



INCORPORATED

Teresa D. Johnson CPA, Inc.

Accountant's Compilation Report

Morgan Johnson, General Manager
Silverdale Water District

Management is responsible for the accompanying statements of Silverdale Water District, which comprise the statement of net position as of December 31, 2017 and 2016, and the related statements of revenues, expenses and changes in net position and statement of cash flows for the years then ended and the related notes to the financial statements in accordance with accounting principles generally accepted in the United States of America. We have performed compilation engagements in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. We did not audit or review the financial statements nor were we required to perform any procedures to verify the accuracy or completeness of the information provided by management. Accordingly, we do not express an opinion, a conclusion, nor provide any form of assurance on these financial statements.

The Management's Discussion and Analysis on pages 1 to 5, and Required Supplementary Information on pages 31 to 36, are not a required part of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operation, economic, or historical context. In addition, the Other Operating Data on pages 37 to 40 are not a required part of the basic financial statements but are included at the request of management. Likewise, the Schedule of Liabilities on page 41 is not a required part of the basic financial statements, but is supplementary information required by the Washington State Auditor's Office. We have compiled the supplementary information from information that is the representation of management, without audit or review. Accordingly, we do not express an opinion or any form of assurance on the supplementary information.

We are not independent with respect to the Silverdale Water District.

Teresa D. Johnson
May 16, 2018

PHONE
360.904.0972
EMAIL
Teresa@TDJCPA.COM

Silverdale Water District No. 16
Management's Discussion and Analysis
December 31, 2017 and 2016

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, 2017, and 2016. 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 \$31,816,411. Of this amount, \$5,514,502 in 2017 may be used to meet the government's ongoing obligations to citizens and creditors.
- From 2016 to 2017 total net position increased by \$2,095,108, or 7%.
- 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, 2017, and 2016.

NET POSITION

December 31, 2017, 2016 and 2015

	2017	2016	2015
Assets:			
Current and Other Assets	\$ 10,650,361	\$ 11,139,090	\$ 12,267,741
Capital Assets, net	45,690,655	45,842,650	42,799,706
Total Assets	56,341,016	56,981,740	55,067,447
Deferred Outflows of Resources	567,259	708,852	655,502
Liabilities:			
Other Liabilities	341,916	1,334,345	1,132,292
Long-term Liabilities	24,540,088	26,588,575	28,970,874
Total Liabilities	24,882,004	27,922,920	30,103,166
Deferred Inflows of Resources	209,860	46,369	196,020
Net Position:			
Net Investment in Capital Assets	23,682,330	23,052,497	19,363,067
Restricted	2,619,579	2,571,677	2,527,183
Unrestricted	5,514,502	4,097,129	3,533,513
Total Net Position	\$ 31,816,411	\$ 29,721,303	\$ 25,423,763

At December 31, 2017, and December 31, 2016, the District had \$8.8 million in cash and cash equivalents and pooled investments representing 16% of total assets for 2017 and 15% for 2016. 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 and again by \$957,000 between 2016 and 2015; this was mostly caused by reimbursements from other governments, however, increased connection fees and rate increases contributed as well. Restricted cash and cash equivalents decreased from 2015 to 2016 and again from 2016 to 2017 as the district spent bond proceeds for capital construction.

At the end of 2017, 2016 and 2015, capital assets represent 81%, 80% and 78% of total assets, respectively. Capital assets are increasing as the District improves its system.

At December 31, 2017, 2016, and 2015, the District had long-term liabilities (including the current portion of the debt) of \$24.5, \$26.6 and \$29.0 million, respectively. The long-term debt also includes Net Pension Liability of \$1.1 million, \$1.5 million and \$1.3 million, respectively. The decrease in debt from 2015 to 2016 was attributed in large part to a federal loan forgiveness of \$1.3 million. Decreases from 2016 to 2017 are due to regularly scheduled debt service payments.

Total net position at December 31, 2017, was \$31.8 million, increasing \$2.1 million or 7% over 2016. At December 31, 2016 total net position was \$29.7 million, increasing 17% over 2015. The bulk of this increase in both years is due to contributed capital of \$1.2 million in 2017 and \$3.6 million in 2016.

The District's investment in capital assets (land, structure and facilities, equipment and construction in progress) less any related debt is \$23.7 million, \$23.1 million \$19.4 million at December 2017, 2016, and 2015, respectively. 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>2017</u>	<u>2016</u>	<u>2015</u>
Revenues			
Operating Revenues			
Charge for Services	\$ 5,565,737	\$ 5,298,469	\$ 4,879,570
Miscellaneous	47,400	47,874	46,828
Non-Operating Revenues			
Interest Earned	113,184	92,225	144,614
Other Revenues	461,792	206,362	234,437
TOTAL REVENUES	<u>6,188,113</u>	<u>5,644,930</u>	<u>5,305,449</u>
Expenses			
Operating Expenses	4,479,812	4,327,688	3,693,029
Non-Operating Expenses	607,801	611,328	730,542
TOTAL EXPENSES	<u>5,087,613</u>	<u>4,939,016</u>	<u>4,423,571</u>
Excess or Deficiency before Contributions	1,100,500	705,914	881,878
Capital Contributions	994,608	3,591,626	3,844,945
Change in Net Position	<u>2,095,108</u>	<u>4,297,540</u>	<u>4,726,823</u>
Net Position - Beginning	29,721,303	25,423,763	21,928,088
Prior Period Adjustment	-	-	9,533
Change in Accounting Principles	-	-	(1,240,681)
Net Position - Ending	<u>\$ 31,816,411</u>	<u>\$ 29,721,303</u>	<u>\$ 25,423,763</u>

Total operating revenues for the District in 2017, 2016, and 2015 were \$5.6 million, \$5.3 million and \$4.9 million, respectively. The increases due to an average residential unit rate increase between 2015 and 2016 the rate increase was 8.86 percent; between 2016 and 2017 the rate increase was 3.39 percent. Other non-operating income remained stable between 2015 and 2016 but reflected an increase of \$268,716 from 2016 to 2017 due to increases in rental income, \$150,000 of this increase being a one-time payment.

Generally, the increase in expenses paralleled inflation and growth in the demand for services. Expenses have remained fairly stable over the last three years. Total operating expenses for 2017, 2016, and 2015 were \$4.5 million, \$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 10-30 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, 2017, amounted to \$45,690,655 (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, 2017, 2016 and 2015

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Land	\$ 731,975	\$ 731,975	\$ 731,975
Intangible - easements	780,386	734,578	163,172
Construction in progress	915,202	2,406,381	3,319,444
Plant	55,732,808	53,211,602	49,860,615
Machinery and Equipment	2,732,618	2,639,692	2,034,783
Intangible - depreciable	135,027	135,027	135,027
Less accumulated depreciation	(15,337,361)	(14,016,605)	(13,445,310)
	<u>\$ 45,690,655</u>	<u>\$ 45,842,650</u>	<u>\$ 42,799,706</u>

Additional information on the District's capital assets can be found in Note 3 on page 13-14 of this report.

Long-term debt

At December 31, 2017, the District had total outstanding debt of \$22,934,705 (including the issuance premiums of \$622,274). At December 31, 2016, the District had total outstanding debt of \$24,202,570 (including the issuance premiums of \$659,608). During 2016, 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.

At December 31, 2017, and 2016, of the debt outstanding \$13,177,274 and \$14,344,608, respectively, is Revenue Bond Debt, which is secured through rates charged to water service customers. Of the remaining debt, \$9,217,431 at December 31, 2017, and \$9,857,962 at December 31, 2016, were 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 24-27 of this report.

Economic Outlook

The District experienced significant growth in 2017 and expects continued growth in future years 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 \$500 million regional hospital with 240 beds and a 787-vehicle parking garage 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.

Central Kitsap School District is currently constructing a new high school and middle school campus to replace aging facilities build in 1942 and 1959. The replacement will add permanent classroom space to get students out of portables. State-of-the-art lab and career and technical areas will allow students to use materials and build skills for tomorrows careers. Clear sightlines and secure entryways will improve safety and security.

The District has ten additional developer driven construction projects underway representing 232 future residential and non-residential service connections. The District also has thirty-three additional developer driven projects in various stages to be underway within the next two years representing over 1,000 future service connections.

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, 2017 and 2016

Assets	2017	2016
<i>Current Assets</i>		
Cash, Cash Equivalents and Pooled Investments	\$ 6,037,467	\$ 5,079,985
Receivables (net):		
Customer	464,996	456,956
Lien	2,836	2,836
Miscellaneous	32,127	34,180
Contracts	8,548	59,699
KPU D	500,000	500,000
Inventories	150,572	125,220
Restricted Assets - Cash, Cash Equivalents and Pooled Investments		
Restricted for Debt	2,013,299	1,985,301
Restricted for Capital Projects	-	986,255
Restricted for Rate Stabilization	753,606	745,838
Total Current Assets	9,963,451	9,976,270
<i>Long-term Assets</i>		
Notes Receivable	686,910	1,162,820
Land	731,975	731,975
Construction in Progress	915,202	2,406,381
Intangible Assets (with indefinite useful lives)	780,387	734,578
Depreciable Assets (Net Depreciation and Amortization)	43,263,091	41,969,716
Total Noncurrent Assets	46,377,565	47,005,470
Total Assets	56,341,016	56,981,740
Deferred Outflows of Resources		
Deferred Amount on Debt Refunding	386,378	426,162
Amounts Related to Pensions	180,881	282,690
Total Deferred Outflows of Resources	567,259	708,852
Liabilities		
<i>Current Liabilities</i>		
Accounts Payable	158,262	1,111,553
Accrued Liabilities	11,214	24,616
Customer Deposits	10,500	-
Accrued Compensated Absences - current	24,236	23,101
Payable from Restricted		
Bond Payable - Current	1,222,334	1,167,334
Note/Loan Payable - Current	640,531	640,531
Interest Payable	161,940	175,075
Total Current Liabilities	2,229,017	3,142,210
<i>Noncurrent Liabilities</i>		
Bonds Payable	11,954,937	13,177,274
Note/Loan Payable	8,576,901	9,217,431
Other Post Employment Benefits	531,416	478,378
Accrued Compensated Absences	460,500	427,468
Net Pension Liability	1,129,233	1,480,159
Total Noncurrent Liabilities	22,652,987	24,780,710
Total Liabilities	24,882,004	27,922,920
Deferred Inflows of Resources		
Amounts Related to Pensions	209,860	46,369
Total Deferred Inflows of Resources	209,860	46,369
Net Position		
Net Invested in Capital Assets	23,682,330	23,052,497
Restricted	2,619,579	2,571,677
Unrestricted	5,514,502	4,097,129
Total Net Position	\$ 31,816,411	\$ 29,721,303

SILVERDALE WATER DISTRICT NO. 16
STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN FUND NET POSITION
For Year Ended December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Operating Revenues		
Utility Sales & Service Fees	\$ 5,565,737	\$ 5,298,469
Miscellaneous Revenues	<u>47,400</u>	<u>47,874</u>
Total Operating Revenues	<u>5,613,137</u>	<u>5,346,343</u>
Operating Expenses		
Operations:		
General	345,347	322,819
Cost of Power	177,749	168,065
Maintenance	284,890	448,124
Customer Service & Marketing	21,438	17,779
Administration:		
General	2,050,264	1,988,437
Planning, Conversation, Research and Development	5,266	1,806
Depreciation & Amortization	1,321,956	1,130,263
Property, Excise and B&O Taxes	<u>272,902</u>	<u>250,395</u>
Total Operating Expenses	<u>4,479,812</u>	<u>4,327,688</u>
Operating Income (Loss)	1,133,325	1,018,655
Non-Operating Revenues (Expenses)		
Interest Earned	113,184	92,225
Interest and Fiscal Charges	(481,654)	(485,826)
Other Non-Operating Revenues	461,792	206,362
Other Non-Operating Expense	<u>(126,147)</u>	<u>(125,502)</u>
Total Non-Operating Revenues (Expenses)	<u>(32,825)</u>	<u>(312,741)</u>
Income (Loss) before Contributions	1,100,500	705,914
Capital Contributions	<u>994,608</u>	<u>3,591,626</u>
Change in Net Position	<u>2,095,108</u>	<u>4,297,540</u>
Beginning Net Position	<u>29,721,303</u>	<u>25,423,763</u>
Ending Net Position	<u>\$ 31,816,411</u>	<u>\$ 29,721,303</u>

SILVERDALE WATER DISTRICT NO. 16
STATEMENT OF CASH FLOWS
For Year Ended December 31, 2017 and 2016

	2017	2016
Cash flows from operating activities		
Cash received from customers	\$ 5,668,801	\$ 5,246,842
Cash received from other operating activities	461,792	206,362
Cash payment for goods and services	(1,440,600)	(1,235,269)
Cash payments to employees	(1,948,133)	(1,733,330)
Other payments made	(126,147)	(125,502)
Net cash used by operating activities	2,615,713	2,359,103
Cash flows from noncapital financing activities		
Net cash provided by noncapital financing activities	-	-
Cash flows from capital and related financing activities		
Capital contributions received	1,225,725	1,083,526
Receipt of loan proceeds	-	337,431
Payment on loans and notes	(640,530)	(670,495)
Payment for acquisition/construction of capital assets	(1,665,085)	(2,306,984)
Payment of bonds	(1,130,000)	(1,075,000)
Interest and fiscal charges paid	(512,014)	(568,234)
Net cash provided (used) for capital and related financing activities	(2,721,904)	(3,199,756)
Cash flows from investing activities		
Receipts of interest and dividends	113,184	102,673
Net cash provided from investing activities	113,184	102,673
Net increase (decrease) in cash	6,993	(737,980)
Cash and cash equivalents - January 1	8,797,379	9,535,359
Cash and cash equivalents - December 31	\$ 8,804,372	\$ 8,797,379
Reconciliation to statement of net position		
Cash & cash equivalents - unrestricted	6,037,467	5,079,985
Cash & cash equivalents - restricted for debt	2,013,299	1,985,301
Cash & cash equivalents - restricted for capital outlay	-	986,255
Cash & cash equivalents - restricted for rate stabilization	753,606	745,838
Cash and cash equivalents - December 31	\$ 8,804,372	\$ 8,797,379

SILVERDALE WATER DISTRICT NO. 16
STATEMENT OF CASH FLOWS
For Year Ended December 31, 2017 and 2016

Reconciliation of operating loss to net cash used by operating activities	<u>2017</u>	<u>2016</u>
Net operating income (loss)	\$ 1,133,325	\$ 1,018,655
Adjustments to reconcile net operating income (loss) to net cash provided by operating activities		
Depreciation and amortization	1,321,956	1,130,263
Other non-operating revenues	461,792	206,362
Other non-operating expenses	(126,147)	(125,502)
Change in assets and liabilities:		
Decrease (increase) in accounts receivable	45,164	(99,501)
Decrease Increase in other operating receivables		
Increase (decrease) in accounts payable	(193,702)	162,145
Increase (decrease) in customer deposits	10,500	-
Decrease (increase) in Inventories	(25,352)	(20,276)
Increase (decrease) in other payables	73,803	120,948
Increase (decrease) in pension items	(85,626)	(33,991)
Total adjustments	<u>1,482,388</u>	<u>1,340,448</u>
Net cash used by operating activities	<u>\$ 2,615,713</u>	<u>\$ 2,359,103</u>
Noncash Transactions		
Donated Assets	\$ 244,793	\$ 1,758,100
DWSRF Loan Forgiven	-	1,250,000

SILVERDALE WATER DISTRICT
Notes to Financial Statements
December 31, 2017 and 2016

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. This is shown as both current and long-term where applicable.

SILVERDALE WATER DISTRICT
Notes to Financial Statements
December 31, 2017 and 2016

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 2017 and 2016, inventories were valued at \$150,572 and \$125,220, respectively, by the weighted average method, which approximates the fair market value.

5. 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. The District also presents deferred inflows and outflows related to pensions. (See Note 4)

6. 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 2017 and 2016, the District capitalized \$19,599 and \$40,217, 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.

7. 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, 2017 and 2016

8. 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)

9. 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. (See Note 4)

10. 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>12/31/2017</u>	<u>12/31/2016</u>
Rate Stabilization	\$ 753,606	\$ 745,838
Construction	-	986,255
Bond Fund	913,885	756,314
Bond Reserve	1,099,414	1,228,987
Total	<u>\$ 2,766,905</u>	<u>\$ 3,717,394</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 \$8,594,109 and \$8,615,885 in cash and cash equivalents at December 31, 2017 and 2016, respectively. The District was holding \$210,263 and \$181,494 at December 31, 2017 and 2016, respectively, in petty cash, revolving and other deposit accounts.

SILVERDALE WATER DISTRICT
Notes to Financial Statements
December 31, 2017 and 2016

Investments

As required by state law, all investments of the District's funds are obligations of the U.S. Government, U.S. agency issues, obligations of the State of Washington, general obligations of Washington State municipalities, or certificates of deposit with Washington State banks and savings and loan institutions. Currently, all investments of the 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, 2017, the District had the following recurring fair value measurements.

Investments by fair value level	Total	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Kitsap County Investment Pool	\$ 8,567,772	\$ 651,151	\$ 7,916,621	\$ -
Total Investments by Fair Value Level	\$ 8,567,772	\$ 651,151	\$ 7,916,621	\$ -

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

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

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.

NOTE 3 –CAPITAL ASSETS AND DEPRECIATION

Capital assets activity for the year ended December 31, 2017, and 2016 was as follows:

SILVERDALE WATER DISTRICT
Notes to Financial Statements
December 31, 2017 and 2016

	Beginning Balance <u>01/01/2017</u>	Increases	Decreases	Ending Balance <u>12/31/2017</u>
<i>Capital assets, not being depreciated:</i>				
Land	731,975	-	-	731,975
Intangible asset - easements	734,578	45,808	-	780,386
Construction in progress	2,406,381	925,208	2,416,387	915,202
Total capital assets, not being depreciated	<u>\$ 3,872,934</u>	<u>\$ 971,016</u>	<u>\$ 2,416,387</u>	<u>\$ 2,427,563</u>
<i>Capital assets, being depreciated:</i>				
Plant	53,211,602	2,522,406	1,200	55,732,808
Machinery and equipment	2,639,692	92,926	-	2,732,618
Intangible asset - plans and studies	103,212	-	-	103,212
Intangible asset - software	31,815	-	-	31,815
Total capital assets being depreciated	<u>\$ 55,986,321</u>	<u>\$ 2,615,332</u>	<u>\$ 1,200</u>	<u>\$ 58,600,453</u>
<i>Less accumulated depreciation for:</i>				
Plant & Equipment	13,958,678	1,304,754	1,200	15,262,232
Intangible asset - amortization	57,927	17,202	-	75,129
Total accumulated depreciation	<u>\$ 14,016,605</u>	<u>\$ 1,321,956</u>	<u>\$ 1,200</u>	<u>\$ 15,337,361</u>
Total capital assets, being depreciated, net	41,969,716	1,293,376	-	43,263,092
Total capital assets	<u>\$ 45,842,650</u>	<u>\$ 2,264,392</u>	<u>\$ 2,416,387</u>	<u>\$ 45,690,655</u>

	Beginning Balance <u>01/01/2016</u>	Increases	Decreases	Ending Balance <u>12/31/2016</u>
<i>Capital assets, not being depreciated:</i>				
Land	731,975	-	-	731,975
Intangible asset - easements	163,172	571,406	-	734,578
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>\$ 3,677,216</u>	<u>\$ 4,018,873</u>	<u>\$ 3,872,934</u>
<i>Capital assets, being depreciated:</i>				
Plant	49,860,615	3,909,955	558,968	53,211,602
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>\$ 4,514,864</u>	<u>\$ 558,968</u>	<u>\$ 55,986,321</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	38,585,115	3,384,601	-	41,969,716
Total capital assets	<u>\$ 42,799,706</u>	<u>\$ 7,061,817</u>	<u>\$ 4,018,873</u>	<u>\$ 45,842,650</u>

SILVERDALE WATER DISTRICT
Notes to Financial Statements
December 31, 2017 and 2016

Significant Commitments

The District has several significant construction projects as of December 31, 2017, and 2016. The project authorization, amount spent life to date and remaining commitment of these projects at December 31, 2017, is as follows:

PROJECT #	FUND & PROJECT NAME	PROJECT AUTHORIZATION	EXPENSES	
			AS OF 12/31/17	REMAINING COMMITMENT
600046	Newberry Pump Test (KPUD)	32,500.00	-	32,500.00
600047	Admin Center Feasibility Study	27,500.00	-	27,500.00
500021	Service Installation - Development	44,100.00	-	44,100.00
500025	Service Installation - District	17,800.00	-	17,800.00
601700	ROW Acquisition - Provost Rd	17,500.00	-	17,500.00
601901	Scada System Upgrades	125,000.00	63,743.04	61,256.96
602001	Pump Station/Well Newberry (KPUD)	440,000.00	14,698.47	425,301.53
602002	Pump Station (Booster) - Apex	410,000.00	7,798.54	402,201.46
602003	Pump Station (Booster) - Chena	770,000.00	681,708.72	88,291.28
603011	Water Main - Paulson Rd	3,000.00	1,316.54	1,683.46
603012	Water Main - Mt View Rd Overpass	75,000.00	10,228.86	64,771.14
603015	Water Main - Bayshore	434,700.00	24,723.47	409,976.53
603019	Water Main - Byron	53,600.00	4,667.04	48,932.96
603022	Water Main - Ridgetop	359,800.00	1,677.37	358,122.63
603023	Water Main - Washington	271,300.00	3,674.99	267,625.01
603024	Water Main - Apex Airport Road	73,400.00	-	73,400.00
603025	Water Main - Bryon - 2018	202,900.00	-	202,900.00
605001	Recycled Water Main - Ridgetop	173,600.00	6,197.97	167,402.03
605006	Recycled Water Main - Paulson Rd	3,000.00	2,784.83	215.17
605011	Recycled Water Main - Byron	65,700.00	5,936.43	59,763.57
605012	Recycled Water Main - Silverdale Way	208,700.00	59,338.82	149,361.18
605013	Recycled Water Main - Byron - 2018	155,000.00	-	155,000.00
607002	Maintenance Facility-Newberry/Dickey	405,000.00	-	405,000.00
		4,369,100.00	888,495.09	3,480,604.91

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 years 2017 and 2016:

Aggregate Pension Amounts - All Plans	12/31/2017	12/31/2016
Pension liabilities	\$ 1,129,233	\$ 1,480,159
Deferred outflows of resources	\$ 180,881	\$ 282,690
Deferred inflows of resources	\$ 209,860	\$ 46,369
Pension expense/expenditures	\$ 101,361	\$ 132,748

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.

SILVERDALE WATER DISTRICT
Notes to Financial Statements
December 31, 2017 and 2016

The state Legislature establishes, and amends, laws pertaining to the creation and administration of all public retirement systems.

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

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

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

Public 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 2016 to December 2017 were as follows:

PERS Plan 1		
Actual Contribution Rates:	Employer	Employee
January 2016 – June 2017:		
PERS Plan 1	6.23%	6.00%
PERS Plan 1 UAAL	4.77%	
Administrative Fee	0.18%	
Total	11.18%	6.00%
July – December 2017:		
PERS Plan 1	7.49%	6.00%
PERS Plan 1 UAAL	5.03%	
Administrative Fee	0.18%	
Total	12.70%	6.00%

SILVERDALE WATER DISTRICT
Notes to Financial Statements
December 31, 2017 and 2016

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:

- J With a benefit that is reduced by three percent for each year before age 65; or
- J 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 2016 to December 2017 were as follows:

PERS Plan 2/3		
Actual Contribution Rates:	Employer 2/3	Employee 2
January 2016 – June 2017:		
PERS Plan 2/3	6.23%	6.12%
PERS Plan 1 UAAL	4.77%	
Administrative Fee	0.18%	
Employee PERS Plan 3		varies
Total	11.18%	6.12%
July – December 2017:		
PERS Plan 2/3	7.49%	7.38%
PERS Plan 1 UAAL	5.03%	

SILVERDALE WATER DISTRICT
Notes to Financial Statements
December 31, 2017 and 2016

Administrative Fee	0.18%	
Employee PERS Plan 3		varies
Total	12.70%	7.38%

The District's actual PERS plan contributions were \$77,858 to PERS Plan 1 and \$109,130 to PERS Plan 2/3 for the year ended December 31, 2016. At December 31, 2015, the actual contributions to the plan were \$72,304 to PERS Plan 1 and \$94,435 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 2017 with a valuation date of June 30, 2016. For 2015, the total pension liability (TPL) for each of the DRS plans was determined using the most recent actuarial valuation completed in 2016 with a valuation date of June 30, 2015. The actuarial assumptions used in the valuations were based on the results of the Office of the State Actuary's (OSA) *2007-2012 Experience Study* and the *Economic Experience Study*.

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

- J **Inflation:** 3.0% total economic inflation; 3.75% salary inflation
- J **Salary increases:** In addition to the base 3.75% salary inflation assumption, salaries are also expected to grow by promotions and longevity.
- J **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.

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

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

SILVERDALE WATER DISTRICT
Notes to Financial Statements
December 31, 2017 and 2016

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. In selecting this assumption, the Office of the State Actuary (OSA) reviewed the historical experience data, considered the historical conditions that produced past annual investment returns, and considered capital market assumptions and simulated expected investment returns provided by the Washington State Investment Board (WSIB). The WSIB uses the capital market assumptions and their target asset allocation to simulate future investment returns at various time horizons.

Estimated Rates of Return by Asset Class

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2017 and 2016, are summarized in the table below. The inflation component used to create the table is 2.2 percent and represents the WSIB's most recent long-term estimate of broad economic inflation.

Asset Class	Target Allocation	% Long-Term Expected Real Rate of Return Arithmetic
Fixed Income	20%	1.70%
Tangible Assets	5%	4.940%
Real Estate	15%	5.80%
Global Equity	37%	6.30%
Private Equity	23%	9.30%
	100%	

Sensitivity of the Net Pension Liability

The table below presents at December 31, 2017, 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	708,389	581,509	471,604
PERS 2/3	1,475,625	547,724	(212,554)

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

SILVERDALE WATER DISTRICT
Notes to Financial Statements
December 31, 2017 and 2016

At June 30, 2017 and 2016, the District reported a total pension liability of \$1,129,233 and \$1,480,159 for its proportionate share of the net pension liabilities as follows:

PERS 1	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual investment earnings on pension plan investments	\$ -	\$ (21,700)
Contributions subsequent to the measurement date	40,791	-
TOTAL	\$ 40,791	\$ (21,700)

	Proportionate Share 6/30/16	Proportionate Share 6/30/17	Change in Proportion
PERS 1	0.01251%	0.01226%	-0.00026%
PERS 2/3	0.01605%	0.01576%	-0.00029%

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

Pension Expense

For the year ended December 31, 2017 and 2016, the District recognized pension expense as follows:

Deferred Outflows of Resources and Deferred Inflows of Resources

	12/31/2017	12/31/2016
PERS 1	21,894	13,508
PERS 2/3	79,467	119,240
TOTAL	101,361	132,748

At December 31, 2017, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following:

SILVERDALE WATER DISTRICT
Notes to Financial Statements
December 31, 2017 and 2016

PERS 1	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual investment earnings on pension plan investments	\$ -	\$ (21,700)
Contributions subsequent to the measurement date	40,791	-
TOTAL	\$ 40,791	\$ (21,700)

PERS 2/3	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 55,497	\$ (18,014)
Net difference between projected and actual investment earnings on pension plan investments	-	(146,010)
Changes of assumptions	5,818	-
Changes in proportion and differences between contributions and proportionate share of contributions	18,058	(24,136)
Contributions subsequent to the measurement date	60,717	-
TOTAL	\$ 140,090	\$ (188,160)

TOTAL ALL PLANS	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 55,497	\$ (18,014)
Net difference between projected and actual investment earnings on pension plan investments	-	(167,710)
Changes of assumptions	5,818	-
Changes in proportion and differences between contributions and proportionate share of contributions	18,058	(24,136)
Contributions subsequent to the measurement date	101,508	-
TOTAL	\$ 180,881	\$ (209,860)

At December 31, 2016, 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	\$ 16,919	\$ -
Contributions subsequent to the measurement date	36,652	-
TOTAL	\$ 53,571	\$ -

SILVERDALE WATER DISTRICT
Notes to Financial Statements
December 31, 2017 and 2016

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

PERS 2/3	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 59,955	\$ 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	84,523	-
TOTAL	\$ 282,690	\$ 46,369

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, 2018. 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
2018	(14,668)	(53,114)
2019	4,631	12,863
2020	(1,075)	(15,607)
2021	(10,588)	(60,408)
2022	-	3,252
Thereafter	-	4,227

SILVERDALE WATER DISTRICT
Notes to Financial Statements
December 31, 2017 and 2016

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:

- J \$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.
- J \$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.
- J 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.

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.

SILVERDALE WATER DISTRICT
Notes to Financial Statements
December 31, 2017 and 2016

NOTE 6 – LONG-TERM DEBT

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, 2017, \$1,125,000 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. For the years ending December 31, 2017, and 2016, principal forgiven was \$0 and \$1,250,000, respectively. The amounts forgiven are recorded as contributed capital.

SILVERDALE WATER DISTRICT
Notes to Financial Statements
December 31, 2017 and 2016

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

<u>Name of Issuance-Purpose</u>	<u>Issuance Date</u>	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Original Amount</u>	12/31/17	12/31/16	<u>Maturities</u>
					<u>Debt Outstanding</u>	<u>Debt Outstanding</u>	
2011 PWTF - Water System Intertie	Jun-11	Jul-31	0.25%	10,000,000	8,092,432	8,670,462	578,031
2012 DWSRF - Capital System Improvement	Feb-12	Oct-35	1.0%	2,500,000	<u>1,125,000</u>	<u>1,187,500</u>	62,500
Total Government Loans & Notes					<u>9,217,432</u>	<u>9,857,962</u>	
2006 Bond - Refunding 1999 Bond and Capital Projects	Oct-06	Sep-26	4%	7,635,000	1,970,000	2,205,000	\$235,000 to \$315,000
2008 Revenue Bond	Aug-09	Sep-28	4-5.125%	4,430,000	210,000	410,000	\$200,000 to \$30,000
2013 Revenue Bond	Oct-14	Sep-33	2% to 3%	4,825,000	2,915,000	3,320,000	\$510,000
2015 Refunding/Revenue Bond	Aug-15	Sep-35	2% to 4%	7,850,000	7,460,000	7,750,000	\$100,000 to \$985,000
Total Revenue Bond					<u>12,555,000</u>	<u>13,685,000</u>	
					<u>\$ 21,772,432</u>	<u>\$ 23,542,962</u>	

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

	Notes & Loans		
	<u>Principal</u>	<u>Interest</u>	<u>Total Requirements</u>
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	665,802
2022	640,531	23,201	718,275
2023-2027	3,202,655	84,953	3,287,608
2028-2032	2,624,624	33,200	2,657,824
2033-2035	187,498	293,409	480,907
	<u>\$ 9,217,432</u>	<u>\$ 548,267</u>	<u>\$ 9,820,242</u>

SILVERDALE WATER DISTRICT
Notes to Financial Statements
December 31, 2017 and 2016

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

Revenue Bonds			Total
	<u>Principal</u>	<u>Interest</u>	<u>Requirements</u>
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	855,000	294,025	1,677,025
2023-2027	4,190,000	983,575	5,173,575
2028-2032	1,725,000	361,675	2,086,675
2033-2035	740,000	50,350	790,350
	<u>\$ 12,555,000</u>	<u>\$ 3,254,476</u>	<u>\$ 16,337,476</u>

B. Changes in Long-Term Liabilities

During the year ended December 31, 2017, and 2016, the following changes occurred in long-term liabilities:

	<u>1/1/17</u>	<u>Additions</u>	<u>Reductions</u>	<u>12/31/17</u>	<u>Due Within One Year</u>
Revenue bonds	\$ 13,685,000	\$ -	\$ 1,130,000	\$ 12,555,000	\$ 1,185,000
Less deferred amounts					
For issuance premiums (discounts)	659,606	-	37,335	622,271	37,334
Total bonds payable	14,344,606	-	1,167,335	13,177,271	1,222,334
Government loans	9,857,962	-	640,530	9,217,432	640,531
Other Postemployment Employee Benefits	478,378	56,506	3,468	531,416	-
Net Pension Liability	1,480,159	-	350,926	1,129,233	-
Compensated Absences	450,569	57,268	23,101	484,736	24,236
Total long-term liabilities	<u>\$ 26,611,674</u>	<u>\$ 113,774</u>	<u>\$ 2,185,360</u>	<u>\$ 24,540,088</u>	<u>\$ 1,887,101</u>

	<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	\$ -	\$ 1,075,000	\$ 13,685,000	\$ 1,130,000
Less deferred amounts					
For issuance premiums (discounts)	696,940	-	37,334	659,606	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>

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, 2017 and 2016

of the bonds. To satisfy this requirement, the District is holding \$1,099,414 and 1,228,987 in debt reserves at December 31, 2017, and 2016, 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, 2017, and 2016, the District's net debt service coverage ratio was 2.6 and 4.0, 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.

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, 2017, and 2016, 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 \$65,035, but only contributed \$3,468 at December 31, 2017. At December 31, 2016, the District was required to contribute \$64,974, but only contributed \$2,942. 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 \$531,416 and \$478,378 is the actuarial accrued liability recognized on the statement of net position at December 31, 2017, and 2016, respectively.

As of the most recent actuarial valuation date, the total unfunded actuarial liability (UAAL) is \$563,438. The covered payroll (annual payroll of active employees covered by the plan) at December 31, 2017, was \$1,414,829 and the ratio of the UAAL to the covered payroll was 40 percent. At December 31, 2016, the cover payroll was \$1,347,789 and the ratio of the UAAL to the covered payroll was 41 percent.

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

SILVERDALE WATER DISTRICT
Notes to Financial Statements
December 31, 2017 and 2016

Year Ending December 31	Annual OPEB Cost	Contribution	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2017	\$ 56,506	\$ 3,468	6.14%	\$ 531,416
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

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.

	2017	2016
Annual required contribution	\$ 65,035	\$ 64,974
Interest on net OPEB obligation	19,135	16,956
Adjustments to the annual required contribution	(27,664)	(24,514)
Annual OPEB cost (expense)	56,506	57,416
Employer Contributions made	3,468	2,942
Increase in the net OPEB obligation	53,038	54,474
Net OPEB obligation, beginning of year	478,378	423,904
Net OPEB obligation, end of year	<u>\$ 531,416</u>	<u>\$ 478,378</u>

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, 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:

SILVERDALE WATER DISTRICT
Notes to Financial Statements
December 31, 2017 and 2016

Valuation Date	12/31/2017
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	4.50%
Healthcare Cost Trend Rate - Ultimate	6.70%
Amortization Method	Open
Amortization Period	30

NOTE 8 – OTHER DISCLOSURES

A. Implementation of New Governmental Accounting Standards Board Pronouncements

For the Year ending December 31, 2017, the District implemented no new accounting standards.

For the Year ending December 31, 2016, the District implemented the following standards:

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.

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, 2017, the District has recorded a

SILVERDALE WATER DISTRICT
Notes to Financial Statements
December 31, 2017 and 2016

receivable from CKFR for \$3,076. This amount is included in the contracts receivable balance in the Statement of Net Position. At December 31, 2016, the District owed CKFR \$14 and the amount was 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. The below table summarizes the activity as of December 31, 2017, and 2016.

	12/31/2017	12/31/2016
KPUD payments made	\$ 500,000	\$ 500,000
Amount applied to principal	475,910	466,621
Interest Revenue	24,090	33,379
Contributed Capital Revenue	-	-
Notes Receivable Ending Balance	1,186,910	1,662,820

No additional entity or fund was created as a result of this agreement.

D. Insurance Recoveries

Maintenance expense includes insurance recoveries received of \$0 and \$33,689 netted against repair expense, for the years ending December 31, 2017, and 2016, respectively.

SILVERDALE WATER DISTRICT NO. 16

Required Supplementary Information

Other Post Employment Benefit

Schedule of Funding Progress

December 31, 2017 and 2016

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)
12/31/2014	-	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%	1,347,789	41%
12/31/2017	-	563,438	563,438	0%	1,414,829	40%

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 Four 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
2017	0.012255%	\$ 581,509	\$ 1,545,479	37.63%	61.24%
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 Four 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
2017	0.015764%	\$ 547,724	\$ 1,545,479	35.44%	90.97%
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 Four 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
2017	\$ 77,858	\$ (77,858)	-	\$ 1,588,177	4.90%
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 Four 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
2017	\$ 109,130	\$ (109,130)	\$ -	\$ 1,588,177	6.87%
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 Four 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 presented in accordance with GASB 82, Pension Issues. Covered payroll includes all payroll on which a contribution is based.

Note 4: Change in contribution rate

The employer contribution rates for both PERS 1 and PERS 2/3 plans increased from 11.18% to 12.70% for pay periods beginning July 2017.

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

Certain Other Operating Data for fiscal year ended December 31, 2017

Base CUSIP: 498120

Number of Customers of the System

Historical Water Accounts by Type

	2009	2010	2011	2012	2013	2014	2015	2016	2017
Residential	5,035	5,047	5,089	5,158	5,309	5,396	5,426	5,518	5,576
Nonresidential	618	622	625	628	633	633	641	644	654
Wholesale ¹	8	8	8	8	8	8	8	8	8
Irrigation	103	106	110	112	111	113	115	119	124
Construction	9	6	8	6	6	8	17	32	20
Total	5,773	5,789	5,840	5,912	6,067	6,158	6,207	6,321	6,382

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

Historical Breakdown of Equivalent Residential Units (ERUs)

	2009	2010	2011	2012	2013	2014	2015	2016	2017
Residential	5,035	5,047	5,089	5,158	5,309	5,396	5,426	5,518	5,525
Nonresidential	3,532	3,862	3,881	3,986	4,169	4,290	4,017	4,313	4,134
Wholesale	110	105	110	82	86	97	89	101	123
Irrigation	606	490	557	557	592	629	653	728	750
Construction	225	309	337	51	36	58	81	216	123
Total	9,508	9,813	9,974	9,834	10,192	10,470	10,266	10,876	10,655

Rates and Charges for the System

Basic Charge - Meter Size

Meter Size	Meter Ratio	Current						
		2011	2012 & 2013	2014	2015	2016	2017	2018
		Charge	Charge	Charge	Charge	Charge	Charge	Charge
5/8"	1	\$ 19.25	\$ 18.25	\$ 23.50	\$ 28.00	\$ 32.50	\$ 34.00	\$ 37.00
3/4"	1.5	29.90	27.50	35.25	42.00	48.75	51.00	55.50
1"	2.5	49.70	45.75	58.75	70.00	81.25	85.00	92.50
1-1/2"	5	99.15	91.25	117.50	140.00	162.50	170.00	185.00
2"	8	158.65	146.25	188.00	224.00	260.00	272.00	296.00
3"	16	317.25	292.25	376.00	448.00	565.00	621.50	740.00
4"	25	495.70	456.50	587.50	700.00	883.00	991.30	1,155.00
6"	50	991.40	912.75	1,175.00	1,400.00	1,765.00	1,941.50	2,310.00
8"	80	N/A	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	2018
		Charge	Charge	Charge	Charge	Charge	Charge	Charge
500 GPM	1	\$ 1.90	\$ 2.05	\$ 2.60	\$ 3.50	\$ 5.00	\$ 5.00	\$ 5.00
750 GPM	1.5	2.85	3.10	3.90	5.25	7.50	7.50	7.50
1,000 GPM	2	3.80	4.10	5.20	7.00	10.00	10.00	10.00
1,250 GPM	2.5	4.75	5.15	6.50	8.75	12.50	12.50	12.50
1,500 GPM	3	5.70	6.15	7.80	10.50	15.00	15.00	15.00
1,750 GPM	3.5	6.65	7.20	9.10	12.25	17.50	17.50	17.50
2,000 GPM	4	7.60	8.20	10.40	14.00	20.00	20.00	20.00
2,250 GPM	4.5	8.55	9.25	11.70	15.75	22.50	22.50	22.50
2,500 GPM	5	9.50	10.25	13.00	17.50	25.00	25.00	25.00

Non-residential Fire Flow Charge

Fire Flow	Ratio	Current						
		2011	2012 & 2013	2014	2015	2016	2017	2018
		Charge	Charge	Charge	Charge	Charge	Charge	Charge
1,500 GPM	12	\$ 22.55	\$ 24.55	\$ 31.50	\$ 42.00	\$ 60.00	\$ 60.00	\$ 60.00
1,750 GPM	14	\$ 26.30	\$ 28.65	\$ 36.80	\$ 49.00	\$ 70.00	\$ 70.00	\$ 70.00
2,000 GPM	16	\$ 30.05	\$ 32.75	\$ 42.00	\$ 56.00	\$ 80.00	\$ 80.00	\$ 80.00
2,250 GPM	18	\$ 33.85	\$ 36.80	\$ 47.30	\$ 63.00	\$ 90.00	\$ 90.00	\$ 90.00
2,500 GPM	20	\$ 37.60	\$ 40.90	\$ 52.50	\$ 70.00	\$ 100.00	\$ 100.00	\$ 100.00
2,750 GPM	22	\$ 41.35	\$ 45.00	\$ 57.80	\$ 77.00	\$ 110.00	\$ 110.00	\$ 110.00
3,000 GPM	24	\$ 45.10	\$ 49.10	\$ 63.00	\$ 84.00	\$ 120.00	\$ 120.00	\$ 120.00
3,250 GPM	26	\$ 48.85	\$ 53.15	\$ 68.20	\$ 91.00	\$ 130.00	\$ 130.00	\$ 130.00
3,500 GPM	28	\$ 52.60	\$ 57.25	\$ 73.50	\$ 98.00	\$ 140.00	\$ 140.00	\$ 140.00
3,750 GPM	30	\$ 56.35	\$ 61.35	\$ 78.70	\$ 105.00	\$ 150.00	\$ 150.00	\$ 150.00
4,000 GPM	32	\$ 60.15	\$ 65.45	\$ 84.00	\$ 112.00	\$ 160.00	\$ 160.00	\$ 160.00

Inverted-Block Charge

Meter Size									2018 Charge	
5/8"	3/4"	1"	1-1/2"	2"	3"	4"	6"	8"	Price CF	PriceCCF
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

	Audited 2011	Audited 2012	Audited 2013	Audited 2014	Audited 2015	Unaudited 2016	Unaudited 2017
Operating Revenues							
Utility Sales & Service Fees	\$3,097,889	\$3,440,359	\$3,705,929	\$4,061,030	\$4,879,570	\$5,298,469	\$5,565,737
Miscellaneous Revenues	40,742	42,631	47,282	62,372	46,828	47,874	47,400
Total Operating Revenue	\$3,138,631	\$3,482,990	\$3,753,211	\$4,123,402	\$4,926,398	\$5,346,343	\$5,613,137
Operating Expenses							
Operations							
General Operations	\$250,861	\$294,298	\$293,955	\$292,609	\$324,418	\$322,819	\$ 345,347
Cost of Power	155,082	160,553	149,043	151,020	175,732	168,065	177,749
Maintenance	281,052	301,868	284,250	318,726	345,143	448,124	284,890
Customer Services & Marketing	23,057	12,427	12,696	12,449	13,811	17,779	21,438
Administration							
General Administration	1,459,883	1,618,079	1,697,060	1,608,702	1,784,195	1,988,437	2,050,264
Planning, Conservation, R&D	4,338	4,991	5,339	4,815	2,718	1,806	5,266
Property, Excise & B&O Taxes	-	-	-	-	-	-	-
Total Operating Expenses	\$2,174,273	\$2,392,216	\$2,442,343	\$2,388,321	\$2,646,017	\$2,947,030	\$2,884,954
Net Operating Revenue	\$964,358	\$1,090,774	\$1,310,868	\$1,735,081	\$2,280,381	\$2,399,313	\$2,728,183
Non-Operating Revenues (Expenses)							
Interest Earned	\$54,479	\$38,729	\$26,550	\$38,744	\$144,614	\$92,225	\$113,184
Other Non-Operating Revenues	219,180	265,901	201,440	254,318	233,343	198,351	461,792
Other Non-Operating Expense	(144,476)	(178,777)	(111,845)	(192,634)	(113,440)	(125,502)	(126,147)
Gain/(Loss) on Disposal of Assets	-	-	5,531	1,675	1,094	-	-
Total Non-Operating Revenues	\$129,183	\$125,853	\$121,676	\$102,103	\$265,611	\$165,074	\$448,829
Connection Fees & Developer Contributions	\$957,887	\$886,173	\$418,966	\$384,887	\$3,844,945	\$3,791,303	\$994,608
Net Revenue Available for Debt Service	\$2,051,428	\$2,102,800	\$1,851,510	\$2,222,071	\$6,390,937	\$6,355,690	\$4,171,620
Outstanding Parity Debt Service	\$870,590	\$869,590	\$882,990	\$1,338,702	\$1,421,631	\$1,601,813	\$1,608,388
Debt Service Coverage for Parity	2.36	2.42	2.10	1.66	4.50	3.97	2.59
Outstanding Junior Lien Debt Service	\$96,471	\$95,163	\$93,855	\$294,459	\$657,508	\$690,184	\$690,184
Annual Surplus	\$1,084,367	\$1,138,047	\$874,665	\$588,910	\$4,311,798	\$4,063,693	\$1,873,048

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
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
	1,970,000.00	327,400.00	2,297,400.00	210,000.00	9,450.00	219,450.00	2,915,000.00	776,725.00	3,691,725.00	7,460,000.00	2,140,900.00	9,600,900.00	15,809,475.00

JUNIOR LIEN DEBT - LOANS

	2011 PWTF			2011 DWSRF			Combined
	Principal	Interest	Ann. Payment	Principal	Interest	Ann. Payment	Ann. Payment
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
	8,092,431.55	151,733.10	8,244,164.65	1,125,000.02	106,875.00	1,231,875.02	9,476,039.67

BONDS/LOANS

Combined
Ann. Payment
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
25,285,514.67

Silverdale Water District No. 16
Schedule of Liabilities
For the Year Ended December 31, 2017

<u>ID. No.</u>	<u>Description</u>	<u>Due Date</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
Revenue and Other (non G.O.) Debt/Liabilities						
252.11	GO Bonds	9/1/2026	2,205,000	-	235,000	1,970,000
252.11	GO Bonds	12/1/2028	410,000	-	200,000	210,000
252.11	GO Bonds	9/1/2033	3,320,000	-	405,000	2,915,000
252.11	GO Bonds	9/1/2035	7,750,000	-	290,000	7,460,000
259.12	Compensated Absences		450,569	57,268	23,101	484,736
263.82	PWTF	7/1/2031	8,670,462	-	578,031	8,092,431
263.82	DWSRF	10/1/2035	1,187,500	-	62,500	1,125,000
264.40	OPEB		478,378	56,506	3,468	531,416
264.30	Pension Liability		1,480,159	-	350,926	1,129,233
Total Revenue and Other (non G.O.) Debt/Liabilities:			25,952,068	113,774	2,148,026	23,917,816
Total Liabilities:			25,952,068	113,774	2,148,026	23,917,816