

Silverdale Water District No. 16
Management's Discussion and Analysis
December 31, 2016 and 2015

As management of the Silverdale Water District (District), we offer readers of the basic financial statements this narrative overview and analysis of the District's financial activities for the fiscal years ended December 31, 2016 and 2015. The intent of this discussion and analysis is to review the District's financial performance as a whole. This MD&A provides an overview of the District's financial records. We encourage readers to consider the information presented here in conjunction with the financial statements and notes to the financial statements which immediately follow this discussion.

FINANCIAL INFORMATION

The District's Board of Commissioners adopts an annual budget as a measure of monitoring revenues and controlling expenses. The Commissioners also use the budget as a financial planning tool for the District's future needs.

The District operates as a Special Purpose District organized under the laws of the State of Washington, Revised Code of Washington (RCW), Title 57, to provide potable water service to specific areas in Kitsap County, Washington. The District is not a segment of any other local government, nor is it a component unit thereof.

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

Financial Highlights

- The assets and deferred outflows of the Silverdale Water District exceeded its liabilities and deferred inflows at the close of the most recent fiscal year by \$29,921,980. Of this amount, \$4,098,129 in 2016 may be used to meet the government's ongoing obligations to citizens and creditors.
- From 2015 to 2016 total net position increased by \$4,498,217, or 18%.
- The District is not legally required to formally adopt a budget; however does so as a way to monitor revenue and control expenses. The Board of Commissioners adopts an annual maintenance and operation budget to use as a financial plan for the District in December of each year.

OVERVIEW OF THE FINANCIAL STATEMENTS

The District's financial statements include two components: 1) the District's basic financial statements, and 2) the notes to the financial statements. This discussion and analysis are intended to serve as an introduction to the District's basic financial statements.

Condensed financial position information

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

The following condensed financial information provides an overview of the District's financial position for the fiscal year ended December 31, 2016.

NET POSITION
December 31, 2016 and 2015

	2016	2015
Assets:		
Current and Other Assets	\$ 11,141,090	\$ 12,267,741
Capital Assets, net	<u>46,042,327</u>	<u>42,799,706</u>
Total Assets	<u>57,183,417</u>	<u>55,067,447</u>
Deferred Outflows of Resources	<u>708,852</u>	<u>655,502</u>
Liabilities:		
Other Liabilities	1,335,345	1,132,292
Long-term Liabilities	<u>26,588,575</u>	<u>28,970,874</u>
Total Liabilities	<u>27,923,920</u>	<u>30,103,166</u>
Deferred Inflows of Resources	<u>46,369</u>	<u>196,020</u>
Net Position:		
Net Investment in Capital Assets	23,252,174	19,363,067
Restricted	2,571,677	2,527,183
Unrestricted	<u>4,098,129</u>	<u>3,533,513</u>
Total Net Position	<u>\$ 29,921,980</u>	<u>\$ 25,423,763</u>

At December 31, 2016, the District has \$8.8 million in cash and cash equivalents and pooled investments representing 15% of total assets. At December 31, 2015, the District has \$9.5 million in cash and cash equivalents and pooled investments representing 17% of total assets. Unrestricted cash increased by \$1.2 million between 2016 and 2015; this was mostly caused by reimbursements from other governments, however, increased connection fees and rate increases contributed as well. Cash and cash equivalents decreased from 2015 to 2016 as the district spent bond proceeds for capital construction.

At the end of 2016 and 2015, capital assets represent 81% and 78% of total assets, respectively. Capital assets are increasing as the District improves its system.

At December 31, 2016 and 2015, the District had long-term liabilities (including the current portion of the debt) of \$26.6 and \$29.0 million, respectively. The long-term debt also includes Net Pension Liability of \$1.5 million. A portion of the overall decrease is attributed to a federal loan forgiveness of \$1.3 million.

2016 total net position was \$29.9 million, increasing 18% over 2015. The bulk of this increase is due to contributed capital of \$3.8 million.

The District's investment in capital assets (land, structure and facilities, equipment and construction in progress) less any related debt is \$23.3 million at December 2016 and \$19.4 million at December 2015. The District continues to expand infrastructure to meet the needs of its customers.

Restricted net position represent resources restricted under bond covenants. Until the revenue bonds are repaid, these funds are not available for general use. Unrestricted net position represent the amount that may be used to meet the District's ongoing non-capital obligations.

Overall, the District's financial position is relatively stable and reports positive balances in all three categories of net position.

Summary of operations and changes in net position

The statement of revenues, expenses and changes in fund net position shows how the District's net position changed during the most recent fiscal year. These changes are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, some revenues and expenses reported in this statement will only affect future period cash flows (e.g. uncollected receivables).

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

	<u>2016</u>	<u>2015</u>
Revenues		
Operating Revenues		
Charge for Services	\$ 5,298,469	\$ 4,879,570
Miscellaneous	47,899	46,828
Non-Operating Revenues		
Interest Earned	92,225	144,614
Other Revenues	198,351	234,437
TOTAL REVENUES	<u>5,636,944</u>	<u>5,305,449</u>
Expenses		
Operating Expenses	4,318,702	3,693,029
Non-Operating Expenses	611,328	730,542
TOTAL EXPENSES	<u>4,930,030</u>	<u>4,423,571</u>
Excess or Deficiency before Contributions	706,914	881,878
Capital Contributions	3,791,303	3,844,945
Change in Net Position	<u>4,498,217</u>	<u>4,726,823</u>
Net Position - Beginning	25,423,763	21,928,088
Prior Period Adjustment	-	9,533
Change in Accounting Principles	-	(1,240,681)
Net Position - Ending	<u>\$ 29,921,980</u>	<u>\$ 25,423,763</u>

Total operating revenues for the District in 2016 and 2015 were \$5.3 million and \$4.9 million, respectively. 2016 and 2015 show increases due to an average residential unit rate increase of 3.39 percent.

Generally the increase in expenses paralleled inflation and growth in the demand for services. Expenses have remained fairly stable over the last two years. Total operating expenses for 2016 and 2015 were \$4.3 and \$3.7 million, respectively.

Notes to the basic financial statements

The notes to the District's basic financial statements can be found on pages 10-29 of this report. These notes provide additional information that is essential to a full understanding of the basic financial statements.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets

The District's investment in capital assets as of December 31, 2016, amounted to \$46,030,566 (net of accumulated depreciation). The District's investment in capital assets includes land, plant, machinery and equipment and construction in progress. The total increase in the District's investment in capital assets for the current year was 8%. This increase is due to construction of a reservoir, water/reclaimed water main replacement and installation, and water treatment facilities and equipment.

CAPITAL ASSETS, NET December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Land	\$ 731,975	\$ 731,975
Intangible - easements	744,988	163,172
Construction in progress	2,406,381	3,319,444
Plant	53,400,869	49,860,615
Machinery and Equipment	2,639,692	2,034,783
Intangible - depreciable	135,027	135,027
Less accumulated depreciation	<u>(14,016,605)</u>	<u>(13,445,310)</u>
	<u>\$ 46,042,327</u>	<u>\$ 42,799,706</u>

Additional information on the District's capital assets can be found in Note 3 on page 14-15 of this report.

Long-term debt

At December 31, 2016, the District had total outstanding debt of \$24,202,570 (including the issuance premiums of \$659,608). The District received \$337,431 from its Drinking Water State Revolving Fund loan. This debt was issued to meet the capital needs of the District. Additionally, the District realized a loan forgiveness of \$1.3 million dollars in 2016 related to the Drinking Water State Revolving Fund loan.

Of this debt \$14,344,608 is Revenue Bond Debt, which is secured through rates charged to water service customers. Of the remaining debt, \$9,857,962 is loans payable to other governments, secured by rates and capital connection charges.

Additional information on the District's long-term debt can be found in Note 6 on pages 23-29 of this report.

Economic Outlook

The District experienced above significant growth in 2016, the District expects to see continued growth in its service area over the next year. Significant growth is expected again during 2017 due to an increase in both residential and non-residential projects, as discussed below.

CHI Franciscan Health (formerly Harrison Medical Center) will be moving Kitsap County's regional hospital from Bremerton to Silverdale. Construction began in the summer of 2016 of a \$240 million regional hospital with 240 beds and 400,000 square feet on 32-acre property at Myhre Road and Ridgetop Boulevard in Silverdale. A new medical office building and cancer center are also being considered with the expansion. The site is already home to a 24-hours emergency department, a natal care unit, and orthopedic hospital. Approximately 750 full-time and 500 part-time staff members will combine with the existing 100 full-time and 245 part-time staff members currently working at Silverdale.

CenterCal Properties, based out of California, constructed a new shopping center called The Trails of Silverdale, it opened in the fall of 2015. The new 225,000 square feet of commercial space consists of 16 retail stores, 6 restaurants, and 900 parking stalls on 18-acres of property.

The District has been contacted regarding the projects listed below and anticipates the majority of projects will proceed during 2017 and 2018.

- Bakker's Hillside Estates (single-family development)
- Hogan Heights (single-family development)
- Sterling Estates III (single-family development)
- Ridgetop Homes (single-family development)
- Monarch Ridge (single-family development)
- The Ridge at Eldorado (single-family development)
- Central Kitsap School District Transportation
- Central Kitsap High School and Middle School
- North Beach Inn (multi-family development)
- Woodbridge Phase 2 (single-family development)
- Lupine Lane (single-family development)
- Kitsap Transit (public transportation center)

Preserving the financial condition of the District and building upon its financial health are primary goals. The District continues to seek better economics of scale and eliminate redundancies in its operations. Significant elements in maintaining a healthy financial condition include:

- Instituting and maintaining fiscal and debt polices which adequately cover the management and planning of system improvements, replacements and other capital disbursements.
- Optimizing operating costs to meet customer needs (use of SCADA's electronic monitoring of well and pump stations, GIS mapping, etc.)
- Maintaining adequate but favorable rates through low-cost financing of capital projects to meet the District's objectives and facilitate customer growth.
- Closely monitoring and making necessary improvements to the existing system of wells, pump stations, transmission and distribution lines.

The District completed updating its twenty (20) year Water System Plan, an action it performs every 6 years. The WSP provides a summary of the capital improvement projects (CIP) and the associated costs for that period. The WSP is reviewed annually for changes in population and demographic conditions.

The annual cash flow from operating activities should continue to exceed the District's need based on approved increases in water usage rates and capital connection charges.

Requests for Information

This financial report is designed to provide a general overview of the District's finances for all those with an interest in its finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Morgan Johnson, General Manager, 5300 NW Newberry Hill Rd, Suite 100, Silverdale, WA 98383.

SILVERDALE WATER DISTRICT NO. 16
STATEMENT OF NET POSITION
December 31, 2016 and 2015

Assets	2016	Restated 2015
<i>Current Assets</i>		
Cash, Cash Equivalents and Pooled Investments	\$ 5,079,985	\$ 3,832,230
Receivables (net):		
Customer	456,956	423,089
Lien	2,836	2,836
Miscellaneous	36,180	140
Contracts	59,699	28,106
KPUD	500,000	543,826
Inventories	125,220	104,944
Restricted Assets - Cash, Cash Equivalents and Pooled Investments		
Restricted for Debt	1,985,301	1,966,762
Restricted for Capital Projects	986,255	2,995,383
Restricted for Rate Stabilization	745,838	740,984
Total Current Assets	9,978,270	10,638,300
<i>Long-term Assets</i>		
Notes Receivable	1,162,820	1,629,441
Land	731,975	731,975
Construction in Progress	2,406,381	3,319,444
Intangible Assets (with indefinite useful lives)	744,988	163,172
Depreciable Assets (Net Depreciation and Amortization)	42,158,983	38,585,115
Total Noncurrent Assets	47,205,147	44,429,147
Total Assets	57,183,417	55,067,447
Deferred Outflows of Resources		
Deferred Amount on Debt Refunding	426,162	465,946
Amounts Related to Pensions	282,690	189,556
Total Deferred Outflows of Resources	708,852	655,502
Liabilities		
<i>Current Liabilities</i>		
Accounts Payable	1,112,553	523,189
Accrued Liabilities	24,616	11,198
Retainage Payable	0	358,313
Accrued Compensated Absences - current	23,101	19,876
Payable from Restricted		
Bond Payable - Current	1,167,334	1,112,334
Note/Loan Payable - Current	640,531	716,123
Interest Payable	175,075	219,716
Total Current Liabilities	3,143,210	2,960,749
<i>Noncurrent Liabilities</i>		
Bonds Payable	13,177,274	14,344,608
Note/Loan Payable	9,217,431	10,724,903
Other Post Employment Benefits	478,378	423,904
Accrued Compensated Absences	427,468	377,637
Net Pension Liability	1,480,159	1,271,365
Total Noncurrent Liabilities	24,780,710	27,142,417
Total Liabilities	27,923,920	30,103,166
Deferred Inflows of Resources		
Amounts Related to Pensions	46,369	196,020
Total Deferred Inflows of Resources	46,369	196,020
Net Position		
Net Invested in Capital Assets	23,252,174	19,363,067
Restricted	2,571,677	2,527,183
Unrestricted	4,098,129	3,533,513
Total Net Position	\$ 29,921,980	\$ 25,423,763

SILVERDALE WATER DISTRICT NO. 16
STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN FUND NET POSITION
For Year Ended December 31, 2016 and 2015

	2016	Restated 2015
Operating Revenues		
Utility Sales & Service Fees	\$ 5,298,469	\$ 4,879,570
Miscellaneous Revenues	<u>47,899</u>	<u>46,828</u>
Total Operating Revenues	<u>5,346,368</u>	<u>4,926,398</u>
Operating Expenses		
Operations:		
General	322,819	324,418
Cost of Power	168,065	175,732
Maintenance	447,124	345,143
Customer Service & Marketing	17,779	13,811
Administration:		
General	1,980,451	1,784,195
Planning, Conversation, Research and Development	1,806	2,718
Depreciation & Amortization	1,130,263	810,184
Property, Excise and B&O Taxes	<u>250,395</u>	<u>236,828</u>
Total Operating Expenses	<u>4,318,702</u>	<u>3,693,029</u>
Operating Income (Loss)	1,027,666	1,233,369
Non-Operating Revenues (Expenses)		
Interest Earned	92,225	144,614
Interest and Fiscal Charges	(485,826)	(505,102)
Bond Issue costs	0	(112,000)
Other Non-Operating Revenues	198,351	233,343
Other Non-Operating Expense	(125,502)	(113,440)
Gain (Loss) on Disposal of Assets	<u>0</u>	<u>1,094</u>
Total Non-Operating Revenues (Expenses)	<u>(320,752)</u>	<u>(351,491)</u>
Income (Loss) before Contributions	706,914	881,878
Capital Contributions	<u>3,791,303</u>	<u>3,844,945</u>
Change in Net Position	<u>4,498,217</u>	<u>4,726,823</u>
Beginning Net Position	25,423,763	21,928,088
Prior Period Adjustment	0	9,533
Change in Accounting Principles	<u>0</u>	<u>(1,240,681)</u>
Ending Net Position	<u>\$ 29,921,980</u>	<u>\$ 25,423,763</u>

SILVERDALE WATER DISTRICT NO. 16
STATEMENT OF CASH FLOWS
For Year Ended December 31, 2016 and 2015

	2016	2015
Cash flows from operating activities		
Cash received from customers	\$ 5,246,008	\$ 4,886,240
Cash received from other operating activities	198,351	234,437
Cash payment for goods and services	(1,139,511)	(1,015,276)
Cash payments to employees	(1,820,243)	(1,658,176)
Other payments made	(125,502)	(113,440)
Net cash used by operating activities	2,359,103	2,333,785
Cash flows from noncapital financing activities		
Net cash provided by noncapital financing activities	0	0
Cash flows from capital and related financing activities		
Capital contributions received	1,283,203	1,551,065
Proceeds from issuance of bonds	0	2,509,889
Receipt of loan proceeds	337,431	3,920,241
Payment on loans and notes	(670,495)	(633,964)
Payment for acquisition/construction of capital assets	(2,506,661)	(5,793,578)
Payment to escrow for refunding bonds	0	(253,452)
Payment of bonds	(1,075,000)	(1,220,000)
Interest and fiscal charges paid	(568,234)	(435,742)
Net cash provided (used) for capital and related financing activities	(3,199,756)	(355,541)
Cash flows from investing activities		
Receipts of interest and dividends	102,673	109,376
Net cash provided from investing activities	102,673	109,376
Net increase (decrease) in cash	(737,980)	2,087,620
Cash and cash equivalents - January 1	9,535,359	7,447,739
Cash and cash equivalents - December 31	\$ 8,797,379	\$ 9,535,359
Reconciliation to statement of net position		
Cash & cash equivalents - unrestricted	5,079,985	3,832,230
Cash & cash equivalents - restricted for debt	1,985,301	1,966,762
Cash & cash equivalents - restricted for capital outlay	986,255	2,995,383
Cash & cash equivalents - restricted for rate stabilization	745,838	740,984
Cash and cash equivalents - December 31	\$ 8,797,379	\$ 9,535,359

SILVERDALE WATER DISTRICT NO. 16
STATEMENT OF CASH FLOWS
For Year Ended December 31, 2016 and 2015

Reconciliation of operating loss to net cash used by operating activities

	2016	2015
Net operating income (loss)	\$ 1,027,666	\$ 1,233,369
Adjustments to reconcile net operating income (loss) to net cash provided by operating activities		
Depreciation and amortization	1,130,263	810,184
Other non-operating revenues	198,351	234,437
Other non-operating expenses	(125,502)	(113,440)
Change in assets and liabilities:		
Decrease (increase) in accounts receivable	(101,501)	(40,158)
Increase (decrease) in accounts payable	164,977	53,512
Decrease (increase) in Inventories	(20,276)	26,607
Increase (decrease) in other payables	119,116	92,126
Increase (decrease) in pension items	(33,991)	37,148
Total adjustments	1,331,437	1,100,416
Net cash used by operating activities	\$ 2,359,103	\$ 2,333,785

Noncash Transactions

Donated Assets	\$ 1,758,100	\$ 199,677
DWSRF Loan Forgiven	1,250,000	0
Note receivable issued for capital contributions	0	2,094,203
Bond proceed and premium received by escrow agent	0	5,784,196
Debt paid by refunding through escrow agent	0	(5,500,000)
Bond issue costs paid by escrow agent	0	(112,000)

SILVERDALE WATER DISTRICT
Notes To Financial Statements
December 31, 2016 and 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Silverdale Water District No. 16 (District) was incorporated on December 13, 1929 and operates under the laws of the State of Washington applicable to water districts. The accounting policies of the District conform to generally accepted accounting principles as applicable to proprietary funds of governmental units. The following is a summary of the most significant policies:

A. Reporting Entity

The District is a municipal corporation governed by an elected three-member board. As required by generally accepted accounting principles, management has considered all potential component units in defining the reporting entity. The District has no component units.

The District is a special purpose government that provides water supply and distribution. In addition, the District provides street light billing services.

B. Basis of Accounting and Reporting

The accounting records of the District are maintained in accordance with methods prescribed by the State Auditor under the authority of Chapter 43.09 RCW. The District uses the uniform system of accounts for Class A water utilities prescribed by the National Association of Regulatory Commissioners (NARUC).

The District uses the full-accrual basis of accounting where revenues are recognized when earned and expenses are recognized when incurred. Capital asset purchases are capitalized and long-term liabilities are accounted for in the appropriate fund.

The District distinguishes between operating revenues and expenses from non-operating ones. Operating revenues and expenses result from providing services and producing and delivering goods in connection with a district's principal ongoing operations. The principal operating revenues of the District are derived from its charges to customers for water supply and distribution. Operating expenses generally result from providing services and maintenance. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. Items included as non-operating revenue and expense are street light charges and costs and contributed capital.

C. Assets, Liabilities and Equities

1. Cash and Cash Equivalents (See Note 2)

For purposes of the statement of cash flows, the District considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents.

2. Investments (See Note 2)

All investments are stated at fair value in accordance with generally accepted accounting principles. Interest is recognized in non-operating revenues as earned. Changes in the fair value of investments are also included in non-operating revenues (expenses). Unrealized gains and losses are recognized on the books as of the statement of net position date.

3. Receivables

Customer and miscellaneous accounts receivable consist of amounts owed from private individuals or organizations for goods and services including amounts owed for which billings have not been prepared. Central Kitsap Fire & Rescue (CKFR), contracts and liens receivable consist of amounts owed on an open account from private individuals, other governments and/or organizations for goods and services rendered.

SILVERDALE WATER DISTRICT
Notes To Financial Statements
December 31, 2016 and 2015

Accounts receivable of any type may not be written off without application by the customer or staff and approved by the General Manager, if under \$100 or by the Board of Commissioners if over \$100.

4. Inventories

Inventories for the District consist of supplies held for consumption. The cost is recorded as an expenditure at the time individual inventory items are consumed. At year end 2016 and 2015, inventories were valued at \$125,220 and \$104,944, respectively, by the weighted average method, which approximates the fair market value.

5. Amounts Due From Other Governments

These accounts include amounts due to or from other governments for grants, entitlements, temporary loans, taxes and charges for services.

6. Deferred Outflows of Resources

Deferred outflows of resources represent a consumption of net position by the government that is applicable to a future reporting period. This includes the deferred amount on refunding of debt that will be amortized to interest expense over the life of the refunding bond issue. This amount is included in the calculation of net investment in capital assets component of net position.

7. Capital Assets and Depreciation (See Note 3)

Capital assets are defined by the District as assets with initial individual costs of more than \$5,000 and an estimated useful life in excess of one year. Major expenses for capital assets, including capital leases and major repairs that increase useful lives are capitalized. Maintenance, repairs and minor renewals are accounted for as expenses when incurred.

Capital assets are stated at historical cost. Donations by developers and customers are recorded at acquisition value. Depreciation of capital assets is computed using the straight line method, based on estimated useful lives of 5 to 50 years. Equipment and Vehicles are depreciated over 5 years, Hydrants and Meters are depreciated over 20 years and all other depreciable assets are amortized over 50 years.

During 2016 and 2015, the District capitalized \$40,217 and \$71,422, respectively, of net interest costs for funds borrowed to finance the construction of capital assets.

The District acquired certain assets with funding provided by federal and state financial assistance programs. Depending upon the terms of the agreements involved, the funding governmental unit could retain an interest in these assets.

8. Compensated Absences

Compensated absences are absences for which employees will be paid, such as vacation and sick leave. Additionally, employees may accumulate up to 40 hours of compensatory time during a calendar year, which may be carried over at year end. The District records unpaid leave for compensated absences as an expense and liability when incurred. Accrued vacation pay is payable upon an employee taking a vacation or upon resignation, retirement or death.

Employee absences are funded from current revenues when taken. Unused vacation balances may be accumulated up to 240 hours and may be carried over to the next calendar year. Costs are expensed when incurred and unused vacation time is accrued at year-end. Sick leave may be accumulated up to 1040 hours and carried into the next calendar year, at the end of each calendar year the value of any sick leave in excess of 1040 hours shall be deposited into a VEBA account for the employee. Upon separation from the District, the employee receives 50% compensation of the outstanding sick leave balance and 50% is deposited into a VEBA account for the employee. 100% of the balance is payable to a beneficiary upon death.

SILVERDALE WATER DISTRICT
Notes To Financial Statements
December 31, 2016 and 2015

9. Other Credits

Other credits represent the amount of future development fees forgiven in lieu of capital asset or intangible assets received.

10. Long-Term Debt

Long term debt and other obligations are reported as liabilities in the statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issue costs are expensed in the current period. (See Note 6)

11. 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.

12. Restricted Funds

In accordance with bond resolutions (and certain related agreements) separate restricted funds are required to be established. The assets held in these funds are restricted for specific uses, including construction, debt service and other special reserve requirements. Restricted funds currently include the following:

<u>Purpose</u>	<u>12/31/2016</u>	<u>12/31/2015</u>
Rate Stabilization	\$ 745,838	\$ 740,984
Construction	986,255	2,995,383
Bond Fund	756,314	737,853
Bond Reserve	<u>1,228,987</u>	<u>1,228,909</u>
Total	<u>\$ 3,717,394</u>	<u>\$ 5,703,129</u>

NOTE 2 – CASH AND CASH EQUIVALENTS

Deposits

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

The District Treasurer, Kitsap County, was holding a total of \$8,615,885 and \$9,398,494 in cash and cash equivalents at December 31, 2016 and 2015, respectively. The District was holding \$181,494 and \$136,865 at December 31, 2016 and 2015, respectively, in petty cash, revolving and other deposit accounts.

Investments

As required by state law, all investments of the District's funds are obligations of the U.S. Government, U.S. agency issues, obligations of the State of Washington, general obligations of Washington State municipalities, or certificates of deposit with Washington State banks and savings and loan institutions. Currently, all

SILVERDALE WATER DISTRICT
Notes To Financial Statements
December 31, 2016 and 2015

investments of the District are invested through the Kitsap County Treasurer's Office in local investment pool. The County investment pool is not rated. All temporary investments are stated at fair value.

Investments Measured at Fair Value

The District measures and records its investments within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. These guidelines recognize a three-tiered fair value hierarchy, as follows:

- Level 1: Quoted prices in active markets for identical assets or liabilities;
- Level 2: Quoted market prices for similar assets or liabilities, quoted prices for identical or similar assets or liabilities in markets that are not active, or other than quoted prices that are not observable
- Level 3: Unobservable inputs for an asset or liability, to the extent observable inputs are not available

As of December 31, 2016, the District had the following recurring fair value measurements.

	Fair Value Measurements Using			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<u>Investments by fair value level</u>	<u>Total</u>	<u>(Level 1)</u>	<u>Inputs (Level 2)</u>	<u>Inputs (Level 3)</u>
Kitsap County Investment Pool	\$ 8,615,885	\$ 7,781,867	\$ 834,018	\$ -
Total Investments by Fair Value Level	\$ <u>8,615,885</u>	\$ <u>7,781,867</u>	\$ <u>834,018</u>	\$ <u>-</u>

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

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NOTE 3 –CAPITAL ASSETS AND DEPRECIATION

Capital assets activity for the year ended December 31, 2016 and 2015 was as follows:

	Beginning Balance			Ending Balance
	<u>01/01/2016</u>	<u>Increases</u>	<u>Decreases</u>	<u>12/31/2016</u>
<i>Capital assets, not being depreciated:</i>				
Land	731,975	-	-	731,975
Intangible asset - easements	163,172	581,816	-	744,988
Construction in progress	3,319,444	3,105,810	4,018,873	2,406,381
Total capital assets, not being depreciated	<u>\$ 4,214,591</u>	<u>\$ 3,687,626</u>	<u>\$ 4,018,873</u>	<u>\$ 3,883,344</u>
<i>Capital assets, being depreciated:</i>				
Plant	49,860,615	4,099,222	558,968	53,400,869
Machinery and equipment	2,034,783	604,909	-	2,639,692
Intangible asset - plans and studies	103,212	-	-	103,212
Intangible asset - software	31,815	-	-	31,815
Total capital assets being depreciated	<u>\$ 52,030,425</u>	<u>\$ 4,704,131</u>	<u>\$ 558,968</u>	<u>\$ 56,175,588</u>
<i>Less accumulated depreciation for:</i>				
Plant & Equipment	13,410,948	1,106,698	558,968	13,958,678
Intangible asset - amortization	34,362	23,565	-	57,927
Total accumulated depreciation	<u>\$ 13,445,310</u>	<u>\$ 1,130,263</u>	<u>\$ 558,968</u>	<u>\$ 14,016,605</u>
Total capital assets, being depreciated, net	<u>38,585,115</u>	<u>3,573,868</u>	<u>-</u>	<u>42,158,983</u>
Total capital assets	<u>\$ 42,799,706</u>	<u>\$ 7,261,494</u>	<u>\$ 4,018,873</u>	<u>\$ 46,042,327</u>

	Beginning Balance			Ending Balance
	<u>01/01/2015</u>	<u>Increases</u>	<u>Decreases</u>	<u>12/31/2015</u>
<i>Capital assets, not being depreciated:</i>				
Land	731,975	-	-	731,975
Intangible asset - easements	152,761	10,411	-	163,172
Construction in progress	13,046,928	7,561,563	17,289,047	3,319,444
Total capital assets, not being depreciated	<u>\$ 13,931,664</u>	<u>\$ 7,571,974</u>	<u>\$ 17,289,047</u>	<u>\$ 4,214,591</u>
<i>Capital assets, being depreciated:</i>				
Plant	34,400,923	15,459,692	-	49,860,615
Machinery and equipment	1,970,093	64,690	-	2,034,783
Intangible asset - plans and studies	103,212	-	-	103,212
Intangible asset - software	28,600	3,215	-	31,815
Total capital assets being depreciated	<u>\$ 36,502,828</u>	<u>\$ 15,527,597</u>	<u>\$ -</u>	<u>\$ 52,030,425</u>
<i>Less accumulated depreciation for:</i>				
Plant & Equipment	12,623,686	787,262	-	13,410,948
Intangible asset - amortization *	11,440	22,922	-	34,362
Total accumulated depreciation	<u>\$ 12,635,126</u>	<u>\$ 810,184</u>	<u>\$ -</u>	<u>\$ 13,445,310</u>
Total capital assets, being depreciated, net	<u>23,867,702</u>	<u>14,717,413</u>	<u>-</u>	<u>38,585,115</u>
Total capital assets	<u>\$ 37,799,366</u>	<u>\$ 22,289,387</u>	<u>\$ 17,289,047</u>	<u>\$ 42,799,706</u>

* See Prior Period Adjustment

Significant Commitments

The District has several significant construction projects as of December 31, 2016 and 2015. The District considers projects to be significant if the project has been started and the budget exceeds \$50,000. The project

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authorization, amount spent life to date and remaining commitment of these projects at December 31, 2016 is as follows:

FUND & PROJECT NAME	PROJECT AUTHORIZATION	EXPENSES AS OF 12/31/16	REMAINING COMMITMENT
89806 - CAPITAL FUND (Charges & Bond Proceeds)			
601700 ROW Acquisition - Provost Rd	17,500.00	-	17,500.00
601901 SCADA System Upgrades	125,000.00	-	125,000.00
602001 Pump Station (Well/Booster) - Newberry (KPUD)	385,000.00	8,353.33	376,646.67
602002 Pump Station (Booster) - Apex	440,000.00	3,856.82	436,143.18
602003 Pump Station (Booster) - Chena	770,000.00	213,904.19	556,095.81
603011 WME - Paulson Rd	3,000.00	509.49	2,490.51
603015 Water Main Ext - Mountain View RD Overpass	75,000.00	10,228.86	64,771.14
603015 Water Main Ext - Bayshore	37,425.00	4,404.09	33,020.91
603019 Water Main Ext - Byron	128,750.00	639.34	128,110.66
603020 Water Main Ext - Loretta Heights	173,400.00	2,333.69	171,066.31
603022 Water Main Ext - Ridgetop	354,150.00	-	354,150.00
603023 Water Main Ext - Washington	228,800.00	-	228,800.00
605001 Recycled Water Main Ext - Ridgetop	152,200.00	5,685.62	146,514.38
605006 Recycled Water Main Ext - Paulson	3,000.00	1,302.40	1,697.60
605011 Recycled Water Main Ext - Byron	88,650.00	-	88,650.00
605012 Recycled Water Main Ext - Silverdale Way	226,000.00	46,213.57	179,786.43
607002 Maintenance Facility - Newberry	205,000.00	-	205,000.00
	3,412,875.00	297,431.40	3,115,443.60

NOTE 4 – 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 and 2015:

Aggregate Pension Amounts - All Plans		
	12/31/2016	12/31/2015
Pension liabilities	\$ 1,480,159	\$ 1,271,365
Deferred outflows of resources	282,690	189,556
Deferred inflows of resources	46,369	196,020
Pension expense/expenditures	132,748	183,722

State Sponsored Pension Plans

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

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:

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

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

Public Employees' Retirement System (PERS)

PERS members include elected officials; state employees; employees of the Supreme, Appeals and Superior Courts; employees of the legislature; employees of district and municipal courts; employees of local governments; and higher education employees not participating in higher education retirement programs. PERS is comprised of 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 July 2015 to December 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%	
Administrative Fee	0.18%	
Total	11.18%	6.00%

For January 2015 to June 2015, PERS Plan 1 required contributions rates (expressed as a percentage of covered payroll) were 9.21% and 6% for the Employer and Employee, respectively.

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:

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- 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.

Contributions

The **PERS Plan 2/3** employer and employee contribution rates are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit 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 July 2015 to December 2016 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 January 2015 to June 2015, PERS Plan 1 required contributions rates (expressed as a percentage of covered payroll) were 9.21% and 6% for the Employer and Employee, respectively.

The District's actual PERS plan contributions were \$72,304 to PERS Plan 1 and \$94,435 to PERS Plan 2/3 for the year ended December 31, 2016. At December 31, 2015, the actual contributions to the plan were \$64,157 to PERS Plan 1 and \$82,417 PERS Plan 2/3.

Actuarial Assumptions

For 2016, 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. For 2015, the total pension liability (TPL) for each of the DRS plans was determined using the most recent actuarial valuation completed in 2015 with a valuation date of June 30, 2014. The actuarial assumptions used in the valuations were based on the results of the Office of the State Actuary's (OSA) *2007-2012 Experience Study*.

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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 and June 30, 2015. For 2016 calculations, 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:** 3.0% 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 were minor changes 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.
- Valuation software was corrected on how the nonduty disability benefits for LEOFF Plan 2 active members is calculated.
- New LEOFF Plan 2 benefit definitions were added within the OSA valuation software to model legislation signed into law during the 2015 legislative session.

Discount Rate

For both years, 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, PSERS 2, SERS 2/3, and TRS 2/3 employers, whose rates include a component for the PERS 1, and TRS 1 plan liabilities). Based on these assumptions, the pension plans' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return of 7.5 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.

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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 and 2015, 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 the Net Pension Liability/ (Asset)

The table below presents at December 31, 2016, the District's proportionate share of the net pension liability calculated using the discount rate of 7.5 percent, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.5 percent) or 1-percentage point higher (8.5 percent) than the current rate.

	1% Decrease 6.50%	Current Rate 7.50%	1% Increase 8.50%
PERS 1	810,308	671,953	552,891
PERS 2/3	1,488,052	808,206	(420,718)

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 and 2015, the District reported a total pension liability of \$1,480,159 and \$1,271,365 for its proportionate share of the net pension liabilities as follows:

Plan	Liability or Asset	
	12/31/2016	12/31/2015
PERS 1	671,953	675,522
PERS 2/3	808,206	595,843

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At June 30, the District'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	0.01291%	0.01251%	-0.00040%
PERS 2/3	0.01668%	0.01605%	-0.00062%

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 and 2015, the District recognized pension expense as follows:

	12/31/2016	12/31/2015
PERS 1	13,508	97,745
PERS 2/3	119,240	85,977
Total	132,748	183,722

Deferred Outflows of Resources and Deferred Inflows of Resources

At December 31, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following:

PERS 1	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual investment earnings on pension plan investments	\$ 16,919	\$ -
Contributions subsequent to the measurement date	36,652	-
TOTAL	\$ 53,571	\$ -

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PERS 2/3	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 43,036	\$ 26,680
Net difference between projected and actual investment earnings on pension plan investments	98,901	-
Changes of assumptions	8,353	-
Changes in proportion and differences between contributions and proportionate share of contributions	30,957	19,689
Contributions subsequent to the measurement date	47,871	
TOTAL	\$ 229,119	\$ 46,369

At December 31, 2015, the District 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	\$ -	\$ 36,958
Contributions subsequent to the measurement date	35,302	-
TOTAL	\$ 35,302	\$ 36,958

PERS 2/3	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 63,338	\$ -
Net difference between projected and actual investment earnings on pension plan investments	-	159,062
Changes of assumptions	960	-
Changes in proportion and differences between contributions and proportionate share of contributions	43,856	
Contributions subsequent to the measurement date	46,100	-
TOTAL	\$ 154,254	\$ 159,062

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Deferred outflows of resources related to pensions resulting from the District'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 will be recognized in pension expense as follows:

Year ended December 31:	PERS 1	PERS 2/3
2017	(4,166)	7,304
2018	(4,166)	7,304
2019	15,538	74,628
2020	9,712	45,643
2021	-	-
Thereafter	-	-

NOTE 5 – RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the government carries insurance. The District maintains insurance against most normal hazards for commercial automobile, property loss and general liability.

Silverdale Water District is a member of Enduris. Chapter 48.62 RCW provides the exclusive source of local government entity authority to individually or jointly self-insure risks, jointly purchase insurance or reinsurance, and to contract for risk management, claims, and administrative services. Enduris was formed July 10, 1987 pursuant to the provisions of Chapter 48.62 RCW, Chapter 200-100 WAC, and Chapter 39.34 RCW. Two (2) counties and two (2) cities in the State of Washington joined together by signing an interlocal governmental agreement to fund their self-insured losses and jointly purchase insurance and administrative services. As of August 31, 2016, there are 524 Enduris members representing a broad array of special purpose districts throughout the state. Enduris provides property and liability coverage as well as risk management services and other related administrative services.

Members make an annual contribution to fund Enduris and share in the self-insured retention of the jointly purchased excess and/or reinsurance coverage. The self-insured retention is:

- \$1,000,000 deductible on liability loss - the member is responsible for the first \$1,000 of the deductible amount of each claim, while Enduris is responsible for the remaining \$999,000 on a liability loss.
- \$250,000 deductible on property loss - the member is responsible for the first \$1,000 of the deductible amount of each claim, while Enduris is responsible for the remaining \$249,000 on a property loss.
- Enduris is responsible for the \$4,000 deductible on boiler and machinery loss.

Enduris acquires reinsurance from unrelated insurance companies on a “per occurrence” basis to cover all losses over the deductibles as shown on the policy maximum limits. Liability coverage is for all lines of liability coverage including Public Official’s Liability. The Property coverage is written on an “all risk”, blanket basis using current Statement of Values. The Property coverage includes but is not limited to mobile equipment, boiler and machinery, electronic data processing equipment, business interruption, course of construction and additions, property in transit, fine arts, cyber and automobile physical damage to insured vehicles. Liability coverage limit is \$20 million per occurrence and property coverage limit is \$1 billion per occurrence. Enduris offers crime coverage up to a limit of \$1 million per occurrence.

Since Enduris is a cooperative program, there is a joint liability among the participating members.

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The contract requires members to continue membership for a period of not less than one (1) year and must give notice 60 days before terminating participation. The Master Agreement (Intergovernmental Contract) is automatically renewed after the initial one (1) full fiscal year commitment. Even after termination, a member is still responsible for contribution to Enduris for any unresolved, unreported and in-process claims for the period they were a signatory to the Master Agreement.

Enduris is fully funded by its member participants. Claims are filed by members with Enduris and are administered in house.

A Board of Directors consisting of seven (7) board members governs Enduris. Its members elect the Board and the positions are filled on a rotating basis. The Board meets quarterly and is responsible for conducting the business affairs of Enduris.

NOTE 6 – LONG-TERM DEBT AND LEASES

A. Long-Term Debt

The District issues government loans and other notes to finance construction of plant and equipment.

In prior years, the District issued Water Revenue bonds in the amount of \$24,740,000 for capital purposes and refunding previously issued debt.

The District entered into a contract with Washington State Department of Commerce under the Drinking Water State Revolving Fund (DWSRF) Program on February 9, 2012 for a \$2,500,000 loan. The district began spending the money in 2013 and drawing down on the loan in 2014. At December 31, 2016, \$1,187,500 is payable. At project completion, fifty percent of the lesser of the loan amount or the actual eligible costs and fifty percent of any accrued interest was forgiven. Principal forgiven during 2016 was \$1,250,000.

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Long-Term debt instruments outstanding at year-end are as follows:

Name of Issuance-Purpose	Issuance Date	Maturity Date	Interest Rate	Original Amount	12/31/16	12/31/15	Maturities
					Debt Outstanding	Debt Outstanding	
1996 PWTF - Water System Intertie	Jun-96	Jul-16	3%	\$ 568,483	\$ 0	\$ 29,964	-
2011 PWTF - Water System Intertie	Jun-11	Jul-31	0.25%	10,000,000	8,670,462	9,248,493	578,031
2012 DWSRF - Capital System Improvement	Feb-12	Oct-35	1.0%	2,500,000	1,187,500	2,162,569	62,500
Total Government Loans & Notes					9,857,962	11,441,026	
2006 Bond - Refunding							\$235,000
1999 Bond and Capital Projects	Oct-06	Sep-26	4%	7,635,000	2,205,000	2,570,000	to \$315,000
2008 Revenue Bond	Aug-09	Sep-28	4-5.125%	4,430,000	410,000	600,000	\$200,000 to \$210,000
2013 Revenue Bond	Oct-14	Sep-33	2% to 3%	4,825,000	3,320,000	3,740,000	\$30,000 to \$510,000
2015 Refunding/Revenue Bond	Aug-15	Sep-35	2% to 4%	7,850,000	7,750,000	7,850,000	\$100,000 to \$985,000
Total Revenue Bond					13,685,000	14,760,000	
					\$ 23,542,962	\$ 26,201,026	

Annual debt service requirements to maturity for government loans are as follows:

Notes & Loans			Total
	<u>Principal</u>	<u>Interest</u>	<u>Requirement</u>
2017	640,531	33,551	674,082
2018	640,531	31,481	672,012
2019	640,531	29,411	669,942
2020	640,531	27,341	667,872
2021	640,531	25,271	718,275
2022-2026	3,202,655	95,304	3,297,959
2027-2031	3,202,655	43,550	3,246,205
2032-2035	249,997	5,625	255,622
	\$ 9,857,962	\$ 291,534	\$ 10,201,969

SILVERDALE WATER DISTRICT
Notes To Financial Statements
December 31, 2016 and 2015

Annual debt service requirements to maturity for revenue bonds are as follows:

Revenue Bonds			Total
	<u>Principal</u>	<u>Interest</u>	<u>Requirements</u>
2017	1,130,000	478,460	1,608,460
2018	1,185,000	441,975	1,626,975
2019	1,250,000	408,026	1,658,026
2020	1,270,000	377,825	1,647,825
2021	1,340,000	337,025	1,677,025
2022-2026	4,590,000	1,155,675	5,745,675
2027-2031	1,850,000	438,525	2,288,525
2032-2035	1,070,000	95,425	1,165,425
	<u>\$ 13,685,000</u>	<u>\$ 3,732,936</u>	<u>\$ 17,417,936</u>

B. Changes in Long-Term Liabilities

During the year ended December 31, 2016 and 2015, the following changes occurred in long-term liabilities:

	<u>1/1/16</u>	<u>Additions</u>	<u>Reductions</u>	<u>12/31/16</u>	<u>Due Within One Year</u>
Revenue bonds	\$ 14,760,000	\$ 0	\$ 1,075,000	\$ 13,685,000	\$ 1,130,000
Less deferred amounts					
For issuance premiums (discounts)	696,942	-	37,334	659,608	37,334
Total bonds payable	15,456,942	-	1,112,334	14,344,608	1,167,334
Government loans	11,441,026	337,431	1,920,495	9,857,962	640,531
Other Postemployment Employee Benefits	423,904	57,416	2,942	478,378	-
Net Pension Liability	1,271,365	208,794	-	1,480,159	-
Compensated Absences	397,513	65,933	12,877	450,569	23,101
Total long-term liabilities	<u>\$ 28,990,750</u>	<u>\$ 669,574</u>	<u>\$ 3,048,648</u>	<u>\$ 26,611,676</u>	<u>\$ 1,830,966</u>
	<u>1/1/15</u>	<u>Additions</u>	<u>Reductions</u>	<u>12/31/15</u>	<u>Due Within One Year</u>
Revenue bonds	\$ 13,630,000	\$ 7,850,000	\$ 6,720,000	\$ 14,760,000	\$ 1,075,000
Less deferred amounts					
For issuance premiums (discounts)	192,479	556,771	52,308	696,942	37,334
Total bonds payable	13,822,479	8,406,771	6,772,308	15,456,942	1,112,334
Government loans	8,154,748	3,920,241	633,963	11,441,026	716,123
Other Postemployment Employee Benefits	360,286	66,063	2,445	423,904	-
Net Pension Liability*	908,697	362,668	-	1,271,365	-
Compensated Absences	369,460	35,759	7,706	397,513	19,876
Total long-term liabilities	<u>\$ 23,615,670</u>	<u>\$ 12,791,502</u>	<u>\$ 7,416,422</u>	<u>\$ 28,990,750</u>	<u>\$ 1,848,333</u>

* Beginning balance was restated for implementation of GASB 68.

C. Bond Covenants

The revenue bond covenants require the District to maintain bond reserves. The bond reserves are the lessor of the maximum annual debt service, 1.25 times the average debt service or 10% of the proceeds

SILVERDALE WATER DISTRICT
Notes To Financial Statements
December 31, 2016 and 2015

of the bonds. To satisfy this requirement, the District is holding \$1,228,987 and 1,228,909 in debt reserves at December 31, 2016 and 2015, respectively.

Additionally, the District has covenanted that it will establish, maintain and collect lawful rates and charges for the use of the services and facilities of the system for so long as the bonds are outstanding. The rate covenant requires each fiscal year revenues to be at least 125% of the amounts in such fiscal year to be paid as principle and interest. At December 31, 2016 and 2015, the District's net debt service coverage ratio was 4.0 and 4.5, respectively.

D. Arbitrage Rebate Liability

The Tax Recovery Act of 1986 established regulations for the rebate to the federal government of arbitrage earning on certain local governments bonds. Issuing governments must calculate any rebate due on an annual basis and remit the amount due at least every five years. The District does not anticipate owing an arbitrage rebate liability, as its interest paid on the bonds exceeds the interest earned on holding bond proceeds.

E. Advance Refunding

In September 2015, the District issued \$7,850,000 for the purpose of issuing new bonds and advance refunding \$2,805,000 of 2006 Water Bonds and \$2,695,000 of 2008 Water Bonds. The Par value of the refunding bonds is \$5,500,000. The net present value savings of the refunding portions is \$297,585. The nominal savings is \$450,562

NOTE 7 – OTHER POST EMPLOYMENT BENEFITS (OPEB)

Plan Description:

In addition to the pension benefits described, the District administers a Post-Retirement Health Care Program under a single-employer defined benefit Other Post Employment Benefit (OPEB) plan. This plan funds a medical savings account for retired employees who serviced the District for a minimum of 15 years and retired from service at the District. This benefit is received between the age of 55 and 65 and contributes 70 to 85 percent of the current health care coverage premium provided to the District's employees for the retired employee only. These benefits were established by Resolution No. 2007-11-01 and can be amended by the District Board of Commissioners.

At December 31, 2016 and 2015, there was one employee that had retired and was receiving these benefits.

This OPEB plan does not issue a stand-alone financial report nor is it included in the report of another entity.

Funding Policy:

This plan is not currently funded. The District was required to contribute \$64,974, but only contributed \$2,942 at December 31, 2016. At December 31, 2015, the District was required to contribute \$72,487, but only contributed \$2,445. The amount contributed differs from the Annual Required Contribution (ARC) because the plan is financed on a pay-as-you-go-basis. The difference between the OPEB Costs and the required contribution is called the Net OPEB Obligation (NOO). This amount of \$478,378 and \$423,904 is the actuarial accrued liability recognized on the statement of net position at December 31, 2016 and 2015, respectively.

As of the most recent actuarial valuation date, the total unfunded actuarial liability (UAAL) is \$552,915. The covered payroll (annual payroll of active employees covered by the plan) was \$1,347,189 and the ratio of the UAAL to the covered payroll was 41 percent.

SILVERDALE WATER DISTRICT
Notes To Financial Statements
December 31, 2016 and 2015

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation is as follows:

Year Ending December 31	Annual OPEB Cost	Contribution	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2016	\$ 57,416	\$ 2,942	5.12%	\$ 478,378
2015	66,063	2,445	3.70%	423,904
2014	42,301	2,435	5.76%	360,286
2013	59,617	7,106	11.92%	320,420

Annual OPEB Cost and Net OPEB Obligation

The District's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the Alternative measurement method parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the District's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the District's net OPEB obligation.

	2016	2015
Annual required contribution	\$ 64,974	\$ 72,487
Interest on net OPEB obligation	16,956	14,411
Adjustments to the annual required contribution	(24,514)	(20,835)
Annual OPEB cost (expense)	57,416	66,063
Employer Contributions made	2,942	2,445
Increase in the net OPEB obligation	54,474	63,618
Net OPEB obligation, beginning of year	423,904	360,286
Net OPEB obligation, end of year	\$ 478,378	\$ 423,904

Actuarial Methods and Assumptions:

The actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Examples include assumptions about retirement ages, mortality and the healthcare cost trend. The actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. The required schedule of funding progress, presented as required supplementary information immediately following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Additionally, calculations are based on the types of benefits provided under the terms of the plan at the time of each valuation and on the pattern of sharing of costs between the employer and plan members to that point. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations on the pattern of cost sharing between the employer and plan members in the future. Actuarial calculations reflect a long-term perspective.

The District used the alternative measurement method permitted under GASB Statement No. 45. A single retirement age of 62.4 was assumed for all active members to determine the AAL and normal cost. Retirement, disablement, termination, and mortality rates were assumed to follow the PERS 2 rates used in the June 30,

SILVERDALE WATER DISTRICT
Notes To Financial Statements
December 31, 2016 and 2015

2015, actuarial valuation report issued by the Office of the State Actuary (OSA). Healthcare costs and trends were determined by Milliman and used by OSA in the state-wide PEBB study performed in 2015. The results were based on grouped data with four active groupings and four inactive groupings. These assumptions are individually and collectively reasonable for the purposes of this valuation. The specific actuarial methods and significant assumptions used to determine the ARC for the current year are as follows:

Valuation Date	12/31/2016
Actuarial Cost Method	Projected Unit Credit
Method used to determine the actuarial value of assets	N/A
Interest Rate for Discounting Future Liabilities	4.00%
Projected Payroll Growth	3.75%
Investment Return	N/A
Healthcare Cost Trend Rate - Initial	6.70%
Healthcare Cost Trend Rate - Ultimate	4.50%
Amortization Method	Open
Amortization Period	30

NOTE 8 – OTHER DISCLOSURES

A. Implementation of New Governmental Accounting Standards Board Pronouncements

The District implemented GASB 68, *Accounting and Financial Reporting for Pensions* and GASB 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. These statements establish standards for measuring and recognizing liabilities, deferred outflows of resources, and deferred inflows of resources, and expense/expenditures related to pensions. As a result of implementing this standard, the city recognized an adjustment to beginning net position in the 2015 column of \$1,240,681, presented as a change in accounting principles.

The District implemented GASB 72, *Fair Value Measurement and Application*. This statement provides guidance for determining a fair value measurement for financial reporting purposes and requires the application of fair value to certain investments, in order to promote comparability of government financial statements. The standard expands the level of disclosure for fair value methodology in the notes to the financial statements. The standard also changes the recorded value of contributed capital assets from fair value to acquisition value.

The District implemented GASB 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. This statement identifies the hierarchy of generally accepted accounting principles for governmental financial reporting and establishes the framework for selecting those principles.

The District implemented GASB 82, *Pension Issues*. This statement amends GASB statements No. 67, No. 68 and No. 73 to enhance consistency in the application of financial reporting requirements related to certain pension issues. This standard made changes to how the District reported covered payroll in Required Supplementary Information.

SILVERDALE WATER DISTRICT
Notes To Financial Statements
December 31, 2016 and 2015

B. Joint Ventures

In May 1999, the District entered into an agreement to build a jointly owned administrative office and maintenance building with Central Kitsap Fire and Rescue (CKFR). As of August 2001 the facilities were jointly occupied. Total construction was completed in 2003.

Ongoing financial responsibility relates to operation and maintenance expenses. Because expense transactions are nominal, bills are paid by both entities as bills come in and are reimbursed monthly according to each entities responsibility. Percentage responsibility has been determined by a formula that looks at actual use, square footage of the building being used, number of users, etc. A detailed accounting is reconciled and balanced on a monthly basis. At December, 31, 2016 and 2015, the District owed CKFR \$14 and \$5,960, respectively, on joint transactions, therefore, this amount is included in accounts payable.

Separate financial statements are not maintained for the joint venture. This joint venture does not produce income.

C. Interlocal Agreement

Silverdale Water District (District) entered into an 100-year term Interlocal Agreement (Agreement) with Kitsap County Public Utility District (KPUD) on June 25, 2013, with the purpose to cooperate in providing efficient water service for the growing needs of the KPUD's and the District's customers through use of shared infrastructure. The Agreement will be reviewed and updated every two (2) years as construction is completed or amendments are deemed necessary.

The District and the KPUD has constructed and will continue to construct water transmission systems and pumping stations to allow for the sharing of construction, operation and maintenance costs of the improvements.

Each entity shall retain ownership and control of the infrastructure assets constructed by their District, as specified in the agreement.

In addition, the entities will share the use of existing water sources and infrastructure for consideration. Payments from the KPUD for operations and maintenance began in 2015. During 2016, the District recognized \$0 in contributed capital and \$33,379 in interest. The KPUD made a \$500,000 payment leaving a note receivable of \$1,662,820 at December 31, 2016. No additional entity or fund was created as a result of this agreement.

D. Insurance Recoveries

Maintenance expense includes insurance recoveries received of \$33,689 netted against repair expense.

E. Prior Period Adjustments

A prior period adjustment in the amount of \$9,533 is recognized in the 2015 column of the Statement of Revenues, Expenses and Changes in Fund Net Position. This represents accumulated depreciation on intangible software that was duplicated. Total Depreciable Assets, net of depreciation and amortization in the 2015 column of the Statement of Net Position were restated by this amount, as well.

SILVERDALE WATER DISTRICT NO. 16Required Supplementary Information
Other Post Employment Benefit
Schedule of Funding Progress
December 31, 2016 and 2015

Fiscal Year Ended	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded Actuarial Accrued Liabilities (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
12/31/2012	\$ -	\$ 547,971	\$ 547,971	0%	\$ 1,175,003	47%
12/31/2014	-	402,575	402,575	0%	1,281,866	31%
12/31/2015	-	653,733	653,733	0%	1,268,248	52%
12/31/2016	-	552,915	552,915	0%	1,347,189	41%

Silverdale Water District
REQUIRED SUPPLEMENTARY INFORMATION - State Sponsored Plans
 Schedule of Proportionate Share of the Net Pension Liability
 PERS 1
 As of June 30
 Last 3 Fiscal Years

Year Ended June 30,	Employer's proportion of the net pension liability (asset)	Employer's proportionate share of the net pension liability	Employer's covered employee payroll	Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	Plan fiduciary net position as a percentage of the total pension liability
2016	0.012512%	\$ 671,953	\$ 1,487,945	45.16%	57.03%
2015	0.012914%	675,522	1,482,926	45.55%	59.10%
2014	0.011894%	599,166	1,299,431	46.11%	61.19%

Silverdale Water District
REQUIRED SUPPLEMENTARY INFORMATION - State Sponsored Plans
 Schedule of Proportionate Share of the Net Pension Liability
 PERS 2/3
 As of June 30
 Last 3 Fiscal Years

Year Ended June 30,	Employer's proportion of the net pension liability (asset)	Employer's proportionate share of the net pension liability	Employer's covered employee payroll	Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	position as a percentage of the total pension liability
2016	0.016052%	\$ 808,206	\$ 1,487,945	54.32%	85.82%
2015	0.016676%	595,843	1,482,926	40.18%	89.20%
2014	0.015313%	309,531	1,299,431	23.82%	93.29%

Silverdale Water District
REQUIRED SUPPLEMENTARY INFORMATION - State Sponsored Plans
 Schedule of Employer Contributions
 PERS 1
 As of December 31
 Last 3 Fiscal Years

Year Ended December 31,	Statutorily or contractually required contributions	Contributions in relation to the statutorily or contractually required contributions	Contribution deficiency (excess)	Covered employer payroll	Contributions as a percentage of covered employee payroll
2016	\$ 72,304	\$ (72,304)	\$ -	\$ 1,515,818	4.77%
2015	64,157	(64,157)	-	1,433,671	4.48%
2014	67,334	(67,334)	-	1,440,941	4.67%

Silverdale Water District
REQUIRED SUPPLEMENTARY INFORMATION - State Sponsored Plans
 Schedule of Employer Contributions
 PERS 2/3
 As of December 31
 Last 3 Fiscal Years

Year Ended December 31,	Statorily or contractually required contributions	Contributions in relation to the statorily or contractually required contributions	Contribution deficiency (excess)	Covered employer payroll	Contributions as a percentage of covered employee payroll
2016	\$ 94,435	\$ (94,435)	\$ -	\$ 1,515,818	6.23%
2015	82,417	(82,417)	-	1,433,671	5.75%
2014	65,099	(65,099)	-	1,440,941	4.52%

Silverdale Water District

Notes to Required Supplemental Information - Pension

As of December 31
Last Three Fiscal Years

Note 1: Information Provided

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

Note 2: Significant Factors

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

Note 3: Covered payroll

Covered payroll has been retrospectively presented in accordance with GASB 82, *Pension Issues*. Covered payroll now includes all payroll on which a contribution is based. In prior reports, Plan 1 UAAL covered payroll was included for plans other than PERS 1.

Silverdale Water District No. 16
Schedule of Liabilities
For the Year Ended December 31, 2016

ID. No.	Description	Due Date	Beginning Balance	Additions	Reductions	Ending Balance
Revenue and Other (non G.O.) Debt/Liabilities						
252.11	GO Bonds	9/1/2026	2,570,000	-	365,000	2,205,000
252.11	GO Bonds	12/1/2028	600,000	-	190,000	410,000
252.11	GO Bonds	9/1/2033	3,740,000	-	420,000	3,320,000
252.11	GO Bonds	9/1/2035	7,850,000	-	100,000	7,750,000
259.12	Compensated Absences		397,513	65,933	12,877	450,569
263.82	PWTF	7/1/2016	29,964	-	29,964	-
263.82	PWTF	7/1/2031	9,248,493	-	578,031	8,670,462
263.82	DWSRF	10/1/2035	2,162,569	337,431	1,312,500	1,187,500
264.40	OPEB		423,904	57,416	2,942	478,378
264.30	Pension Liability		1,271,365	208,794	-	1,480,159
Total Revenue and Other (non G.O.) Debt/Liabilities:			28,293,808	669,574	3,011,314	25,952,068
Total Liabilities:			28,293,808	669,574	3,011,314	25,952,068

**Silverdale Water District No. 16
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2016**

Federal Agency (Pass-Through Agency)	Federal Program	CFDA Number	Other Award Number	Expenditures			Passed through to Subrecipients	Note
				From Pass- Through Awards	From Direct Awards	Total		
Drinking Water State Revolving Fund Cluster								
Office Of Water, Environmental Protection Agency (via State Department of Commerce)	Capitalization Grants for Drinking Water State Revolving Funds	66.468	DM11-952-033	337,431	-	337,431	3	
Total Drinking Water State Revolving Fund Cluster:				337,431	-	337,431	3	
Total Federal Awards Expended:				337,431	-	337,431	3	

The accompanying notes are an integral part of this schedule.

SILVERDALE WATER DISTRICT
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

NOTE 1 BASIS OF ACCOUNTING

The Schedule of Financial Assistance is prepared on the same basis of accounting as the District's financial statements. The District uses the modified accrual basis of accounting.

NOTE 2 PROGRAM COSTS

The amounts shown as current year expenditures represent only the federal grant portion of the program costs. Entire program costs, including the District's portion, are more than shown. Such expenditures are recognized following, as applicable, either the cost principles in OMB Circular A-87, Cost Principles for State, Local, and Indian Tribal Governments, or the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

NOTE 3 FEDERAL LOANS

The District was approved by the EPA and PWB to receive a loan totaling \$2,500,000 to improve its drinking water system. The amount listed for this loan includes the proceeds used during the year. Total proceeds received thru December 31, 2016 is \$2,500,000.

The balance of this and other loans is shown on the schedule of long-term liabilities (09).

NOTE 4 INDIRECT COSTS

The District has not elected to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

**SILVERDALE WATER DISTRICT NO. 16
KITSAP COUNTY, WASHINGTON
WATER REVENUE BONDS**

Certain Other Operating Data for fiscal year ended December 31, 2016
Base CUSIP: 498120

Number of Customers of the System

	Historical Water Accounts by Type									
	2008	2009	2010	2011	2012	2013	2014	2015	2016	
Residential	4,839	5,035	5,047	5,089	5,158	5,309	5,396	5,426	5,518	
Nonresidential	606	618	622	625	628	633	633	641	644	
Wholesale ¹	8	8	8	8	8	8	8	8	8	
Irrigation	106	103	106	110	112	111	113	115	119	
Construction	11	9	6	8	6	6	8	17	32	
Total	5,570	5,773	5,789	5,840	5,912	6,067	6,158	6,207	6,321	

1 - The wholesale accounts serve a total of approximately 111 customers

	Historical Breakdown of Equivalent Residential Units (ERUs)									
	2008	2009	2010	2011	2012	2013	2014	2015	2016	
Residential	4,839	5,035	5,047	5,089	5,158	5,309	5,396	5,426	5,518	
Nonresidential	3,550	3,532	3,862	3,881	3,986	4,169	4,290	4,017	4,313	
Wholesale	110	110	105	110	82	86	97	89	101	
Irrigation	574	606	490	557	557	592	629	653	728	
Construction	269	225	309	337	51	36	58	81	216	
Total	9,342	9,508	9,813	9,974	9,834	10,192	10,470	10,266	10,876	

Rates and Charges for the System

Basic Charge - Meter Size

Meter Size	Meter Ratio	Current					
		2011	2012 & 2013	2014	2015	2016	2017
		Charge	Charge	Charge	Charge	Charge	Charge
5/8"	1	\$ 19.25	\$ 18.25	\$ 23.50	\$ 28.00	\$ 32.50	\$ 34.00
3/4"	1.5	29.90	27.50	35.25	42.00	48.75	51.00
1"	2.5	49.70	45.75	58.75	70.00	81.25	85.00
1-1/2"	5	99.15	91.25	117.50	140.00	162.50	170.00
2"	8	158.65	146.25	188.00	224.00	260.00	272.00
3"	16	317.25	292.25	376.00	448.00	565.00	621.50
4"	25	495.70	456.50	587.50	700.00	883.00	991.30
6"	50	991.40	912.75	1,175.00	1,400.00	1,765.00	1,941.50
8"	80	N/A	N/A	N/A	N/A	N/A	N/A

Basic Charge - Fire Flow

Fire Flow	Ratio	Current					
		2011	2012 & 2013	2014	2015	2016	2017
		Charge	Charge	Charge	Charge	Charge	Charge
500 GPM	1	\$ 1.90	\$ 2.05	\$ 2.60	\$ 3.50	\$ 5.00	\$ 5.00
750 GPM	1.5	2.85	3.10	3.90	5.25	7.50	7.50
1,000 GPM	2	3.80	4.10	5.20	7.00	10.00	10.00
1,250 GPM	2.5	4.75	5.15	6.50	8.75	12.50	12.50
1,500 GPM	3	5.70	6.15	7.80	10.50	15.00	15.00
1,750 GPM	3.5	6.65	7.20	9.10	12.25	17.50	17.50
2,000 GPM	4	7.60	8.20	10.40	14.00	20.00	20.00
2,250 GPM	4.5	8.55	9.25	11.70	15.75	22.50	22.50
2,500 GPM	5	9.50	10.25	13.00	17.50	25.00	25.00

Non-residential Fire Flow Charge

Fire Flow	Ratio	Current					
		2011	2012 & 2013	2014	2015	2016	2017
		Charge	Charge	Charge	Charge	Charge	Charge
1,500 GPM	12	\$ 22.55	\$ 24.55	\$ 31.50	\$ 42.00	\$ 60.00	\$ 60.00
1,750 GPM	14	\$ 26.30	\$ 28.65	\$ 36.80	\$ 49.00	\$ 70.00	\$ 70.00
2,000 GPM	16	\$ 30.05	\$ 32.75	\$ 42.00	\$ 56.00	\$ 80.00	\$ 80.00
2,250 GPM	18	\$ 33.85	\$ 36.80	\$ 47.30	\$ 63.00	\$ 90.00	\$ 90.00
2,500 GPM	20	\$ 37.60	\$ 40.90	\$ 52.50	\$ 70.00	\$ 100.00	\$ 100.00
2,750 GPM	22	\$ 41.35	\$ 45.00	\$ 57.80	\$ 77.00	\$ 110.00	\$ 110.00
3,000 GPM	24	\$ 45.10	\$ 49.10	\$ 63.00	\$ 84.00	\$ 120.00	\$ 120.00
3,250 GPM	26	\$ 48.85	\$ 53.15	\$ 68.20	\$ 91.00	\$ 130.00	\$ 130.00
3,500 GPM	28	\$ 52.60	\$ 57.25	\$ 73.50	\$ 98.00	\$ 140.00	\$ 140.00
3,750 GPM	30	\$ 56.35	\$ 61.35	\$ 78.70	\$ 105.00	\$ 150.00	\$ 150.00
4,000 GPM	32	\$ 60.15	\$ 65.45	\$ 84.00	\$ 112.00	\$ 160.00	\$ 160.00

Inverted-Block Charge
Meter Size

Inverted-Block Charge									2017 Charge	
Meter Size									Price CF	PriceCCF
5/8"	3/4"	1"	1-1/2"	2"	3"	4"	6"	8"		
0-1,000	0-1,500	0-2,500	0-5,000	0-8,000	0-16,000	0-25,000	0-50,000	0-80,000	0.0180	1.8000
1,001-2,000	1,501-3,000	2,501-5,000	5,001-10,000	8,001-16,000	16,001-32,000	25,001-50,000	50,001-100,000	80,001-160,000	0.0295	2.9500
2,001-4,000	3,001-6,000	5,001-10,000	10,001-20,000	16,001-32,000	32,000-64,000	50,001-100,000	100,001-200,000	160,001-320,000	0.0470	4.7000
4,001+	6,001+	10,001+	20,001+	32,001+	64,001+	100,001+	200,001+	320,001+	0.0705	7.0500

Inverted-Block Charge

Meter Size								2017 Charge	
5/8"	3/4"	1"	2"	3"	4"	6"	8"	Price/ CF	Price/C CF
0-1,000	0-1,500	0-2,500	0-8,000	0-16,000	0-25,000	0-50,000	0-80,000	\$0.018	\$1.80
1,001- 2,000	1,501- 3,000	2,501- 5,000	8,001- 16,000	16,001- 32,000	25,001- 50,000	50,001- 100,000	80,001- 160,000	\$0.030	2.95
2,001- 4,000	3,001- 6,000	5,001- 10,000	16,001- 32,000	32,000- 64,000	50,001- 100,000	100,001- 200,000	160,001- 320,000	\$0.047	0.471
4,001+	6,001+	10,001+	32,001+	64,001+	100,001+	200,001+	320,001+	\$0.071	7.05

	Audited 2009	Audited 2010	Audited 2011	Audited 2012	Audited 2013	Audited 2014	Audited 2015	UnAudited 2016
Operating Revenues								
Utility Sales & Service Fees	\$3,293,752	\$3,045,575	\$3,097,889	\$3,440,359	\$3,705,929	\$4,061,030	\$4,879,570	\$5,298,469
Miscellaneous Revenues	40,493	37,647	40,742	42,631	47,282	62,372	46,828	47,899
Total Operating Revenue	\$3,334,245	\$3,083,222	\$3,138,631	\$3,482,990	\$3,753,211	\$4,123,402	\$4,926,398	\$5,346,368
Operating Expenses								
Operations								
General Operations	\$239,154	\$230,238	\$250,861	\$294,298	\$293,955	\$292,609	\$324,418	\$322,819
Cost of Power	174,234	175,283	155,082	160,553	149,043	151,020	175,732	168,065
Maintenance	292,107	400,624	281,052	301,868	284,250	318,726	345,143	447,124
Customer Services & Marketing	116,417	100,715	23,057	12,427	12,696	12,449	13,811	17,779
Administration								
General Administration	1,239,699	1,369,507	1,459,883	1,618,079	1,697,060	1,608,702	1,784,195	1,980,451
Planning, Conservation, R&D	0	3,614	4,338	4,991	5,339	4,815	2,718	1,806
Property, Excise & B&O Taxes	-	-	-	-	-	-	-	-
Total Operating Expenses	\$2,061,611	\$2,279,981	\$2,174,273	\$2,392,216	\$2,442,343	\$2,388,321	\$2,646,017	\$2,938,044
Net Operating Revenue	\$1,272,634	\$803,241	\$964,358	\$1,090,774	\$1,310,868	\$1,735,081	\$2,280,381	\$2,408,324
Non-Operating Revenues (Expenses)								
Interest Earned	\$145,196	\$95,575	\$54,479	\$38,729	\$26,550	\$38,744	\$144,614	\$92,225
Other Non-Operating Revenues	191,451	219,592	219,180	265,901	201,440	254,318	233,343	198,351
Other Non-Operating Expense	-99,362	-118,195	-144,476	-178,777	-111,845	-192,634	-113,440	-125,502
Gain/(Loss) on Disposal of Assets	-4,180	4,454	0	0	5,531	1,675	1094	0
Total Non-Operating Revenues	\$233,105	\$201,426	\$129,183	\$125,853	\$121,676	\$102,103	\$265,611	\$165,074
Connection Fees & Developer Contributions	\$571,803	\$365,137	\$957,887	\$886,173	\$418,966	\$384,887	\$3,844,945	\$3,791,303
Net Revenue Available for Debt Service	\$2,077,542	\$1,369,804	\$2,051,428	\$2,102,800	\$1,851,510	\$2,222,071	\$6,390,937	\$6,364,701
Outstanding Parity Debt Service	\$871,302	\$870,990	\$870,590	\$869,590	\$882,990	\$1,338,702	\$1,421,631	\$1,601,813
Debt Service Coverage for Parity	2.38	1.57	2.36	2.42	2.10	1.66	4.50	3.97
Outstanding Junior Lien Debt Service	\$99,087	\$97,779	\$96,471	\$95,163	\$93,855	\$294,459	\$657,508	\$690,184
Annual Surplus	\$1,107,153	\$401,035	\$1,084,367	\$1,138,047	\$874,665	\$588,910	\$4,311,798	\$4,072,704

PARITY DEBT SERVICE - REVENUE BONDS													
	2006 Bonds Unrefunded			2008 Bonds Unrefunded			2013 Bonds			2015 Bonds			Combined
	Principal	Interest	Ann. Payment	Principal	Interest	Ann. Payment	Principal	Interest	Ann. Payment	Principal	Interest	Ann. Payment	Ann. Payment
2017	235,000	92,313	327,313	200,000	18,450	218,450	405,000	101,875	506,875	290,000	265,750	555,750	1,608,388
2018	250,000	78,800	328,800	210,000	9,450	219,450	425,000	93,775	518,775	300,000	259,950	559,950	1,626,975
2019	260,000	68,800	328,800				480,000	85,275	565,275	510,000	253,950	763,950	1,658,025
2020	270,000	58,400	328,400				475,000	75,675	550,675	525,000	243,750	768,750	1,647,825
2021	280,000	47,600	327,600				510,000	61,425	571,425	550,000	228,000	778,000	1,677,025
2022	290,000	36,400	326,400				0	46,125	46,125	565,000	211,500	776,500	1,149,025
2023	305,000	24,800	329,800				0	46,125	46,125	585,000	194,550	779,550	1,155,475
2024	315,000	12,600	327,600				0	46,125	46,125	600,000	177,000	777,000	1,150,725
2025							0	46,125	46,125	945,000	153,000	1,098,000	1,144,125
2026							0	46,125	46,125	985,000	115,200	1,100,200	1,146,325
2027							30,000	46,125	76,125	425,000	75,800	500,800	576,925
2028							55,000	44,775	99,775	450,000	58,800	508,800	608,575
2029							155,000	42,300	197,300	130,000	40,800	170,800	368,100
2030							145,000	35,325	180,325	135,000	35,600	170,600	350,925
2031							185,000	28,800	213,800	140,000	30,200	170,200	384,000
2032							185,000	20,475	205,475	145,000	24,600	169,600	375,075
2033							270,000	12,150	282,150	150,000	18,800	168,800	450,950
2034										155,000	12,800	167,800	167,800
2035										165,000	6,600	171,600	171,600
	2,205,000.00	419,712.50	2,624,712.50	410,000.00	27,900.00	437,900.00	3,320,000.00	878,600.00	4,198,600.00	7,750,000.00	2,406,650.00	10,156,650.00	17,417,862.50

JUNIOR LIEN DEBT - LOANS

	2011 PWTF			2011 DWSRF			Combined
	Principal	Interest	Ann. Payment	Principal	Interest	Ann. Payment	Ann. Payment
2017	\$578,030.82	\$21,676.16	\$599,706.98	62,499.99	11,875.00	74,374.99	674,081.97
2018	\$578,030.82	\$20,231.08	\$598,261.90	62,499.99	11,250.00	73,749.99	672,011.89
2019	\$578,030.82	\$18,786.00	\$596,816.82	62,500.00	10,625.01	73,125.01	669,941.83
2020	\$578,030.82	\$17,340.93	\$595,371.75	62,499.99	10,000.01	72,500.00	667,871.75
2021	\$578,030.82	\$15,895.85	\$593,926.67	62,500.00	9,375.00	71,875.00	665,801.67
2022	\$578,030.82	\$14,450.77	\$592,481.59	62,499.99	8,750.00	71,249.99	663,731.58
2023	\$578,030.82	\$13,005.69	\$591,036.51	62,500.00	8,124.99	70,624.99	661,661.50
2024	\$578,030.83	\$11,560.62	\$589,591.45	62,499.99	7,499.99	69,999.98	659,591.43
2025	\$578,030.82	\$10,115.54	\$588,146.36	62,500.00	6,875.01	69,375.01	657,521.37
2026	\$578,030.83	\$8,670.46	\$586,701.29	62,499.99	6,250.00	68,749.99	655,451.28
2027	\$578,030.83	\$7,225.39	\$585,256.22	62,500.01	5,625.00	68,125.01	653,381.23
2028	\$578,030.83	\$5,780.31	\$583,811.14	62,499.98	4,999.99	67,499.97	651,311.11
2029	\$578,030.83	\$4,335.23	\$582,366.06	62,500.02	4,374.99	66,875.01	649,241.07
2030	\$578,030.83	\$2,890.15	\$580,920.98	62,499.99	3,750.00	66,249.99	647,170.97
2031	\$578,030.83	\$1,445.08	\$579,475.91	62,500.03	3,125.00	65,625.03	645,100.94
2032				62,499.98	2,500.00	64,999.98	64,999.98
2033				62,500.04	1,875.00	64,375.04	64,375.04
2034				62,499.98	1,250.01	63,749.99	63,749.99
2035				62,500.04	625.00	63,125.04	63,125.04
	8,670,462.37	173,409.26	8,843,871.63	1,187,500.01	118,750.00	1,306,250.01	10,150,121.64

BONDS/LOANS

Combined
Ann. Payment
2,282,469.47
2,298,986.89
2,327,966.83
2,315,696.75
2,342,826.67
1,812,756.58
1,817,136.50
1,810,316.43
1,801,646.37
1,801,776.28
1,230,306.23
1,259,886.11
1,017,341.07
998,095.97
1,029,100.94
440,074.98
515,325.04
231,549.99
234,725.04
27,567,984.14