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, 2014

Certified correct this 31st day of March, 2015, 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

MCAG No. 0715 Joint Wastewater Treatment Facility
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, Rob Putaansuu
Councilmember, Cindy Lucarelli
Councilmember, John Clauson

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, 2014 and 2013. 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. Instead of disposing of biosolids in a non-beneficial manner, the Facility is seeking to use it for land reclamation in Kitsap County. The Facility has also used State and Federal grants to construct a reclaimed water distribution system to use its reclaimed water for irrigation purposes.

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 amount of water flow from each entity. In 2014, the cost sharing was forty-eight percent (48%) contribution by the City and fifty-two percent (52%) from the District which is the same as the contribution in 2013.

The Facility 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" 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 2014 fiscal year by \$16,838,615 and in 2013 by \$16,406,586. \$2,133,590 is 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 increased by \$432,028 in 2014 and \$367,242 in 2013. The increase in due to capital improvements to the Facility funded by capital contributions from the City and District and decreased expenses from operations.

- The Facility's total long-term debt on capital facility loans decreased by \$912,595 during the fiscal year. As of December 31, 2014, the total outstanding debt was \$8,020,761.

- The Facility's total cash and cash equivalents increased by \$286,057 in 2014 due to the \$300,000 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 balance sheet presents information concerning the Facility's assets, liabilities and net position. Net position is the difference between assets and liabilities. Increases or decreases in net assets 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, 2014 and 2013.

	Net Position		
31-Dec	2014	2013	2012
Current Assets	2,338,708	1,998,969	1,655,779
Non-current Assets	22,725,786	23,536,590	24,499,148
Total Assets	$ 25,064,493	$ 25,535,559	$ 26,154,927
Current Liabilities	989,085	979,943	1,008,126
Non-current Liabilities	7,236,794	8,149,030	9,107,457
Total Liabilities	$ 8,225,879	$ 9,128,973	$ 10,115,583
Net Investment in Capital Assets	14,705,025	14,603,235	14,653,197
Unrestricted	2,133,590	1,803,351	1,386,147
Total Net Position	$ 16,838,615	$ 16,406,586	$ 16,039,344

The 2014 total net position was $16.8 million, which is an increase of two percent (2.6%) from 2013. The 2013 total net position was $16.4 million, which is an increase of two percent (2.3%) from 2012.

At the end of 2014, capital assets represent nearly 90.7% of total assets and in 2013 capital assets represent 92.2% of total assets. At December 31, 2014, 2013 and 2012, the Facility had non-current liabilities of $7.2 million, $8.1 million and $9.1 million, respectively. The decreases are due to the Facility making scheduled debt payments.

The Facility's net investment in capital assets is $14.7 million at December 31, 2014, $14.6 million at December 31, 2013, and $14.7 million at December 31, 2012. This capital asset value has increased over the last three years as the Facility is depreciating assets at a rate that is less than the value of added capital improvements to the Facility. 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 all 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 2014. 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		
	2014	2013	2012
Operating Revenue	2,940,689	2,996,484	3,057,987
Non-operating Revenue	9,870	5,446	(1,971)
Total Revenues	$ 2,950,558	$ 3,001,930	$ 3,056,016
Operating Expenses	2,776,145	2,845,948	2,525,366
Non-operating Expenses	42,385	46,948	51,511
Total Expenses	$ 2,818,530	$ 2,892,896	$ 2,576,877
Excise Tax Refund			168,156
Capital Contributions	300,000	258,208	515,864
Change in Net Position	$ 432,028	$ 367,242	$ 1,163,158
Net Position, Beginning of Year	16,406,586	16,039,344	14,876,186
Net Position, End of Year	$ 16,838,614	$ 16,406,586	$ 16,039,344

Total operating revenues for the Facility in 2014, 2013 and 2012 were $2.9 million, $3 million and $3.1 million, respectively. The decrease between fiscal year 2014 and 2013 is about two percent (2%), which was mainly attributed to revenue for contract operations.

The $41,792 dollar increase in capital contributions between 2014 and 2013 represents the extra contributed by the City and the District.

Total operating expenses for 2014, 2013 and 2012 were $2.8 million, $2.8 million and $2.5 million, respectively. The 2014 operating expenses were decreased by $69,803 from the 2013 expenses. In contrast, the 2013 operating expenses increased by $320,582 from the 2012 expenses. The decrease in expenses was due to the reclaimed water capital project. The decrease of $4,563 in non-operating expenses in 2014 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, 2014, amounted to $22,725,786 (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 3.4%. The change in capital assets is from accumulated depreciation.

	Capital Assets, Net		
31-Dec	2014	2013	2012
Land	$ 55,520	$ 55,520	$ 55,520
Construction in Progress	121,037	1,825	1,601,866
Structures and Improvements	31,075,552	31,075,552	30,111,311
Plant Equipment	6,259,674	6,186,051	5,696,862
Tools and Equipment	136,419	130,774	127,168
Vehicles	143,054	143,054	138,343
Less; Accumulated Depreciation	(15,065,472)	(14,056,186)	(13,231,922)
Total Capital Assets, Net	$ 22,725,786	$ 23,536,590	$ 24,499,148

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 2014, the City and District each contributed $150,000 from these capital fees into the Facility's Operating Fund. Balances owing on the loans, as of December 31, are as follows:

	2014	2013
PW-02-691-043 Facility Expansion Loan #1	$4,420,761	$4,973,356
PW-04-691-056 Facility Expansion Loan #2	$3,600,000	$3,960,000
Compensated Absences	$ 131,615	$ 128,558

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 minimal 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 costs in 2014 and 2013 were $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 2014 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. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the General Manager, West Sound Utility District, 2924 SE Lund Ave., Port Orchard, WA 98366.

MCAG No. 0715 Joint Wastewater Treatment Facility
aka South Kitsap Water Reclamation Facility
Comparative Balance Sheet
As of December 31, 2014 and 2013

	2014	2013
ASSETS		
Current Assets:		
Cash and Cash Equivalents	$ 2,246,388	$ 1,960,330
Accounts Receivable	46,560	-
Prepaid Expenses	45,760	38,638
TOTAL CURRENT ASSETS	2,338,708	1,998,969
Noncurrent Assets:		
Capital Assets not being Depreciated:		
Land	55,520	55,520
Construction in Progress	121,037	1,825
	176,558	57,345
Capital Assets being Depreciated:		
Structures and Improvements	31,075,552	31,075,552
Plant Equipment	6,259,674	6,186,051
Tools & Equipment	136,419	130,774
Vehicles	143,054	143,054
Less Accumulated Depreciation	(15,065,472)	(14,056,186)
	22,549,228	23,479,245
TOTAL NONCURRENT ASSETS	22,725,786	23,536,590
TOTAL ASSETS	**$25,064,493**	**$25,535,559**
LIABILITIES		
Current Liabilities:		8,856
Accounts Payable	47,884	39,027.58
PR Taxes-L&I Work Comp		3,861.30
Contractors-Retainage	5,568	1,837
Debt Interest	20,052	22,333
Current Portion of Accrued Compensated Absences	2,987	289
Current Portion of Long-Term Debt	912,595	912,595
TOTAL CURRENT LIABILITIES	989,085	979,943
Non Current Liabilities:		
Loans payable, net	7,108,166	8,020,761
Accrued Compensated Absence, net	128,628	128,269
TOTAL NONCURRENT LIABILITIES	7,236,794	8,149,030
TOTAL LIABILITIES	**$ 8,225,879**	**$ 9,128,973**
NET POSITION		
Net Investment in Capital Assets	14,705,025	14,603,235
Unrestricted	2,133,590	1,803,352
TOTAL NET POSITION	**$16,838,615**	**$16,406,586**
TOTAL NET POSITION AND LIABILITIES	$ 25,064,493	$ 25,535,559

* See accompaying notes to financial statements

MCAG No. 0715 Joint Wastewater Treatment Facility
aka South Kitsap Water Reclamation Facility
Comparative Statement of Revenues, Expenses and Changes in Fund Net Position
For the Years Ending December 31, 2014 and 2013

	2014	2013
OPERATING REVENUES:		
Operating Utility Fee	$ 2,869,560	$ 2,846,950
Other Operating Revenue	71,129	117,260
Contract Operations		32,275
Total Operating Revenue	$ 2,940,689	$ 2,996,484
OPERATING EXPENSES:		
Operations:		
General Operations	714,427	1,069,884
Utilities	180,822	186,821
Maintenance:		
General Administration	801,424	680,716
Depreciation/Amortization	1,015,603	843,311
Taxes	53,871	53,530
Other Operating Expenses	9,997	9,115
Contract Expenses		2,571
Total Operating Expenses	$ 2,776,145	$ 2,845,948
OPERATING INCOME	$ 164,544	$ 150,536
NONOPERATING REVENUES (EXPENSES):		
Interest Expense	(42,385)	(46,948)
Interest Income	9,870	20,414
Gain Disposition of Property		(14,968)
NONOPERATING REVENUE (EXPENSE)	(32,516)	(41,503)
INCOME BEFORE CONTRIBUTION	$ 132,028	$ 109,034
CAPITAL CONTRIBUTIONS:		
Grants		58,208
District and City of Port Orchard	300,000	200,000
CAPITAL CONTRIBUTIONS	300,000	258,208
CHANGE IN NET POSITION	**$ 432,028**	**$ 367,242**
NET POSITION BEGINNING OF YEAR	$ 16,406,586	$ 16,039,344
NET POSITION END OF YEAR	$ 16,838,615	$ 16,406,586

*See accompaying notes to financial statements

MCAG No. 0715 Joint Wastewater Treatment Facility
aka South Kitsap Water Reclamation Facility

Statement of Cash Flows

For the Years Ending December 31, 2014 and 2013

	2014	2013
Cash Flows From Operating Activities:		
Receipts from customers and agencies	$ 2,894,129	$ 3,058,916
Payments to suppliers	(989,843)	(943,395)
Payments to employees	(791,507)	(828,384)
Net Cash Provided by Operating Activities	$ 1,112,779	$ 1,287,137
Cash Flows From Capital and Related Financing Activities:		
Proceeds from sale of property and equipment		2,665
Grants and othe receipts		58,208
Capital contributions from City and District	300,000	200,000
Note from District for CIP project		
Repayment of long-term debt	(912,595)	(912,595)
Interest paid on long-term debt	(44,667)	(49,230)
Acquisition and construction of capital assets	(179,329)	(199,821)
Net Cash Used for Capital Financing Activities	$ (836,591)	$ (900,773)
Cash Flow From Investing Activities:		
Interest and dividends on investments	9,870	8,157
Net Cash Provided by Investing Activities	$ 9,870	$ 8,157
Net Increase (Decrease) In Cash and Cash Equivalents	**$ 286,057**	**$ 574,934**
CASH AND CASH EQUIVALENTS BEGINNING OF YEAR	$ 1,960,330	$ 1,385,397
CASH AND CASH EQUIVALENTS END OF YEAR	$ 2,246,388	$ 1,960,330

*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 Years Ending December 31, 2014 and 2013

RECONCILIATION

	2014	2013
Operating Income	$ 164,544	$ 150,536
Adjustments to reconcile net operating income to net cash provided by operating activities:		
Depreciation and Amortization	1,015,603	843,311
GASB 68 Implementation-Pension Expense		
Change in Assets and Liabilities:		
Decrease (Increase) in Receivables	(46,560)	62,432
Decrease (Increase) in Prepaid Expenses	(7,122)	1,157
Increase (Decrease) in Accrued Compensated Absences	3,057	(76,289)
Increase (Decrease) in Payroll Taxes	(3,861)	
Increase (Decrease) in Contractor Retainage		
Increase (Decrease) in Payables	8,856	2,719
Total Adjustments	$ 948,235	$ 1,136,600
Net Cash Provided by Operating Activities	**$ 1,112,779**	**$ 1,287,137**
		$ (14,968)

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

D. 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. Restricted Funds
There are no restricted funds.

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

H. Investments
See Note (6)

I. Compensated Absences
Compensated absences are absences for which employees will be paid, such as vacation and sick leave. Additionally, employees may accumulate up to 24 hours of comp time earned during the calendar year. The 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 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%

J. Long-Term Debt
See Note (4)

K. 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.

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 2014 was 48% for the City and 52% 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. In 2014, the Facility adjusted all capital asset salvage value to zero. The assets were depreciated without salvage value deductions.

The Facility's activity for the year ending December 31, 2014 was as follows:

	Beginning Balance 01/01/2014	Increase	Decrease	Transfers	Ending Balance 12/31/2014
The Facility not being depreciated:					
Land	55,520				55,520
CIP	1,825	179,781		(60,569)	121,037
Total the Facility not depreciated	**$ 57,345**	**$ 179,781**	**$ -**	**$ (60,569)**	**$ 176,558**
The Facility being depreciated:					
Structures & Improvements	31,075,552				31,075,552
Plant Equipment	6,186,051	25,017		48,606	6,259,674
Tools & Equipment	130,774		6,317	11,962	136,419
Vehicles	143,054				143,054
Total the Facility being depreciated	**$ 37,535,431**	**$ 25,017**	**$ 6,317**	**$ 60,569**	**$ 37,614,700**
Accumulated Depreciation	14,056,186	1,015,603	6,317		15,065,472
Total the Facility depreciated, net	23,479,245	(990,586)		60,569	22,549,228
Total the Facility capital assets, net	**$ 23,536,590**	**$ (810,805)**	**$ -**	**$ -**	**$ 22,725,786**

The Facility's activity for the year ending December 31, 2013 was as follows:

	Beginning Balance 01/01/2013	Increase	Decrease	Transfers	Ending Balance 12/31/2013
The Facility not being depreciated:					
Land	55,520				55,520
CIP	1,601,866	190,379	24,394	(1,766,026)	1,825
Total the Facility not depreciated	**$ 1,657,386**	**$ 190,379**	**$ 24,394**	**$ (1,766,026)**	**$ 57,345**
The Facility being depreciated:					
Structures & Improvements	30,111,311	980,803	16,562		31,075,552
Plant Equipment	5,696,862	499,114	9,925		6,186,051
Tools & Equipment	127,168	6,010	2,405		130,774
Vehicles	138,343	12,500	7,789		143,054
Total the Facility being depreciated	**$ 36,073,684**	**$1,498,428**	**$ 36,681**		**$ 37,535,431**
Accumulated Depreciation	13,231,922	843,311	19,048		14,056,186
Total the Facility depreciated, net	22,841,762	655,116	17,633		23,479,245
Total the Facility capital assets, net	**$ 24,499,148**	**$ 845,496**	**$ 42,027**	**$ (1,766,026)**	**$ 23,536,590**

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, 2014, including interest, are as follows:

Year Ending December 31	Principal	Interest	Total
2015	912,595	40,104	952,699
2016	912,595	35,541	948,136
2017	912,595	30,978	943,573
2018	912,595	26,415	939,010
2019	912,595	21,852	934,447
2020-2024	3,457,785	43,578	3,501,363
Total	$ 8,020,760	$ 198,468	$ 8,219,228

B. Change in Long Term Liabilities

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

	Beginning Balance 1/1/2014	Additions	Reduction	Ending Balance 12/31/2014	Due within One Year 2015
PWTF Loan #1	4,973,355		552,595	4,420,760	552,595
PWTF Loan #2	3,960,000		360,000	3,600,000	360,000
Compensated Absences	128,558	3,057		131,615	2,987
Total	9,061,913	3,057	912,595	8,152,375	915,582
Less Current Portion				$ 915,582	
Total Long-Term Liabilities				$7,236,793	

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

	Beginning Balance 1/1/2013	Additions	Reduction	Ending Balance 12/31/2013	Due within One Year 2014
PWTF Loan #1	5,525,951		552,595	4,973,356	552,595
PWTF Loan #2	4,320,000		360,000	3,960,000	360,000
Compensated Absences	204,847	21,733	98,022	128,558	289
Total	10,050,798	21,733	1,010,617	9,061,914	912,884
Less Current Portion				$ 912,884	
Total Long-Term Liabilities				$8,149,030	

NOTE 5 – CONSTRUCTION IN PROGRESS

The Facility's construction in progress represents expenses to date on projects whose authorizations total $162,000. The Facility had active construction projects as of Dec. 31, 2014, as follows:

Project Description	Project Budget	Expended 12/31/2014	Required Future Financing
Ecology Block Wall	90,000	67,829	None
Upper Driveway Repair	32,000	18,528	None
Support Centrate Line	40,000	34,681	None
Total	$ 162,000	$ 121,037	

NOTE 6 – 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, 2014, the Facility has the following cash and investments:

	Cash	Investments	Total
Washington State Investment Pool		$ 2,209,576	$ 2,209,576
Kitsap County Treasurer	$ 36,712		$ 36,712
Petty Cash	$ 100		$ 100
Total	$ 36,812	$ 2,209,576	$ 2,246,388

As of December 31, 2013, the Facility has the following cash and investments:

	Cash	Investments	Total
Washington State Investment Pool		$ 1,839,706	$ 1,839,706
Kitsap County Treasurer	$ 120,524		$ 120,524
Petty Cash	$ 100		$ 100
Total	$ 120,624	$ 1,839,706	$ 1,960,330

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 7 – PENSION PLANS

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

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

Plan Description

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

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

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

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

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

PERS Plan 1 members are vested after the completion of five (5) years of eligible service.

PERS Plan 1 members are eligible for retirement from active status at any age with at least thirty (30) years of service, at age 55 with twenty five (25) years of service, or at age 60 with at least five (5) years of service. Plan 1 members retiring from inactive status prior to the age of 65 may receive actuarially reduced benefits.

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

PERS Plan 1 retirement benefits are actuarially reduced to reflect the choice, if made, of a survivor option.
Plan 1 members may elect to receive an optional COLA that provides an automatic annual adjustment based on the Consumer Price Index. The adjustment is capped at three percent (3%) annually. To offset the cost of this annual adjustment, the benefit is reduced.

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

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

PERS Plan 2 members are vested after the completion of five (5) years of eligible service. Plan 2 members are eligible for normal retirement at the age of 65 with five years of service. The monthly benefit is two percent (2%) of the AFC per year of service. The AFC is the monthly average of the 60 consecutive highest-paid service months. There is no cap on years of service credit; and a cost-of-living allowance is granted (based on the Consumer Price Index), capped at three percent (3%) annually.

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

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

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

PERS Plan 2 members hired on or after May 1, 2013 have the option to retire early by accepting a reduction of five percent (5%) for each year of retirement before age 65. This option is available only to those who are age 55 or older and have at least 30 years of service.

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

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

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

For DRS' Fiscal Year 2013, PERS Plan 3 employee contributions were $99 million, and plan refunds paid out were $69.4 million.

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

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

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

- If they have at least ten (10) service credit years and are at least 55 years old, the benefit is reduced by ERF that varies with age, for each year before age 65.

- If they have thirty (30) service credit years, and are at least 55 years old, and were hired after May 1, 2013, they have the choice of a benefit that is reduced by 3 percent for each year before age 65: or a benefit with a smaller (or no) reduction factor (depending on age) that imposes stricter return-to-work rules.

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

PERS Plan 3 benefits are actuarially reduced to reflect the choice, if made, of a survivor option.

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

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

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

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

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

Funding Policy

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

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

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

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

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

The Facility and the employees made the required contributions. The Facility's required contributions for the year ending December 31, 2014 were as follows:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
2014	N/A	$77,753	$9,413
2013	N/A	$69,411	$8,263
2012	N/A	$66,000	$5,668

NOTE 8 – RISK MANAGEMENT

A. Water and Sewer Risk Management Pool

Funded from the Facility's Operating budget, the District provides insurance for liability claims and the Facility's assets, except property coverage that had been provided by the City until August, 2014. In August, the District commenced providing property insurance for the Facility. The District is a member of the Water and Sewer Risk Management Pool (Pool). Chapter 48.62 RCW authorizes the governing body of any one or more governmental entities to form together into or join a pool or organization for the joint purchasing of insurance, and/or joint self-insuring, and/or joint hiring or contracting for risk management services to the same extent that they may individually purchase insurance, self-insurance, or hire or contract for risk management services. An agreement to form a pooling arrangement was made pursuant to the provisions of Chapter 39.34 RCW, the Interlocal Cooperation Act. The Pool was formed in November 1987 when water and sewer districts in the State of Washington joined together by signing an Interlocal Governmental Agreement to pool their self-insured losses and jointly purchase insurance and administrative services. The Pool currently has 68 members. The Pool's fiscal year is November 1st through October 31st.

The Pool allows members to jointly purchase insurance coverage, establish a plan of self-insurance coverage, and provide related services, such as risk management and loss prevention. The Pool provides the following forms of group purchased insurance coverage for its members: 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 - $10,000 See (C) below	$25,000	$1,000,000,000
Flood	See (A) below	See (A) below	$50,000,000
Earthquake	See (B) below	See (B) below	$75,000,000 ($25,000,000 dedicated to Alderwood and $50,000,000 shared by all members
Terrorism	$1,000 - $10,000	$25,000 Primary layer	$100,000,000 Primary layer
Boiler & Machinery	$1,000 - $350,000 Depending on object	$25,000 - $350,000 Depending on object	$100,000,000
Auto - Physical Damage	$1,000 - $10,000	$250,000	$10,000,000
Liability:			
Commercial General Liability	$1,000 - $10,000	$200,000	$10,000,000
Auto Liability	$1,000 - $10,000	$200,000	$10,000,000
Public Officials Errors and Omissions	$1,000 - $10,000	$200,000	$10,000,000
Employment Practices	$1,000 - $10,000	$200,000	$10,000,000
Other:			
Public Officials Bonds	Various	N/A	Various
Crime	$1,000 - $10,000	$25,000	$2,000,000
Identity Fraud	$0	$25,000	$0

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

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

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

Pool members are responsible for a deductible on each coverage and the Pool is responsible for the remainder of the self-insured retention listed in the table above 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. Under the 2014 schedule of deductibles for member districts, the District chose a deductible level of $10,000. 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 a six-month notice before terminating participation (e.g. to withdraw from the Pool on November 1, 2015, written notice must be in possession of the Pool by April 30, 2015). The Interlocal Governmental Agreement is renewed automatically each year. Even after termination of relationship with the Pool, a member is still responsible for contributions to the Pool for any unresolved, unreported, and in process claims, for the period that the District was a signatory to the Interlocal Governmental Agreement.

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

The Pool is governed by a Board of Directors, which is comprised of one designated representative from each participating member. An Executive Committee is elected at the annual meeting, and 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, 2014 to October 31, 2015
Insurance Coverage, Policy Limits and Pool/Member Deductibles*

Coverage	Insurance Co. and Limits	Pool/Member Deductibles
Liability:	*Water and Sewer Risk Management Pool Effective 11/1/14 to 10/31/15*	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 or $10,000
	$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 obtaining a formal consul- tation with a qualified employment
	$10M per occurrence for all members/$10M ann agg per member for Employment Practices Liability	practices sttorney, or terminates againt the advice of the employment practices
	$10M per occurrence for all members/$10M ann agg per member for Employee Benefits Liability	attorney, then the member's applicable deductible on that employment claim
	$10M per occurrence for all members for Auto Liability	shall be increased to $10,000 and the member shall have a 20% co-pay for the next $100,000 of claim expenses for that claim.
Property: Incl. Autos	*Public Entity Property Insurance Program (PEPIP) Effective 7/1/14 to 7/1/15*	Pool Self-Insured Retention:
	Insurance Carriers (Various)	$25,000 per occurrence, which
	$1,000,000,000 per occurrence "All Risk"	applies in the event that a more
	$ 50,000,000 Flood limit per occurrence and annual aggregate	specific deductible is not applicable to a
	$75,000,000 Earthquake limit per occurrence and annual aggregate shared by all members. $25,000,000 dedicated to Alderwood Water & Wastewater District	loss 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)	Flood - $100,000 All Flood Zones
	$ 5,000,000 Scheduled landscaping ($25,000/25 gallon max per tree)	per occurrence excl. Flood Zones
	$ 25,000,000 Miscellaneous Unnamed Locations excl. EQ and Zone A&V flood	A & V Flood Zones A & V - $250,000
	$ 25,000,000 Automatic Acquisition for new locations excl. EQ and Zone A&V flood	per occurrence Flood Zones A & V
	$ 50,000,000 Errors & Omissions	
	$ 25,000,000 Course of Construction including New Projects	Earthquake - 5% per occurrence
	$ 2,500,000 Money & Securities	for Earthquake Shock per unit
	$ 2,500,000 Unscheduled Fine Arts	of insurance subject to $100,000
	$ 250,000 Accidental Contamination per occurrence and annual aggregate per member with $500,000 annual aggregate for all insureds per member declaration	minimum for buildings constructed prior to 1940 where EQ coverageis purchased.
	$ 2,000,000 Unscheduled tunnels, bridges, dams, catwalks, roadways, etc. (except EQ)	$500,000 per occurrence for Unscheduled tunnels, bridges, roadways,
	$100,000,000 Primary Terrorism per occurrence $200,000,000 Ann. Aggregate (all PEPIP Members)	highways, streets, sidewalks, culverts, street lights and traffic signals unless a
	$300,000,000 Excess Terrorism per member/entity	specific value has been declared
	$800,000,000 Excess Terrorism all PEPIP members combined	(excluding coverage for the peril of
	$800,000,000 Excess Terrorism annual aggregate shared by all members/entities	Earthquake Shock, and excluding Federal Emergency Management

	$ 5,000,000 Per Occurrence Per Declaration Upgrade to Green Coverage	Agency (FEMA) and/ or Office of
	Property, Contents, EDP, and Contractor's Equipment limits based on property values at beginning of policy subject to additions/deletions of property	Emergency Services (OES) declared disasters or proclamations of emergency).
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 sublimited to:	Pool Self-Insured Retention: N/A
	$500,000 Privacy Noticfication Costs	Member Deductible:
	$2,000,000 Penalties for Regulatory Defense and Penalities. PCI fines and penalties and fines coverage added with siblimit of $100,000	$100,000 per occurrence 8 hour waiting period for first party
	$2,000,000 First Party Computer Security for Cyber Extortion Loss $2,000,000 First Party Computer Security for Data Protection Loss	Business Income Inerruption Claims
	and Business Interruption	
	$25,000,000 Cyber Liability Annual Policy and Program Aggregate Limit of Liability	
Commer-cial Auto-mobile:	Water and Sewer Risk Management Pool Effective 11/1/14 to 11/1/15	See Liability Coverage for
	$10,000,000 Owned Automobile	Deductibles
	$10,000,000 Hired/Nonowned Automobile	
Boiler & Machinery	*Public Entity Property Insurance Program (PEPIP)*	Pool Self-Insured Retention
	Effective 7/1/14 to 7/1/15	$25,000 per occurrence, which applies
	Insurance Carriers (Various)	in the event that a more specific
	$100,000,000 Limits of Liability per occurrence	deductible is not applicable to a loss
	Included: Jurisdictional and Inspection	Member Deductible:
	Included: per occurrence consequential damage/perishable goods/spoilage	$1,000,$5,000 $10,000, or $25,000
	$10,000,000 per occurrence electronic data processing media and data restoration	per occurrence $50,000 for objects over 350 hp
	$10,000,000 per occurrence hazardous substance/pollutants/cecontamination	$100,000 for objects over 500 hp $250,000 for objects over 750 hp
	Included: per occurrence machine or apparatus used for research, diagnosis, medication, surgical, rherapeutic, dental or pathological purposes	$350,000 for objects over 25,000 hp $10 per foot/$2,500 min. for Deep Water Wells
	$25,000,000 newly acquired locations. Values greater than $25,000,000 or power generating facilities must be reported within 90 days and must have prior underwriting approval prior to binding	24 hr waiting period for Utility Interuption 24 hr waiting period for BI except 30
		day for Revenue Bond
Crime:	*National Union Fire Insurance Company Effective 11/1/14 to 11/1/15*	Pool Self-Insured Retention:
	$2,000,000 Employee Theft - Per Loss Coverage	$25,000 Employee Theft – Per Loss,
	$2,000,000 Forgery or Alteration	Forgery or Alteration
	$250,000 Outside the Premises	$5,000 Inside the Premises - theft of
	$250,000 Computer Fraud	money & securities, robbery, safe
	$250,000 Money Orders and Counterfeit Paper Currency	burglary - other property, outside the
	$250,000 Funds Transfer Fraud	Premises, computer Fraud, money
	$2,000,000 Credit Card Forgery	orders and counterfeit paper currency
	$25,000 Prior Theft or Dishonesty	Member Deductible:
	$75,000/100% Include expenses incurred to establish amount of covered loss	$1,000, $5,000 or $10,000 per occurrence

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

B. Association of Washington Cities Risk Management Service Agency

The City of Port Orchard, which provides insurance for the Facility properties ($36,771,875) from January through August, is a member of the Association of Washington Cities Risk Management Service Agency (AWC RMSA). 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-insure, 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 AWC RMSA was formed on January 1, 1989 when 32 municipalities 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. As of December 31, 2014, 94 municipalities/entities participate in the AWC RMSA pool.

The AWC RMSA allows members to establish a program of joint insurance and provides risk management services to all members. All coverages are on an occurrence basis. The AWC RMSA provides all risk property, comprehensive crime, general liability, automobile liability, police liability, public officials' liability, employee fidelity and faithful performance, and equipment breakdown insurance coverage. Equipment breakdown is included with the property insurance carrier and fidelity (crime) coverage is a stand-alone policy which the AWC RMSA procures for its members. The AWC RMSA also allows members with airports to group purchase airport liability coverage.

Members pay an annual assessment to the AWC RMSA. The AWC RMSA is responsible for payment of all covered causes of loss against the jurisdiction above the stated retention. All members in the AWC RMSA have $10 million in both per occurrence and aggregate liability limits. For the first $1 million, AWC RMSA is self-insured for its Self-Insured Retention (SIR) of $250,000, per occurrence, and is reinsured by Berkley Public Entity of $750,000 for the additional $750,000. For the $9 million in excess coverage limits, an excess property coverage is purchased form Starr Indemnity & Liability Company. The excess property coverage is purchased through Lexington Insurance Company using the Pool's broker, Arthur J. Gallaher Risk Management Services. In 2014, AWC RMSA carried a retention of $50,000 and limits up to $250 million. Since AWC RMSA is a cooperative program, there is joint liability among the participating members.

Member contract to remain in the AWC RMSA pool for a minimum of one year and must give a one-year notice before terminating participation. Even after termination, a member is still responsible for contributions to the Pool for any unresolved, unreported, and in-process claims for the period they were signatory to the Interlocal Governmental Agreement.

The AWC RMSA establishes a loss fund for both reported and unreported insured events, which includes estimated of both future payments of losses and related claim adjustment expenses.

In accordance with WAC 200.100.02023, the AWC RMSA is governed by a board of directors which is comprised of elected officials of participating members.

NOTE 9 – SUBSEQUENT EVENTS

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 will execute the legal transfer of properties to the Plant in 2016.