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, 2016

Certified correct this 12th day of May, 2017, to the best of my knowledge and belief:

GOVERNMENT INFORMATION:

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

MANAGEMENT DISCUSSION & ANALYSIS

As Management of the 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, 2016. The intent of this discussion and analysis is to review the Facility's financial performance as a whole. This MD&A provide 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 overview 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 District has obtained grants from Puget Sound Energy to reduce electrical demand with more efficient blowers, 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) each entity. In 2016, the cost sharing was forty-nine percent (49%) contribution by the City and fifty-one percent (51%) from the District which is 1% higher than the contribution in 2015.

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, the Board of Commissioners approved in 2012 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 2016 fiscal year by $17,141,730. $2,286,589 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 $17,213,557 in 2016.

- The Facility had $618,248 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, 2016, the total outstanding debt was $6,195,571.

- The Facility's total cash and cash equivalents was $2,943,744, which is increased by $746,727 in 2016 due to the $500,000 capital contributions from the City and District.

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, 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, 2016.

	Net Position	
December 31	2016	2015
Current Assets	3,017,442	2,261,461
Non-current Assets	21,122,539	21,755,338
Total Assets	$ 24,139,981	$ 24,016,799
Deferred Outflows of Resources	$ 104,036	$ 62,273
Current Liabilities	962,652	956,063
Non-current Liabilities	6,035,599	6,865,975
Total Liabilities	$ 6,998,251	$ 7,822,038
Deferred Inflows of Resources	$ 32,209	$ 82,473
Net Investment in Capital Assets	14,926,968	14,647,172
Unrestricted	2,286,589	1,527,389
Total Net Position	$ 17,213,557	$ 16,174,562

The 2016 total net position was $17.2 million, which is an increase of six percent (6%) from 2015.

At the end of 2016, capital assets represent nearly 87.5% of total assets and in 2015 capital assets represent 90.6% of total assets. At December 31, 2016 and 2015, the Facility had non-current liabilities of $6 million and $6.9 million, respectively. The decreases are due to the Facility making scheduled debt payments.

The Facility's net investment in capital assets is $14.9 million at December 31, 2016 and $14.6 million at December 31, 2015. 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 2016. 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.

	Change in Net Position	
	2016	2015
Operating Revenue	3,224,150	3,057,135
Non-operating Revenue	19,469	11,642
Total Revenues	$ 3,243,619	$ 3,068,777
Operating Expenses	2,934,132	3,524,482
Non-operating Expenses	33,259	37,822
Total Expenses	$ 2,967,391	$ 3,562,304
Capital Contributions	762,768	400,000
Change in Net Position	$ 1,038,996	$ (93,527)
Net Position, Beginning of Year	$ 16,174,562	$ 16,838,615
Change in Accounting Principle - GASB 68		(570,526)
Net Position, End of Year	$ 17,213,557	$ 16,174,562

Total operating revenues for the Facility in 2016 and 2015 were $3.2 million and $3 million, respectively. The increase is about five percent (5%), which was mainly attributed to the number of ERUs increasing from both the City and the District and Leachate treatment revenues.

The $3,622,768 dollar increase in capital contributions between 2016 and 2015 represents the extra contributed by the City and the District and land value increased after titles transfer.

Total operating expenses for 2016 and 2015 were $2.9 million and $3.5 million, respectively. The 2016 operating expenses were decreased by $590,390 from the 2015 expenses. The decrease in expenses was due to less maintenance projects. The decrease of $4,563 in non-operating expenses was due to loan interest reduction.

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, 2016, amounted to $21,122,539 (net of accumulated depreciation). The Facility's investment in capital assets includes land, construction in progress, structures and improvements, plant equipment, tools and vehicles. The total decrease of the Facility's investment in capital assets for the current year was 4.3%. The change in capital assets is from accumulated depreciation.

	Capital Assets, Net	
December 31	2016	2015
Land	$ 309,540	$ 55,520
Construction in Progress	40,808	0
Structures and Improvements	31,178,062	31,178,062
Plant Equipment	6,265,036	6,259,674
Tools and Equipment	151,111	136,419
Vehicles	61,799	143,054
Less; Accumulated Depreciation	(16,883,817)	(16,017,391)
Total Capital Assets, Net	$ 21,122,539	$ 21,755,338

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 plant 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 2016, the City and District each contributed $250,000 from these capital fees into the Facility's Operating Fund. Balances owing on the loans, as of December 31, are as follows:

	2016	2015
PW-02-691-043 Facility Expansion Loan #1	$ 3,315,571	$ 3,868,166
PW-04-691-056 Facility Expansion Loan #2	$ 2,880,000	$ 3,240,000

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 2016 was $23.00 and in 2015 the ERU cost was $22.50. 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 experienced continued slow growth in wastewater treatment and discharge in 2016 due to the community's slow economy and water conservation. It is anticipated that there will not be a significant 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 economic slowdown, the Facility is continuing to strive 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:

Accountant, Joy Ramsdell
Accounting Specialist, Erasma Elliott
Assistant Finance Manager, Tracy Fantz
Accounting/Admin. Assist., 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.

Statement of Net Positions
For the Year Ending December 31, 2016

ASSETS	
Cash and Cash Equivalents	$ 2,943,744
Prepaid Expenses	73,698
TOTAL CURRENT ASSETS	3,017,442
Land	309,540
Construction in Progress	40,808
Structures and Improvements	31,178,062
Plant Equipment	6,265,036
Tools & Equipment	151,111
Vehicles	61,799
Less Accumulated Depreciation	(16,883,817)
TOTAL CAPITAL ASSETS	21,122,539
TOTAL ASSETS	$ 24,139,981
DEFERRED OUTFLOWS OF RESOURCES	
Deferred Outflows Related to Pensions	$ 104,036
LIABILITIES	
Accounts Payable	23,434
Contractors - Retainage	4,489
Debt Interest	15,489
Current Portion of Accrued Compensated Absences	6,645
Current Portion of Long-Term Debt	912,595
TOTAL CURRENT LIABILITIES	962,652
Loans payable	5,282,976
Accrued Compensated Absence	134,376
Net Pension Liabilities	618,248
TOTAL LONG-TERM LIABILITIES	6,035,599
TOTAL LIABILITIES	$ 6,998,251
DEFERRED INFLOWS OF RESOURCES	
Deferred Inflows Related to Pensions	$ 21,224
NET POSITION	
Net Investment in Capital Assets	14,926,968
Unrestricted	2,297,573
TOTAL NET POSITION	**$ 17,224,542**

*The accompanying notes are an integral part of this statement

MCAG No. 0715 Joint Wastewater Treatment Facility
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Statement of Net Revenues, Expenses and Changes in Net Position
For the Year Ending December 31, 2016

OPERATING REVENUES:		
Operating Utility Fee	$	3,095,064
Other Operating Revenue		129,086
Total Operating Revenue		3,224,150
OPERATING EXPENSES:		
Operations:		
General Operations		926,858
Utilities		188,833
Maintenance:		
General Administration		784,419
Depreciation/Amortization		952,627
Taxes		61,460
Other Operating Expenses		8,949
Total Operating Expenses		2,923,147
OPERATING INCOME	$	301,003.38
NONOPERATING REVENUES (EXPENSES):		
Interest Expense		(33,259)
Interest Income		15,634
Gain Disposition of Property		3,835
NONOPERATING REVENUE (EXPENSE)		(13,791)
INCOME BEFORE CONTRIBUTION	$	287,213
CAPITAL CONTRIBUTIONS:		
Grants		8,748
District and City of Port Orchard		754,020
CAPITAL CONTRIBUTIONS	$	762,768
CHANGE IN NET POSITION	**$**	**1,049,980**
NET POSITION BEGINNING OF YEAR	$	16,174,562
NET POSITION END OF YEAR	$	17,224,542

*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, 2016

Cash Flows From Operating Activities:		
Receipts from customers and agencies	$	3,224,150
Payments to suppliers		(1,193,556)
Payments to employees		(798,140)
Net Cash Provided by Operating Activities	$	1,232,454
Cash Flows From Capital and Related Financing Activities:		
Proceeds from sale of property and equipment		3,835
Grants and othe receipts		8,748
Capital contributions from City and District		500,000
Note from District for CIP project		
Repayment of long-term debt		(912,595)
Interest paid on long-term debt		(35,541)
Acquisition and construction of capital assets		(65,808)
Net Cash Used for Capital Financing Activities	$	(501,361)
Cash Flow From Investing Activities:		
Interest and dividends on investments		15,634
Net Cash Provided by Investing Activities	$	15,634
Net Increase (Decrease) In Cash and Cash Equivalents	**$**	**746,727**
CASH AND CASH EQUIVALENTS BEGINNING OF YEAR	$	2,197,017
CASH AND CASH EQUIVALENTS END OF YEAR	$	2,943,744

*The accompanying notes are an integral part of this statement

Statement of Cash Flows

For the Year Ending December 31, 2016

RECONCILIATION

Operating Income	$ 301,003
Adjustments to reconcile net operating income to net cash provided by operating activities:	
Depreciation and Amortization	952,627
GASB 68 Implementation-Pension Expense	(19,661)
Change in Assets and Liabilities:	
Decrease (Increase) in Receivables	
Decrease (Increase) in Prepaid Expenses	(9,254)
Increase (Decrease) in Accrued Compensated Absences	1,597
Increase (Decrease) in Payroll Taxes	
Increase (Decrease) in Contractor Retainage	4,489
Increase (Decrease) in Payables	1,653
Total Adjustments	$ 931,451
Net Cash Provided by Operating Activities	**$ 1,232,454**

*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 plant. 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 2016 was 49% for the City and 51% 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, Plant 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, 2016 was as follows:

	Beginning Balance 01/01/2016	Increase	Decrease	Transfers	Ending Balance 12/31/2016
The Facility not being depreciated:					
Land	55,520	254,020			309,540
CIP	0	70,744	391	29,545	40,808
Total the Facility not depreciated	$ 55,520	$ 324,764	$ 391	$ 29,545	$ 350,348
The Facility being depreciated:					
Structures & Improvements	31,178,062				31,178,062
Plant Equipment	6,259,674	5,362			6,265,036
Tools & Equipment	136,419	19,638	4,946		151,111
Vehicles	143,054		81,256		61,799
Total the Facility being depreciated	$ 37,717,209	$ 25,000	$ 86,201		$ 37,656,008
Accumulated Depreciation	16,017,391	952,627	86,201		16,883,817
Total the Facility depreciated, net	21,699,818	(927,627)	0		20,772,191
Total the Facility capital assets, net	$ 21,755,338	$ (602,863)	$ 391	$ 29,545	$ 21,122,539

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, 2016, including interest, are as follows:

Year Ending December 31	Principal	Interest	Total
2017	912,595	30,978	943,573
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
2022-2024	1,632,595	13,563	1,646,158
Total	$ 6,195,570	$ 122,823	$ 6,318,393

B. Change in Long Term Liabilities

During the year ended December 31, 2016, the following changes occurred in long-term liabilities:

	Beginning Balance 1/1/2016	Additions	Reduction	Ending Balance 12/31/2016	Due within One Year 2017
PWTF Loan #1	3,868,166		552,595	3,315,571	552,595
PWTF Loan #2	3,240,000		360,000	2,880,000	360,000
Compensated Absences	139,424	1,597		141,021	6,645
Net Pension Liabilities	534,897	83,351		618,248	
Total	7,782,487	84,948	912,595	6,954,840	919,240
Less Current Portion				$ 919,240	
Total Long-Term Liabilities				$ 6,035,599	

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, 2016, the Facility has the following cash and investments:

	Cash	Investments	Total
Washington State Investment Pool		$ 2,725,686	$ 2,725,686
Kitsap County Treasurer	$ 217,957		$ 217,957
Petty Cash	$ 100		$ 100
Total	$ 218,057	$ 2,725,686	$ 2,943,743

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 2016:

Aggregate Pension Amounts – All Plans	
Pension liabilities	$ 618,248
Deferred outflows of resources	$ 104,036
Deferred inflows of resources	$ 21,224
Pension expense/expenditures	$ 48,350

State Sponsored Pension Plans

Substantially all the Facility's employees participate in PERS Plan 2/3 one of the 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.

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

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

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

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

Contributions

The **PERS Plan 1** member contribution rate is established by State statute at 6 percent. The employer contribution rate is developed by the Office of the State Actuary and includes an administrative expense component that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates. The PERS Plan 1 required contribution rates (expressed as a percentage of covered payroll) for 2016 were as follows:

PERS Plan 1		
Actual Contribution Rates:	Employer	Employee*
PERS Plan 1	6.23%	6.00%
PERS Plan 1 UAAL	4.77%	6.00%
Administrative Fee	0.18%	
Total	11.18%	6.00%

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

The Facility's actual contributions to the plan were $27,572 for the year ended December 31, 2015.

PERS Plan 2/3 provides retirement, disability and death benefits. Retirement benefits are determined as two percent of the member's average final compensation (AFC) times the member's years of service for Plan 2 and 1 percent of AFC for Plan 3. The AFC is the average of the member's 60 highest-paid consecutive service months. There is no cap on years of service credit. Members are eligible for retirement with a full benefit at 65 with at least five years of service credit. Retirement before age 65 is considered an early retirement. PERS Plan 2/3 members who have at least 20 years of service credit and are 55 years of age or older, are eligible for early retirement with a benefit that is reduced by a factor that varies according to age for each year before age 65. PERS Plan 2/3 members who have 30 or more years of service credit and are at least 55 years old can retire under one of two 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 retirement 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 are earned after age 44.

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

<u>Contributions</u>

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 portion of Plan 3. The Plan 2/3 employer rates include a component to address the PERS Plan 1 UAAL and an administrative expense that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 2 employer and employee contribution rates and Plan 3 contribution rates. The PERS Plan 2/3 required contribution rates (expressed as a percentage of covered payroll) for 2015 were as follows:

PERS Plan 2/3		
Actual Contribution Rates:	Employer 2/3	Employee 2*
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%

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

The Facility's actual contributions to the plan were $29,492 to PERS Plan 1 and $38,519 to PERS Plan 2/3 for the year ended December 31, 2016.

Actuarial Assumptions

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

Additional assumptions for subsequent events and law changes are current as of the 2015 actuarial valuation report. The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2016. Plan liabilities were rolled forward from June 30, 2015, to June 30, 2016, 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 base table and recognized future improvements in mortality by projecting the mortality rates using 100 percent Scale BB. Mortality rates are applied on a generational basis; meaning, each member is assumed to receive additional mortality improvements in each future year throughout his or her lifetime.

There was a minor change in methods and assumptions since the last valuation.

- For all systems, except LEOFF Plan 2, the assumed valuation interest rate was lowered from 7.8% to 7.7%. Assumed administrative factors were updated.

Discount Rate

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

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

Long-Term Expected Rate of Return

The long-term expected rate of return on the DRS pension plan investments of 7.5 percent was determined using a building-block-method. The Washington State Investment Board (WSIB) used a best estimate of expected future rates of return (expected returns, net of pension plan investment expense, including inflation) to develop each major asset class. Those expected returns make up one component of WSIB's capital market assumptions. The WSIB uses the capital market assumptions and their target asset allocation to simulate future investment returns at various future times. The long-term expected rate of return of 7.5 percent approximately equals the median of the simulated investment returns over a 50-year time horizon.

Estimated Rates of Return by Asset Class

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2016, are summarized in the table below. The inflation component used to create the table is 2.2 percent and represents the WSIB's most recent long-term estimate of broad economic inflation.

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

Sensitivity of NPL

The table below presents the Facility's proportionate share of the net pension liability calculated using the discount rate of 7.5 percent, 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 one percentage point lower (6.5 percent) or one percentage point higher (8.5 percent) than the current rate.

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
PERS 1	$338,966	$281,090	$231,284
PERS 2/3	$620,769	$337,158	$(175,510)

Pension Plan Fiduciary Net Position

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

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

At June 30, 2016, the Facility reported a total pension liability of $618,248 for its proportionate share of the net pension liabilities as follows:

	Liability
PERS 1	$281,090
PERS 2/3	$337,158

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

	Proportionate Share 6/30/15	Proportionate Share 6/30/16	Change in Proportion
PERS 1	0.005433%	0.005234%	(0.000199%)
PERS 2/3	0.007016%	0.006696%	(0.000320%)

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

The collective net pension liability (asset) was measured as of June 30, 2016, and the actuarial valuation date on which the total pension liability (asset) is based was as of June 30, 2015, with update procedures used to roll forward the total pension liability to the measurement date.

Pension Expense

For the year ended December 31, 2016, the Facility recognized pension expense as follows:

	Pension Expense
PERS 1	$ 4,073
PERS 2/3	$ 44,277
Total	$ 48,350

Deferred Outflows of Resources and Deferred Inflows of Resources

At December 31, 2016, 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	$7,077	
Contributions subsequent to the measurement date	$14,511	
TOTAL	$21,589	

PERS 2/3	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$17,953	$11,130
Net difference between projected and actual investment earnings on pension plan investments	$41,258	
Changes of assumptions	$3,485	
Changes in proportion and differences between contributions and proportionate share of contributions	$799	$10,094
Contributions subsequent to the measurement date	$18,953	
TOTAL	$82,448	$21,224

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, 2017. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions were recognized in pension expense as follows:

Year ended December 31:	PERS 1	PERS 2/3
2017	$ (1,743)	$ (2,589)
2018	$ (1,743)	$ (2,589)
2019	$ 6,500	$ 28,526
2020	$ 4,063	$ 18,923
Total	$ 7,077	$ 42,271

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 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/GROUP	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	$25,000	$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 & Machinery deductible, which exceeds $25,000. In past three years, the Plant had no settlements exceeded insurance coverage. In past three years, the Plant had no settlements exceeded 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 on November 1, 2017, written notice must be in possession of the Pool by April 30, 2017). 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
	$10M per occurrence for all members/$10M annual agg per member for Products Completed Liability	per occurrence 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 Liability	$2,000,000 Third Party Liability-annual aggregate limit of liability for each insured/members for Information Security & Privacy Liability (aggregate for all coverages combined, including claims expenses but	Pool Self-Insured Retention: N/A Member Deductible:
	$500,000 Privacy Noticfication Costs	$100,000 per occurrence
	$2,000,000 Penalties for Regulatory Defense and Penalities. PCI fines and penalties and fines coverage added with siblimit of $100,000	8 Hour waiting period for first party 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 & Machinery	*Effective 7/1/16 to 7/1/1*	$25,000 per occurrence, which applies in
	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 perishable goods/spoilage	Member Deductible: $1,000, $5,000, $10,000 or $25,000
	$10,000,000 per occurrence electronic data processing media and data restoratin	per occurrence
	$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 Reimburseme Program	$25,000 per person (family members of employees who are residents of	
	household, to include spouse, children under 25 years of age and	Member Deductible: N/A
	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 and Reported Pullution legal Liability	$1,000,000 per Pollution Condition	
	$1,000,000 WSRMP Annual Aggregate	Member Self-Insured Retentions:
		$75,000 per pollution condition
	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 Coverage	$800,000 annual aggregate	
	Clash coverage offsets the risk of the Pool paying multiple SIRs when more than one member is involved in a loss.	

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

Property Title Transfer. As a result of the April 22, 2014 Interlocal Agreement, the Plant management and Operations conducted a review of the Plant property ownership history. To correct past scriveners errors and to clear title, West Sound Utility District, the City of Port Orchard, Kitsap Transit and the State Department of Veteran Affairs executed the legal transfer of properties to the Plant in May. After all title transferred, we adjusted the property value to $274,020 according to Kitsap County assessment value.

Schedule of Proportionate Share of the Net Pension Liability
As of June 30, 2016

PERS 1

	2014	2015	2016
Employer's proportion of the net pension liability (asset)	0.005422%	0.005433%	0.005234%
Employer's proportionate share of the net pension liability	$ 273,142	$ 284,201	$ 281,090
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
Plan fiduciary net position as a percentage of the total pension liability	61.19%	59.10%	57.03%

PERS 2/3

	2014	2015	2016
Employer's proportion of the net pension liability (asset)	0.006981%	0.007016%	0.006696%
Employer's proportionate share of the net pension liability	$ 141,115	$ 250,696	$ 337,158
Employer's covered employee payroll	$ 603,937	$ 572,246	$ 630,763
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	23.37%	43.81%	53.45%
Plan fiduciary net position as a percentage of the total pension liability	93%	89%	86%

Schedule of Employer Contributions
As of December 31, 2016
Last Three Fiscal Years

PERS 1

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

PERS 2/3

	2014	2015	2016
Statutorily or contractually required contributions	$ 30,502	$ 35,276	$ 38,519
Contributions in relation to the statutorily or contractually required contributions	$ (30,502)	$ (35,276)	$ (38,519)
Contribution deficiency (excess)	0	0	0
Covered employer payroll	$ 611,821	$ 639,758	$ 618,389
Contributions as a percentage of covered employee payroll	4.99%	5.51%	6.23%

Note 1: Information Provided

The Plant 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 Plant's contributions.

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

There are no Plant 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 Plant 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, 2016

MCAG	Fund #	BARS Account	BARS Name	Amount
0715	401	3086000	Net Investment in Capital Assets - Beginning	$ 14,647,172
0715	401	3088900	Unrestricted Net Position - Beginning	$ 1,527,389
0715	401	3370000	Local Grants, Entitlements and Other Payments	$ 8,748
0715	401	3435000	Sewer/Reclaimed Water Sales and Services	$ 3,219,864
0715	401	3611000	Investment Earnings	$ 15,634
0715	401	3699100	Miscellaneous Other	$ 4,286
0715	401	3790000	Capital Contributions	$ 754,020
0715	401	3892000	Retainage Deposits	$ 4,489
0715	401	3951000	Proceeds from Sales of Capital Assets	$ 3,835
0715	401	5013500	Depreciation, Depletion, Amortization - Sewer/Reclaimed	$ 952,627
0715	401	5350010	Sewer/Reclaimed Water Utilities	$ 625,877
0715	401	5350020	Sewer/Reclaimed Water Utilities	$ 204,549
0715	401	5350030	Sewer/Reclaimed Water Utilities	$ 336,435
0715	401	5350040	Sewer/Reclaimed Water Utilities	$ 604,685
0715	401	5350050	Sewer/Reclaimed Water Utilities	$ 198,973
0715	401	5913570	Debt Repayment - Sewer/Reclaimed Water Utilities	$ 912,595
0715	401	5923580	Interest and Other Debt Service Cost - Sewer/Reclaimed	$ 33,259
0715	401	5943560	Capital Expenditures/Expenses - Sewer/Reclaimed Water	$ 40,808
0715	401	5086000	Net Investment in Capital Assets - Ending	$ 14,926,968
0715	401	5088900	Unrestricted Net Position - Ending	$ 2,297,573
0715	401	8100000	Cash, Cash Equivalents and Investments	$ 2,943,744
0715	401	8200000	Other Current assets	$ 73,698
0715	401	8300000	Noncurrent Assets	$ 21,122,539
0715	401	8400000	Deferred Outflows	$ 104,036
0715	401	8500000	Current Liabilities	$ 962,652
0715	401	8600000	Noncurrent Liabilities	$ 6,035,599
0715	401	8700000	Deferred Inflows	$ 21,224

MCAG No. 0715 Joint Wastewater Treatment Facility

aka South Kitsap Water Reclamation Facility

Schedule 09

For the Year Ending December 31, 2016

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	$3,868,165		$ 552,595	$3,315,570
263.88	PW-04-691-056	7/1/2024	$3,240,000		$ 360,000	$2,880,000
264.30	Pension liabilities	12/31/2117	$ 534,897	$ 83,351		$ 618,248
259.12	Accrued Compensated	12/31/2117	$ 139,424	$ 1,597		$ 141,021
263.99	Contractors Retainage	12/31/2017		$ 4,489		$ 4,489
		Total Revenue and Other (non G.O.) Debt/Liabilities:	$7,782,486	$ 89,437	$ 912,595	$6,959,328
		Total Liabilities:	$7,782,486	$ 89,437	$ 912,595	$6,959,328