West Sound
UTILITY DISTRICT

ANNUAL REPORT

West Sound Utility District

Joint Wastewater Treatment Facility
aka South Kitsap Water Reclamation Facility

0715

MCAG No.

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

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2017

Certified correct this 12th day of May 2018, to the best of my knowledge and belief:

GOVERNMENT INFORMATION:

Official Mailing Address: 2924 SE Lund Avenue – Port Orchard, Washington 98366
Official Web Site Address: www.wsud.us

PREPARER INFORMATION and CERTIFICATION:

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	Michael R. Wilson – General Manager

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aka South Kitsap Water Reclamation Facility
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WSUD Elected Officials

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

SKWRF Sewer Advisory Committee

Commissioner, James J. Hart
Commissioner, Jerry Lundberg
Commissioner, Susan Way
Councilmember, Fred Chang
Councilmember, Cindy Lucarelli
Councilmember, Scott Diener

WSUD Appointed Officials

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

MANAGEMENT DISCUSSION & ANALYSIS

As Management of the 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, 2017. 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 2017, the cost sharing was fifty percent (50%) contribution by the City and fifty percent (50%) from the District, which was 1% lower than the District's contribution in 2016.

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 a biennial budget as a measure of monitoring revenues and controlling expenses. The Commissioners also use the budget as a financial planning tool for the District's future needs. Also, in 2012 the Board of Commissioners approved Resolution 403-12 "Financial Management Policies" and Resolution 337-12, "Capital Assets Policy." These Financial Management Policies, which are updated every two years with the adoption of the biennial budget, direct the decision-making process of the District's Board of Commissioners and District administration while operating to provide stability of changing services and financial conditions. These policies also provide guidelines for evaluating both current activities and proposals for future programs and direct the District's financial resources toward meeting the goals and programs identified in the District water and wastewater utility system's comprehensive plans.

The implementation of wise fiscal policies enables the District officials to protect the public interest and ensure public trust and confidence in the District's management of water and wastewater operations. The Board approved new "capital assets policies" since tracking and managing the District's capital assets is a critical accounting and financial management function. It is also important for the District to have a comprehensive policy that provides proper control and accountability of capital assets and collect and maintain complete and accurate capital assets information required for the preparation of the District's financial statements in accordance with generally accepted accounting principles.

Financial Highlights

- The assets of the Facility exceeded its liabilities at the close of the 2017 fiscal year by \$18,165,346. \$2,565,021 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.

- The Facility's total net position was \$18,116,828 in 2017.

- The Facility had \$411,628 net pension liabilities after implementing GASB 68.

- The Facility's total long-term debt on capital facility loans decreased by \$912,595 during the fiscal year. As of December 31, 2017, the total outstanding debt was \$5,282,976.

- The Facility's total cash and cash equivalents was \$3,134,918, which increased by \$191,174 in 2017.

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, 2017.

	Net Position	
December 31	2017	2016
Current Assets	3,208,424	3,017,442
Non-current Assets	20,834,782	21,122,539
Total Assets	$ 24,043,207	$ 24,139,981
Deferred Outflows of Resources	$ 61,085	$ 104,036
Current Liabilities	957,436	962,652
Non-current Liabilities	4,920,424	6,035,599
Total Liabilities	$ 5,877,861	$ 6,998,251
Deferred Inflows of Resources	$ 109,603	$ 21,224
Net Investment in Capital Assets	15,551,807	14,926,968
Unrestricted	2,565,021	2,297,573
Total Net Position	$ 18,116,828	$ 17,224,542

The 2017 total net position was $18.1 million, which is an increase of five percent (5%) from 2016.

At the end of 2017, capital assets represent nearly 86.7% of total assets and in 2016 capital assets represent 87.5% of total assets. At December 31, 2017 and 2016, the Facility had non-current liabilities of $4.9 million and $6 million, respectively. The decrease is due to the Facility making scheduled debt payments.

The Facility's net investment in capital assets is $15.6 million at December 31, 2017 and $14.9 million at December 31, 2016. 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 2017. These changes are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, some revenues and expenses reported in this statement will only affect future period cash flow (e.g., uncollected receivables).

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

	2017	2016
Operating Revenue	3,272,291	3,224,150
Non-operating Revenue	29,325	19,469
Total Revenues	$ 3,301,616	$ 3,243,619
Operating Expenses	2,767,410	2,923,147
Non-operating Expenses	41,920	33,259
Total Expenses	$ 2,809,330	$ 2,956,406
Capital Contributions	400,000	762,768
Change in Net Position	$ 892,286	$ 1,049,980
Net Position, Beginning of Year	$ 17,224,542	$ 16,174,562
Net Position, End of Year	$ 18,116,828	$ 17,224,542

Total operating revenues for the Facility in 2017 and 2016 were $3.3 million and $3.2 million, respectively. The increase is about 1.5%.

Total operating expenses for 2017 and 2016 were $2.8 million and $2.9 million, respectively. The 2017 operating expenses decreased by 5.3% from the 2016 expenses. The decrease in expenses was due to fewer maintenance projects. The increase of $8,661 in non-operating expenses was due to the loss on the disposition of assets.

Notes to the Basic Financial Statements

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

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The Facility's investment in capital assets as of December 31, 2017, amounted to $20.8 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 the current year was 4.2%. The change in capital assets is from accumulated depreciation.

December 31	2017	2016
Land	$ 309,540	$ 309,540
Construction in Progress	676,837	40,808
Structures and Improvements	31,178,062	31,178,062
Plant Equipment	6,234,545	6,265,036
Tools and Equipment	151,111	151,111
Vehicles	110,030	61,799
Less: Accumulated Depreciation	(17,825,343)	(16,883,817)
Total Capital Assets, Net	$ 20,834,782	$ 21,122,539

Additional information on the Facility's capital assets can be found in Note 3 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 2017, 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:

	2017	2016
PW-02-691-043 Facility Expansion Loan #1	$ 2,762,976	$ 3,315,571
PW-04-691-056 Facility Expansion Loan #2	$ 2,520,000	$ 2,880,000

Additional information on the Facility's long-term debt can be found in Note 4 of this report.

CASH FLOW

The Facility expects to see some increases in sewage flows to the Facility over the next year. 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 represent one ERU). The ERU cost in 2017 was $23.50 and in 2016 the ERU cost was $23.00. 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 experienced continued slow growth in wastewater treatment and discharge in 2017 due to the community's slow economy and water conservation. It is anticipated that there will be some increase of wastewater flow volumes in the Facility due to the projected limited growth in new housing units or commercial activity over the next few years. During this 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.

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

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

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

ASSETS	
Cash and Cash Equivalents	$ 3,134,918
Prepaid Expenses	73,506
TOTAL CURRENT ASSETS	3,208,424
Land	309,540
Construction in Progress	676,837
Structures and Improvements	31,178,062
Plant Equipment	6,234,545
Tools & Equipment	151,111
Vehicles	110,030
Less Accumulated Depreciation	(17,825,343)
TOTAL CAPITAL ASSETS	20,834,782
TOTAL ASSETS	$ 24,043,207
DEFERRED OUTFLOWS OF RESOURCES	
Deferred Outflows Related to Pensions	$ 61,085
LIABILITIES	
Accounts Payable	23,505
Contractors - Retainage	1,229
Debt Interest	13,207
Current Portion of Accrued Compensated Absences	6,900
Current Portion of Long-Term Debt	912,595
TOTAL CURRENT LIABILITIES	957,436
Loans payable	4,370,381
Accrued Compensated Absence	138,416
Net Pension Liabilities	411,628
TOTAL LONG-TERM LIABILITIES	4,920,424
TOTAL LIABILITIES	$ 5,877,861
DEFERRED INFLOWS OF RESOURCES	
Deferred Inflows Related to Pensions	$ 109,603
NET POSITION	
Net Investment in Capital Assets	15,551,807
Unrestricted	2,565,021
TOTAL NET POSITION	**$ 18,116,828**

*The accompanying notes are an integral part of this statement

MCAG No. 0715 Joint Wastewater Treatment Facility
aka South Kitsap Water Reclamation Facility
Statement of Net Revenues, Expenses and Changes in Net Position
For the Year Ending December 31, 2017

OPERATING REVENUES:	
Operating Utility Fee	$ 3,159,246
Other Operating Revenue	113,045
Total Operating Revenue	3,272,291
OPERATING EXPENSES:	
Operations:	
General Operations	802,672
Utilities	176,442
Maintenance:	
General Administration	775,563
Depreciation/Amortization	947,793
Taxes	57,954
Other Operating Expenses	6,986
Total Operating Expenses	2,767,410
OPERATING INCOME	$ 504,881
NONOPERATING REVENUES (EXPENSES):	
Interest Expense	(28,696)
Interest Income	29,325
Gain Disposition of Property	(13,224)
NONOPERATING REVENUE (EXPENSE)	(12,595)
INCOME BEFORE CONTRIBUTION	$ 492,286
CAPITAL CONTRIBUTIONS:	
Grants	
District and City of Port Orchard	400,000
CAPITAL CONTRIBUTIONS	$ 400,000
CHANGE IN NET POSITION	**$ 892,286**
NET POSITION BEGINNING OF YEAR	$ 17,224,542
NET POSITION END OF YEAR	$ 18,116,828

*The accompanying notes are an integral part of this statement

MCAG No. 0715 Joint Wastewater Treatment Facility
aka South Kitsap Water Reclamation Facility
Statement of Cash Flows
For the Year Ending December 31, 2017

Cash Flows From Operating Activities:		
Receipts from customers and agencies	$	3,272,291
Payments to suppliers		1,049,559
Payments to employees		844,049
Net Cash Provided by Operating Activities	$	1,378,683
Cash Flows From Capital and Related Financing Activities:		
Proceeds from sale of property and equipment		(13,224)
Grants and othe receipts		
Capital contributions from City and District		400,000
Note from District for CIP project		
Repayment of long-term debt		(912,595)
Interest paid on long-term debt		(30,978)
Acquisition and construction of capital assets		(660,037)
Net Cash Used for Capital Financing Activities	$	(1,216,833)
Cash Flow From Investing Activities:		
Interest and dividends on investments		29,325
Net Cash Provided by Investing Activities	$	29,325
Net Increase (Decrease) In Cash and Cash Equivalents	$	191,175
CASH AND CASH EQUIVALENTS BEGINNING OF YEAR	$	2,943,744
CASH AND CASH EQUIVALENTS END OF YEAR	$	3,134,918

*The accompanying notes are an integral part of this statement

Statement of Cash Flows

For the Year Ending December 31, 2017

RECONCILIATION

Operating Income	$	504,881
Adjustments to reconcile net operating income to net cash provided by operating activities:		873,802
Depreciation and Amortization		947,793
GASB 68 Implementation-Pension Expense		(75,290)
Change in Assets and Liabilities:		
Decrease (Increase) in Receivables		
Decrease (Increase) in Prepaid Expenses		192
Increase (Decrease) in Accrued Compensated Absences		4,295
Increase (Decrease) in Payroll Taxes		
Increase (Decrease) in Contractor Retainage		(3,260)
Increase (Decrease) in Payables		71
Total Adjustments	$	873,802
Net Cash Provided by Operating Activities	**$**	**1,378,683**

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

D. Cash and Cash Equivalents

For purposes of the statement of cash flows, the Facility considers all highly liquid investments with a maturity of three months or less purchased to be cash equivalents.

E. Capital Assets

See Note (3)

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 the next calendar year. Accrued vacation pay is payable upon an employee taking a vacation or upon resignation, retirement, or death. Sick leave in excess of one thousand forty (1040) hours of the current month shall be deposited into a VEBA account for the employee. Annual leave and sick leave are payable as follows:

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 (4)

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 – JOINT VENTURE

In 1983, the City and the District (Formerly Karcher Creek Sewer District) 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 2017 was 50% for the City and 50% 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 which resulted in extending the responsibilities of the District in managing and operating the Facility, in addition to resolving issues pertaining to property and 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, and account and finance statements for the Facility can be obtained at the District office, 2924 SE Lund Ave., Port Orchard, WA or the District's website at www.wsud.us.

NOTE 3 – CAPITAL ASSETS

Major expenses for capital assets, including capital leases and major repairs that increase useful lives, are capitalized. The District 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. Donations by developers and customers are recorded at donor cost.

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, 2017 was as follows:

	Beginning Balance 01/01/2017	Increase	Decrease	Transfers	Ending Balance 12/31/2017
The Facility not being depreciated:					
Land	309,540				309,540
CIP	40,808	636,029			676,837
Total the Facility not depreciated	$ 350,348	$ 636,029			$ 986,377
The Facility being depreciated:					
Structures & Improvements	31,178,062				31,178,062
Plant Equipment	6,265,036		30,491		6,234,545
Tools & Equipment	151,111				151,111
Vehicles	61,799	48,231			110,030
Total the Facility being depreciated	$ 37,656,008	$ 48,231	$ 30,491		$ 37,673,748
Accumulated Depreciation	16,883,817	947,793	6,268		17,825,343
Total the Facility depreciated, net	20,772,191	(899,562)	24,224		19,848,405
Total the Facility capital assets, net	$ 21,122,539	$ (263,533)	$ 24,224		$ 20,834,782

NOTE 4 – 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, 2017, including interest, are as follows:

Year Ending December 31	Principal	Interest	Total
2018	912,595	26,415	939,010
2019	912,595	21,852	934,447
2020	912,595	17,289	929,884
2021	912,595	12,726	925,321
2022	912,595	8,163	920,758
2023-2024	720,000	5,400	725,400
Total	$ 5,282,975	$ 91,845	$ 5,374,820

B. Change in Long Term Liabilities

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

	Beginning Balance 1/1/2017	Additions	Reduction	Ending Balance 12/31/2017	Due within One Year 2017
PWTF Loan #1	3,315,571		552,595	2,762,976	552,595
PWTF Loan #2	2,880,000		360,000	2,520,000	360,000
Compensated Absences	141,021	4,295		145,316	6,900
Net Pension Liabilities	618,248		206,620	411,628	
Total	6,954,840	4,295	1,119,215	5,839,920	919,495
Less Current Portion				$ 919,495	
Total Long-Term Liabilities				$ 4,920,424	

NOTE 5 – DEPOSITS AND INVESTMENTS

A. Deposits

Kitsap County is the Treasurer for the Facility's funds. The Facility's deposits with the Kitsap County Treasurer are covered by Federal Depository Insurance (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission.

B. Investments

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

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

	Cash	Investments	Total
Washington State Investment Pool		$ 2,841,780	$ 2,841,780
Kitsap County Treasurer	$ 293,038		$ 293,038
Petty Cash	$ 100		$ 100
Total	$ 293,138	$ 2,841,780	$ 3,134,918

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

NOTE 6 – PENSION PLANS

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

Aggregate Pension Amounts – All Plans	
Pension liabilities	$411,609
Deferred outflows of resources	$61,082
Deferred inflows of resources	$109,602
Pension expense/expenditures	($2,618)

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 reflect the choice of a survivor benefit. Other benefit include duty and non-duty disability payments, an optional cost-of-living adjustment (COLA), and a one-time duty-related death benefit, if found eligible by the Department of Labor and Industries. PERS 1 members were vested after the completion of five years of eligible service. The plan was closed to new entrants on September 30, 1977.

Contributions

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

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

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

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

before age 65. PERS Plan 2/3 members who have 30 or more years of service credit and are at least 55 years old can retire under one of the provisions:

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

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

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

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 2017 were as follows:

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

Administrative Fee	0,18%	
Employee PERS Plan 3		Varies
Total	12.70%	7.38%

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

The Facility's actual PERS plan contributions were $30,471 to PERS Plan 1 and $42,201 to PERS Plan 2/3 for the year ended December 31, 2017.

Actuarial Assumptions

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

Additional assumptions for subsequent events and law changes are current as of the 2016 actuarial valuation report. The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2017. Plan liabilities were rolled forward from June 30, 2016, to June 30, 2017, reflecting each plan's normal cost (using the entry-age cost method), assumed interest and actual benefit payments.

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

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

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

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

- For all plans, the average expected remaining service lives calculation was revised.

Discount Rate

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

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

Long-Term Expected Rate of Return

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

Estimated Rates of Return by Asset Class

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

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

Sensitivity of the Net Pension Liability

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

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
PERS 1	$258,211	$211,963	$171,902
PERS 2/3	$537,867	$199,646	$(77,476)

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, 2017, the Facility reported a total pension liability of $411,609 for its proportionate share of the net pension liabilities as follows:

	Liability
PERS 1	$211,963
PERS 2/3	$199,646

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

	Proportionate Share 6/30/16	Proportionate Share 6/30/17	Change in Proportion
PERS 1	0.005234%	0.004467%	(0.000767%)
PERS 2/3	0.006696%	0.005746%	(0.000950%)

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

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

Pension Expense

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

	Pension Expense
PERS 1	$(24,710)
PERS 2/3	$22,092
TOTAL	$(2,618)

Deferred Outflows of Resources and Deferred Inflows of Resources

At December 31, 2017, 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		$7,910
Contributions subsequent to the measurement date	$15,552	
TOTAL	$15,552	$7,910

PERS 2/3	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$20,229	$6,566
Net difference between projected and actual investment earnings on pension plan investments		$53,221
Changes of assumptions	$2,121	
Changes in proportion and differences between contributions and proportionate share of contributions	$466	$41,905
Contributions subsequent to the measurement date	$22,715	
TOTAL	$45,530	$101,692

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, 2018. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions were recognized in pension expenses as follows:

Year ended December 31:	PERS 1	PERS 2/3
2018	$ (5,347)	$ (29,578)
2019	$ 1,688	$ (2,907)
2020	$ (392)	$ (10,808)
2021	$ (3,859)	$ (26,956)
2022		$ (3,751)
Thereafter		$ (4,877)
Total	$ (7,910)	$ (78,876)

NOTE 7 – 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 sixty two (62) members. The Pool's fiscal year is November 1 through October 31.

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

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

TYPE OF COVERAGE	MEMBER DEDUCTIBLE	SELF-INSURED RETENTION	EXCESS LIMITS
Property Loss:			
Buildings and Contents	$1,000 - $25,000 and See (C) below	$25,000	$1,000,000,000
Flood	See (A) below	See (A) below	$50,000,000
Earthquake	See (B) below	See (B) below	$110,000,000 ($75,000,000 shared by all members and $25,000,000 dedicated to Alderwood). $5,000,000 dedicated to Sammamish Plateau, and $5,000,000 dedicated to Cascade Water Alliance
Terrorism	$1,000 - $25,000	$25,000 Primary layer	$100,000,000 Primary layer
Boiler & Machinery	$1,000 - $350,000 depending on object	$25,000 - $350,000 depending on object	$100,000,000
Auto - Physical Damage	$1,000-$25,000	$25,000	$10,000,000
Liability:			
Commercial General Liability	$1,000 - $25,000	$200,000	$10,000,000
Auto Liability	$1,000 - $25,000	$200,000	$10,000,000
Public Officials Errors and Omissions	$1,000 - $25,000	$200,000	$10,000,000
Employment Practices	$1,000 - $25,000	$200,000	$10,000,000
Other:			
Public Officials Bonds	Various	N/A	Various
Crime	$1,000 - $25,000	$25,000	$2,000,000
Identity Fraud	$0	$0	$25,000

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

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

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

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

Upon joining, the members contract to remain in the Pool for one full policy period. Following completion of one full policy period, members must give six months' notice before terminating participation (e.g. to withdraw from the Pool by November 1, 2018, written notice must be in possession of the Pool by April 30, 2018). The Interlocal Governmental Agreement is renewed automatically each year. Even after termination of relationship with the Pool, a member is still responsible for contributions to the Pool for any unresolved, unreported, and in process claims, for the period that the District was a signatory to the Interlocal Governmental Agreement.

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

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

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

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

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

This summary of coverage is not confirmation of coverage or insurance and does not add to, extend, amend, change or alter any coverage in any actual memorandum of coverage, or policy of insurance you may have. All existing memorandum of coverage and insurance policy terms, conditions, exclusions, and limitations apply. For specific information regarding your coverage, please refer to the memorandum of coverage or insurance policies themselves.

NOTE 8 – OTHER DISCLOSURES

Blower Room Fire Incident.

There was a fire incident occurred at the Facility's blower room in September 2017. The total repair cost was projected approximately \$530,000. The claim was submitted to Water and Sewer Risk Management Pool. A partial payment \$358,199 received in March 2018, which the Facility's deductible \$25,000 was deducted directly.

MCAG No. 0715 Joint Wastewater Treatment Facility
aka South Kitsap Water Reclamation Facility
Schedule of Proportionate Share of the Net Pension Liability
As of June 30, 2017

PERS 1

	2017	2016	2015	2014
Employer's proportion of the net pension liability (asset)	0.004467%	0.005234%	0.005433%	0.005422%
Employer's proportionate share of the net pension liability	$ 211,963	$ 281,090	$ 284,201	$ 273,142
Employer's covered employee payroll				
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	N/A	N/A	N/A	N/A
Plan fiduciary net position as a percentage of the total pension liability	61.24%	57.03%	59.10%	61.19%

PERS 2/3

	2017	2016	2015	2014
Employer's proportion of the net pension liability (asset)	0.005746%	0.006696%	0.007016%	0.006981%
Employer's proportionate share of the net pension liability	$ 199,646	$ 337,158	$ 250,696	$ 141,115
Employer's covered employee payroll	$ 617,003	$ 630,763	$ 572,246	$ 603,937
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	32.36%	53.45%	43.81%	23.37%
Plan fiduciary net position as a percentage of the total pension liability	90.97%	85.82%	89.20%	93.29%

Schedule of Employer Contributions
As of December 31, 2017
Last Three Fiscal Years

PERS 1

	2017	2016	2015	2014
Statutorily or contractually required contributions	$ 30,471	$ 29,492	$ 27,572	$ 24,648
Contributions in relation to the statutorily or contractually required contributions	$ (30,471)	$ (29,492)	$ (27,572)	$ (24,648)
Contribution deficiency (excess)	0	0	0	0
Covered employer payroll				
Contributions as a percentage of covered employee payroll	N/A	N/A	N/A	N/A

PERS 2/3

	2017	2016	2015	2014
Statutorily or contractually required contributions	$ 42,201	$ 38,519	$ 35,276	$ 30,502
Contributions in relation to the statutorily or contractually required contributions	$ (42,201)	$ (38,519)	$ (35,276)	$ (30,502)
Contribution deficiency (excess)	0	0	0	0
Covered employer payroll	$ 624,587	$ 618,389	$ 639,758	$ 611,821
Contributions as a percentage of covered employee payroll	6.76%	6.23%	5.51%	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 August 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.

There are no Facility employees participating in the PERS 1 plan in 2014, 2015 and 2016; therefore, there is no covered payroll or contribution data to report under PERS 1. A portion of the total PERS 1 plan liability is shared by PERS 2/3 employers, and as such the PERS 1 liability and employer's share for the Facility are presented.

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

MCAG No. 0715 Joint Wastewater Treatment Facility
aka South Kitsap Water Reclamation Facility
Schedule 01
For the Year Ending December 31, 2017

MCAG	Fund #	BARS Account	BARS Name	Amount
0715	401	3086000	Net Investment in Capital Assets - Beginning	14,926,968
0715	401	3088900	Unrestricted Net Position - Beginning	2,297,573
0715	401	3435000	Sewer/Reclaimed Water Sales and Services	3,257,136
0715	401	3611000	Investment Earnings	29,325
0715	401	3699100	Miscellaneous Other	15,155
0715	401	3790000	Capital Contributions	400,000
0715	401	3892000	Retainage Deposits	4,965
0715	401	3951000	Proceeds from Sales of Capital Assets	-13,224
0715	401	5013500	Depreciation, Depletion, Amort. - Sewer/Reclaimed Water	947,793
0715	401	5350010	Sewer/Reclaimed Water Utilities - Salaries	648,708
0715	401	5350020	Sewer/Reclaimed Water Utilities - Benefits	201,238
0715	401	5350030	Sewer/Reclaimed Water Utilities - Supplies	332,420
0715	401	5350040	Sewer/Reclaimed Water Utilities - Services	637,250
0715	401	5892000	Refund of Retainage	8224.98
0715	401	5913570	Debt Repayment - Sewer/Reclaimed Water Utilities	912,595
0715	401	5923580	Interest/Other Debt Service Cost - Sewer/Reclaimed Wate	28,696
0715	401	5943560	Capital Expenditures/Expenses - Sewer/Reclaimed Water I	636,029
0715	401	5086000	Net Investment in Capital Assets - Ending	15,551,807
0715	401	5088900	Unrestricted Net Position - Ending	2,565,021
0715	401	8100000	Cash, Cash Equivalents and Investments	3,134,918
0715	401	8200000	Other Current assets	73,506
0715	401	8300000	Noncurrent Assets	20,834,782
0715	401	8400000	Deferred Outflows	61,085
0715	401	8500000	Current Liabilities	957,436
0715	401	8600000	Noncurrent Liabilities	4,920,424
0715	401	8700000	Deferred Inflows	109,603

ID. No.	Description	Due Date	Beginning Balance	Additions	Reductions	Ending Balance
Revenue and Other (non G.O.) Debt/Liabilities						
263.88	PW-02-691-043	7/1/2022	3,315,571		552,595	2,762,976
263.88	PW-04-691-056	7/1/2022	2,880,000		360,000	2,520,000
264.30	Pension liabilities	12/31/2118	618,248	411,609	618,229	411,628
259.12	Accrued Compensated Absences	12/31/2118	141,021	4,295		145,316
263.99	Contractors Retainage	12/31/2018	4,489	4,965	8,225	1,229
	Total Liabilities:		6,959,328	420,869	1,539,049	5,841,149