Demographic Experience Study in 2025. See leg.wa.gov/osa for more information on this method change.

Discount Rate

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

To determine that rate, an asset sufficiency test was completed to test whether each pension plan's fiduciary net position was sufficient to make all projected future benefit payments for current plan members. Based on OSA's assumptions, the pension plans' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return of 7.4 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 7.4% was determined using a building-block-method. In selecting this assumption, the Office of the State Actuary (OSA) reviewed the historical experience data, considered the historical conditions that produced past annual investment returns, and considered capital market assumptions and simulated expected investment returns provided by the Washington State Investment Board (WSIB). The WSIB uses the CMA's and their target asset allocation to simulate future investment returns at various future times.

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, 2020, are summarized in the table below. The inflation component used to create the table is 2.2% and represents the WSIB's most recent long-term estimate of broad economic inflation.

Asset Class	Target Allocation	% Long-Term Expected Real Rate of Return Arithmetic
Fixed Income	20%	2.20%
Tangible Assets	7%	5.10%
Real Estate	18%	5.80%
Global Equity	32%	6.30%
Private Equity	23%	9.30%
	100%	

Sensitivity of the Net Pension Liability

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

	1% Decrease (6.4%)	Current Discount Rate (7.4%)	1% Increase (8.4%)
PERS 1	$187,280	$149,518	$116,586
PERS 2/3	$440,790	$70,841	$(233,812)

Pension Plan Fiduciary Net Position

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

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

At June 30, 2020, the Facility reported a total pension liability of $220,359 for its proportionate share of the net pension liabilities as follows:

	Liability
PERS 1	$149,518
PERS 2/3	$70,841

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

	Proportionate Share 6/30/19	Proportionate Share 6/30/20	Change in Proportion
PERS 1	0.005067%	0.004235%	(0.000832%)
PERS 2/3	0.006543%	0.005539%	(0.001004%)

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

The collective net pension liability was measured as of June 30, 2020, and the actuarial valuation date on which the total pension liability is based was as of June 30, 2019, with update procedures used to roll forward the total pension liability to the measurement date.

Pension Expense

For the year ended December 31, 2020, the Facility recognized pension expense as follows:

	Pension Expense
PERS 1	$(23,956)
PERS 2/3	$5,852
TOTAL	$(18,104)

Deferred Outflows of Resources and Deferred Inflows of Resources

At December 31, 2020, the Facility reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

PERS 1	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual investment earnings on pension plan investments		$ (832)
Contributions subsequent to the measurement date	$17,564	
TOTAL	$17,564	$ (832)

PERS 2/3	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$25,360	$ (8,878)
Net difference between projected and actual investment earnings on pension plan investments		$ (3,598)
Changes of assumptions	$1,009	$(48,390)
Changes in proportion and differences between contributions and proportionate share of contributions	$19,066	$ (41,645)
Contributions subsequent to the measurement date	$28,785	
TOTAL	$74,220	$ (102,511)

Deferred outflows of resources related to pensions resulting from the Facility's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2021. 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
2021	$ (3,778)	$ (34,568)
2022	$ (119)	$ (12,200)
2023	$ 1,153	$ (3,915)
2024	$ 1,911	$ 5,083
2025		$ (3,976)
Thereafter		$ (7,500)
Total	$ (832)	$ (57,076)

NOTE 8 – RISK MANAGEMENT

The Facility is a member of the Water and Sewer Risk Management Pool (Pool). Chapter 48.62 RCW authorizes the governing body of any one or more governmental entities to form together into or join a pool or organization for the joint purchasing of insurance, and/or joint self-insuring, and/or joint hiring or contracting for risk management services to the same extent that they may individually purchase insurance, self-insurance, or hire or contract for risk management services. An agreement to form a pooling arrangement was made pursuant to the provisions of Chapter 39.34 RCW, the Interlocal Cooperation Act. The Pool was formed in November 1987 when water and sewer districts in the State of Washington joined together by signing an Interlocal Governmental Agreement to pool their self-insured losses and jointly purchase insurance and administrative services. The Pool currently has 70 members. The Pool's fiscal year is November 1st through October 31st.

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

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

TYPE OF COVERAGE	MEMBER DEDUCTIBLE	SELF-INSURED RETENTION/ GROUP	EXCESS LIMITS
Property Loss:			
Buildings and Contents	$1,000 - $25,000 and See (C) below	$25,000	$275,000,000
Flood	See (A) below	See (A) below	$50,000,000
Earthquake	See (B) below	See (B) below	$110,000,000 ($75,000,000 shared by all members, $25,000,000 dedicated to Alderwood, $10,000,000 dedicated to Sammamish Plateau)
Terrorism	$1,000 - $25,000	$25,000	$700,000,000

		Primary layer	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	Replacement Value Coverage
Liability:			
Commercial General Liability	$1,000 - $25,000	$300,000, subject to $150,000 Corridor Deductible	$15,000,000
Auto Liability	$1,000 - $25,000	Same as above	$15,000,000
Public Officials Errors and Omissions	$1,000 - $25,000	Same as above	$15,000,000
Employment Practices	$1,000 - $25,000	Same as above	$15,000,000
Other:			
Cyber Liability	$50,000	N/A	$2,000,000
Deadly Weapon/Active Shooter	$10,000	N/A	$500,000
Public Officials Bonds	Various	N/A	Various
Crime	$1,000 - $25,000	$25,000	$2,000,000
Identity Fraud	$0	$0	$25,000

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

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

C. Member deductible for Cyber liability is $50,000 and where applicable the dollar amount of the business interruption loss during the policy's required 8 hour waiting period.

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

Upon joining, the members contract to remain in the Pool for one full policy period. Following completion of one full policy period, members must give six months' notice before terminating participation (e.g. to withdraw from the Pool on November 1, 2021, written notice must be in possession of the Pool by April 30, 2021). 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 Facility was a signatory to the Interlocal Governmental Agreement.

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

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

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

NOTE 9 – ASSET RETIREMENT OBLIGATIONS

Under state law, sewer treatment plants are required to decommission upon its closure. However the Plant is maintained in very good condition through keeping updates and expansion in the future. The Department of Ecology has not required any decommission during its annual permit process. There is no closure prediction in 100 years so the Plant has no asset retirement obligations at this point.

Joint Wastewater Treatment Facility
aka South Kitsap Water Reclamation Facility
Schedule of Proportionate Share of the Net Pension Liability
As of June 30, 2021
Last 8 Fiscal Years

PERS 1

Year	Employer's proportion of the net pension liability (asset)	Employer's proportionate share of the net pension liability	Covered payroll	Employer's proportionate share of the net pension liability as a percentage of covered payroll	Plan fiduciary net position as a % of the total pension liability
2021	0.004768%	$ 58,228	$ 735,655	7.92%	88.74%
2020	0.004235%	$ 149,518	$ 704,627	21.22%	68.64%
2019	0.005067%	$ 194,844	$ 667,622	29.18%	67.12%
2018	0.004801%	$ 214,414	$ 646,419	33.17%	63.22%
2017	0.004467%	$ 211,963	$ 611,753	34.65%	61.24%
2016	0.005234%	$ 281,090	$ 639,622	43.95%	57.03%
2015	0.005433%	$ 284,201	$ 628,252	45.24%	59.10%
2014	0.005422%	$ 273,142	$ 602,441	45.34%	61.19%

PERS 2/3

Year	Employer's proportion of the net pension liability (asset)	Employer's proportionate share of the net pension liability	Covered payroll	Employer's proportionate share of the net pension liability as a percentage of covered payroll	Plan fiduciary net position as a % of the total pension liability
2021	0.006132%	$ (610,846)	$ 735,655	83.03%	120.29%
2020	0.005539%	$ 70,841	$ 704,627	10.05%	97.22%
2019	0.006543%	$ 63,555	$ 667,622	9.52%	97.77%
2018	0.006136%	$ 104,767	$ 646,419	16.21%	95.77%
2017	0.005746%	$ 199,646	$ 611,753	32.64%	90.97%
2016	0.006696%	$ 337,158	$ 639,622	52.71%	85.82%
2015	0.007016%	$ 250,696	$ 628,252	39.90%	89.20%
2014	0.006981%	$ 141,115	$ 602,441	23.42%	93.29%

Joint Wastewater Treatment Facility
aka South Kitsap Water Reclamation Facility
Schedule of Proportionate Share of the Net Pension Liability
As of June 30, 2020
Last 7 Fiscal Years

PERS 1					
Year	Employer's proportion of the net pension liability (asset)	Employer's proportionate share of the net pension liability	Covered payroll	Employer's proportionate share of the net pension liability as a percentage of covered payroll	Plan fiduciary net position as a % of the total pension liability
2020	0.004235%	$ 149,518	$ 704,627	21.22%	68.64%
2019	0.005067%	$ 194,844	$ 667,622	29.18%	67.12%
2018	0.004801%	$ 214,414	$ 646,419	33.17%	63.22%
2017	0.004467%	$ 211,963	$ 611,753	34.65%	61.24%
2016	0.005234%	$ 281,090	$ 639,622	43.95%	57.03%
2015	0.005433%	$ 284,201	$ 628,252	45.24%	59.10%
2014	0.005422%	$ 273,142	$ 602,441	45.34%	61.19%

PERS 2/3					
Year	Employer's proportion of the net pension liability (asset)	Employer's proportionate share of the net pension liability	Covered payroll	Employer's proportionate share of the net pension liability as a percentage of covered payroll	Plan fiduciary net position as a % of the total pension liability
2020	0.005539%	$ 70,841	$ 704,627	10.05%	97.22%
2019	0.006543%	$ 63,555	$ 667,622	9.52%	97.77%
2018	0.006136%	$ 104,767	$ 646,419	16.21%	95.77%
2017	0.005746%	$ 199,646	$ 611,753	32.64%	90.97%
2016	0.006696%	$ 337,158	$ 639,622	52.71%	85.82%
2015	0.007016%	$ 250,696	$ 628,252	39.90%	89.20%
2014	0.006981%	$ 141,115	$ 602,441	23.42%	93.29%

Joint Wastewater Treatment Facility
aka South Kitsap Water Reclamation Facility
Schedule of Employer Contributions
As of December 31, 2021
Last 8 Fiscal Years

PERS 1

Year	Statutorily or contractually required contributions	relation to the statutorily or contractually required contributions	Contribution deficiency (excess)	Covered payroll	Contributions as a percentage of covered payroll
2021	$ 32,165	$ (32,165)		$ 749,542	4.29%
2020	$ 34,669	$ (34,669)		$ 722,787	4.80%
2019	$ 33,793	$ (33,793)		$ 683,362	4.95%
2018	$ 32,839	$ (32,839)		$ 648,479	5.06%
2017	$ 30,471	$ (30,471)		$ 624,587	4.88%
2016	$ 29,492	$ (29,492)		$ 618,389	4.77%
2015	$ 27,572	$ (27,572)		$ 639,758	4.31%
2014	$ 24,648	$ (24,648)		$ 611,821	4.03%

PERS 2/3

Year	Statutorily or contractually required contributions	relation to the statutorily or contractually required contributions	Contribution deficiency (excess)	Covered payroll	Contributions as a percentage of covered payroll
2021	$ 53,531	$ (53,531)		$ 749,542	7.14%
2020	$ 57,245	$ (57,245)		$ 722,787	7.92%
2019	$ 52,754	$ (52,754)		$ 683,362	7.72%
2018	$ 48,637	$ (48,637)		$ 648,479	7.50%
2017	$ 42,201	$ (42,201)		$ 624,587	6.76%
2016	$ 38,519	$ (38,519)		$ 618,389	6.23%
2015	$ 35,276	$ (35,276)		$ 639,758	5.51%
2014	$ 30,502	$ (30,502)		$ 611,821	4.99%

Joint Wastewater Treatment Facility
aka South Kitsap Water Reclamation Facility
Schedule of Employer Contributions
As of December 31, 2020
Last 7 Fiscal Years

PERS 1

Year	Statutorily or contractually required contributions	relation to the statutorily or contractually required contributions	Contribution deficiency (excess)	Covered payroll	Contributions as a percentage of covered payroll
2020	$ 34,669	$ (34,669)		$ 722,787	4.80%
2019	$ 33,793	$ (33,793)		$ 683,362	4.95%
2018	$ 32,839	$ (32,839)		$ 648,479	5.06%
2017	$ 30,471	$ (30,471)		$ 624,587	4.88%
2016	$ 29,492	$ (29,492)		$ 618,389	4.77%
2015	$ 27,572	$ (27,572)		$ 639,758	4.31%
2014	$ 24,648	$ (24,648)		$ 611,821	4.03%

PERS 2/3

Year	Statutorily or contractually required contributions	relation to the statutorily or contractually required contributions	Contribution deficiency (excess)	Covered payroll	Contributions as a percentage of covered payroll
2020	$ 57,245	$ (57,245)		$ 722,787	7.92%
2019	$ 52,754	$ (52,754)		$ 683,362	7.72%
2018	$ 48,637	$ (48,637)		$ 648,479	7.50%
2017	$ 42,201	$ (42,201)		$ 624,587	6.76%
2016	$ 38,519	$ (38,519)		$ 618,389	6.23%
2015	$ 35,276	$ (35,276)		$ 639,758	5.51%
2014	$ 30,502	$ (30,502)		$ 611,821	4.99%

Note 1: Information Provided

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

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

Note 2: Significant Factors

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

Note 3: Covered Payroll

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

Note 4: Change in Contribution Rate

The employer contribution rates for both PERS 1 and PERS 2/3 plans decreased from 12.97% to 10.25% for pay periods beginning July 2021.

Note 1: Information Provided

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

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

Note 2: Significant Factors

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

Note 3: Covered Payroll

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

Note 4: Change in Contribution Rate

The employer contribution rates for both PERS 1 and PERS 2/3 plans increased from 12.86% to 12.97% for pay periods beginning September 2020.

ABOUT THE STATE AUDITOR'S OFFICE

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

We work with state agencies, local governments and the public to achieve our vision of increasing trust in government by helping governments work better and deliver higher value.

In fulfilling our mission to provide citizens with independent and transparent examinations of how state and local governments use public funds, we hold ourselves to those same standards by continually improving our audit quality and operational efficiency, and by developing highly engaged and committed employees.

As an agency, the State Auditor's Office has the independence necessary to objectively perform audits, attestation engagements and investigations. Our work is designed to comply with professional standards as well as to satisfy the requirements of federal, state and local laws. The Office also has an extensive quality control program and undergoes regular external peer review to ensure our work meets the highest possible standards of accuracy, objectivity and clarity.

Our audits look at financial information and compliance with federal, state and local laws for all local governments, including schools, and all state agencies, including institutions of higher education. In addition, we conduct performance audits and cybersecurity audits of state agencies and local governments, as well as state whistleblower, fraud and citizen hotline investigations.

The results of our work are available to everyone through the more than 2,000 reports we publish each year on our website, www.sao.wa.gov. Additionally, we share regular news and other information via an email subscription service and social media channels.

We take our role as partners in accountability seriously. The Office provides training and technical assistance to governments both directly and through partnerships with other governmental support organizations.

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