



**Washington State Auditor's Office**

**Troy Kelley**

**Integrity • Respect • Independence**

## **Financial Statements Audit Report**

# **Silverdale Water District No. 16**

**Kitsap County**

**For the period January 1, 2012 through December 31, 2013**

**Published December 18, 2014**

**Report No. 1013147**





## Washington State Auditor Troy Kelley

December 18, 2014

Board of Commissioners  
Silverdale Water District No. 16  
Silverdale, Washington

### Report on Financial Statements

Please find attached our report on Silverdale Water District No. 16's financial statements.

We are issuing this report in order to provide information on the District's financial condition.

Sincerely,

TROY KELLEY  
STATE AUDITOR

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# **Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards***

**Silverdale Water District No. 16  
Kitsap County  
January 1, 2012 through December 31, 2013**

Board of Commissioners  
Silverdale Water District No. 16  
Silverdale, Washington

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Silverdale Water District No. 16, Kitsap County, Washington, as of and for the years ended December 31, 2013, 2012 and 2011, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated December 11, 2014. As discussed in Note 8 to the financial statements, during the year ended December 31, 2011, the District implemented Governmental Accounting Standards Board Statement No. 62, *Codification of Accounting and Financial Reporting Guidance contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. During the year ended December 31, 2012, the District implemented Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*. During the year ended December 31, 2013, the District implemented Statement No. 65, *Items Previously Reported as Assets and Liabilities*.

## ***INTERNAL CONTROL OVER FINANCIAL REPORTING***

In planning and performing our audits of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be

prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.


## ***COMPLIANCE AND OTHER MATTERS***

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of the District's compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## ***PURPOSE OF THIS REPORT***

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.



**TROY KELLEY**  
STATE AUDITOR

December 11, 2014

# **Independent Auditor's Report on Financial Statements**

## **Silverdale Water District No. 16 Kitsap County January 1, 2012 through December 31, 2013**

Board of Commissioners  
Silverdale Water District No. 16  
Silverdale, Washington

### ***REPORT ON THE FINANCIAL STATEMENTS***

We have audited the accompanying financial statements of Silverdale Water District No. 16, Kitsap County, Washington, as of and for the years ended December 31, 2013, 2012 and 2011, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed on page 9.

#### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

#### ***Auditor's Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Silverdale Water District No. 16, as of December 31, 2013, 2012 and 2011, and the changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Matters of Emphasis***

As discussed in Note 8 to the financial statements, in 2011 the District adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 62, *Codification of Accounting and Financial Reporting Guidance contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. In 2012 the District adopted Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*. In 2013 the District adopted Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to these matters.

### ***Other Matters***

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 10 through 19 and information on postemployment benefits other than pensions on pages 60 through 61 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is 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 operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### ***OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS***

In accordance with *Government Auditing Standards*, we have also issued our report dated December 11, 2014 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on

compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Troy X. Kelley". The signature is written in a cursive, flowing style.

**TROY KELLEY**  
STATE AUDITOR

December 11, 2014



## **Financial Section**

**Silverdale Water District No. 16**  
**Kitsap County**  
**January 1, 2012 through December 31, 2013**

### ***REQUIRED SUPPLEMENTARY INFORMATION***

Management's Discussion and Analysis – 2013 and 2012  
Management's Discussion and Analysis – 2012 and 2011

### ***BASIC FINANCIAL STATEMENTS***

Statement of Net Position – 2013 and 2012  
Statement of Net Position – 2012 and 2011  
Statement of Revenues, Expenses and Changes in Net Position – 2013 and 2012  
Statement of Revenues, Expenses and Changes in Net Position – 2012 and 2011  
Statement of Cash Flows – 2013 and 2012  
Statement of Cash Flows – 2012 and 2011  
Notes to Financial Statements – 2013 and 2012  
Notes to Financial Statements – 2012 and 2011

### ***REQUIRED SUPPLEMENTARY INFORMATION***

Other Post Employment Benefit – Schedule of Funding Progress – 2013 and 2012  
Other Post Employment Benefit – Schedule of Funding Progress – 2012 and 2011

**Silverdale Water District No. 16**  
***Management's Discussion and Analysis***  
***December 31, 2013 and 2012***

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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, 2013 and 2012. 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 of the Silverdale Water District exceeded its liabilities at the close of the most recent fiscal year by \$20,809,307 and in 2012 by \$20,479,536. Of this amount, \$1,068,736 in 2013 may be used to meet the government's ongoing obligations to citizens and creditors compared to \$2,359,138 in 2012.
- From 2013 to 2012 total net position increased by \$329,771 or 1.6 percent.
- 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, 2013, and 2012.

**NET POSITION**  
December 31, 2013, 2012 and 2011

	2013	2012	2011
Assets:			
Current and Other Assets	\$ 9,113,736	\$ 5,584,965	\$ 5,840,048
Capital Assets, net	29,293,299	26,303,444	25,650,663
Total Assets	<u>38,407,035</u>	<u>31,888,409</u>	<u>31,490,711</u>
Deferred amount on refunding	<u>111,861</u>	<u>122,266</u>	<u>-</u>
Liabilities:			
Current and Other Liabilities	1,810,584	1,085,630	197,092
Noncurrent Liabilities	15,899,005	10,445,509	11,334,930
Total Liabilities	<u>17,709,589</u>	<u>11,531,139</u>	<u>11,532,022</u>
Net Position:			
Net Investment in Capital Assets	16,866,151	16,005,377	15,297,341
Restricted	2,874,420	2,115,021	2,078,772
Unrestricted	1,068,736	2,359,138	2,582,576
Total Net Position	<u>\$ 20,809,307</u>	<u>\$ 20,479,536</u>	<u>\$ 19,958,689</u>

The district at December 31, 2013 has \$8.6 million in cash, cash equivalents and pooled investments which represents 3% of total assets. This is increase over 2012 due to the holding unspent 2013 bond proceeds. At December 31, 2012, \$5.3 million of total assets (17%) represents cash, cash equivalents and pooled investments. These changes are a result of portions of the 2008 unspent bond proceeds being used.

At the end of 2013 and 2012, capital assets represent 76% and 82% of total assets, respectively. Capital assets are increasing as the District improves its system.

At December 31, 2013 and 2012, the District had long-term liabilities of \$15.9 and \$10.4 million, respectively. No new debt has been drawn down during this timeframe; decreases are due to the District making scheduled debt payments.

2013 total net position was \$20.8, increasing two percent over 2012. Likewise, 2012 total net position was \$20.5 million, which is up two percent from 2011.

The District's investment in capital assets (land, structure and facilities, equipment and construction in progress) less any related debt is \$16.9 million at December 2013 and \$16.0 million at December 2012. This has remained fairly stable over the last three years, as the District is depreciating assets at about the same rate they are constructing them.

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.

#### CHANGES IN NET POSITION

	2013	2012	2011
Revenues			
Operating Revenues			
Charge for Services	\$ 3,705,929	\$ 3,440,359	\$ 3,097,889
Miscellaneous	47,282	42,631	40,742
Non-Operating Revenues			
Interest Earned	26,550	38,729	54,479
Other Revenues	206,971	265,901	219,180
TOTAL REVENUES	<u>3,986,732</u>	<u>3,787,620</u>	<u>3,412,290</u>
Expenses			
Operating Expenses	3,444,141	3,373,051	3,248,125
Non-Operating Expenses	631,786	614,084	601,745
TOTAL EXPENSES	<u>4,075,927</u>	<u>3,987,135</u>	<u>3,849,870</u>
Excess or Deficiency before Contributions	(89,195)	(199,515)	(437,580)
Capital Contributions	418,966	886,173	957,887
Change in Net Assets	<u>329,771</u>	<u>686,658</u>	<u>520,307</u>
Net Assets - Beginning	20,479,536	19,958,689	19,438,382
Change in Accounting Principles	-	(165,811)	-
Net Assets - Ending	<u>\$ 20,809,307</u>	<u>\$ 20,479,536</u>	<u>\$ 19,958,689</u>

Total operating revenues for the District in 2013 and 2012 were \$3.8 and \$3.5 million, respectively. 2013 shows an increase due to a ten percent rate increase on the base charge.

Generally the increase in expenses paralleled inflation and growth in the demand for services. Total operating expenses for both 2013 and 2012 were \$3.4 million. The \$71,000 increase between 2013 and 2012 occurred mainly as a result of rising prices. The \$125,000 increase between 2012 and 2011 is a result of increased administrative expense and utility taxes. This occurred because of increased wages, retirement benefits, audit costs, leave usage, training and conference attendance compared to 2011. Moreover, nearly \$40,000 of additional taxes was required because of increased revenues.

Capital contributions increased \$71,724 or 7% from 2011 to 2012. The majority of this increase is from donated capital assets. 2012 to 2013 capital contributions showed a large decrease (53%) with less donated assets and connections used for capital.

#### Notes to the basic financial statements

The notes to the District's basic financial statements can be found on pages 10-26 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, 2013, amounted to \$29,293,299 (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 11%. Many construction projects were completed in 2013 and transferred to plant. The change in capital assets is from continued construction projects, land purchase and the standard reduction for depreciation expense.

### **CAPITAL ASSETS, NET** December 31, 2013 and 2012

	2013	2012
Land	\$ 731,975	\$ 731,975
Intangible - easements	152,761	137,524
Construction in progress	3,999,608	1,520,742
Plant	34,294,840	33,019,443
Machinery and Equipment	1,890,959	1,900,189
Intangible - depreciable	28,600	28,600
Less accumulated depreciation	(11,805,444)	(11,035,029)
	<u>\$ 29,293,299</u>	<u>\$ 26,303,444</u>

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

### Long-term debt

At December 31, 2013 and 2012, the District had total outstanding debt of \$16,905,798 and \$11,001,022. A revenue bond in the amount of \$4.8 million was issued in November 2013. Additionally, the district received draws of \$1.4 million from the 2011 PWTF during 2013. This debt was issued to meet the capital needs of the District.

Of this debt \$14,644,702 (2013) and \$10,132,997 (2012) is Revenue Bond Debt, which is secured through rates charged to water service customers. Of the remaining debt, \$1,613,586 (2013) and \$287,331 (2012) is Public Works Trust Fund Loans, secured by rates and capital connection charges.

As of December 31, 2013 and 2012, respectively, long-term compensated absences amounted to \$327,090 and \$312,785. In 2013 and 2012, the District also recognized Other Post-Employment Benefits in the amount of \$320,420 and \$267,909, respectively.

The District has entered into contracts with the Department of Commerce and Department of Ecology for additional governmental loans. The PWTF loan amount is \$10 million and the DWSRF loan amount is \$2.5 million. Some of the proceeds of the PWTF loan were received in 2013, the rest will be incurred during 2014.

Additional information on the District's long-term debt can be found in Note 6 on pages 20-22 of this report.

## **Economic Outlook**

The District experienced average growth in 2013, the District expects to see continued growth in its service area over the next year.

Preserving the financial condition of the District and building upon its financial health are primary goals. The District continues to seek better economics of scale and eliminate redundancies in its operations.

Significant elements in maintaining a healthy financial condition include:

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

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

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

## **Requests for Information**

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

**Silverdale Water District No. 16**  
***Management's Discussion and Analysis***  
***December 31, 2012 and 2011***

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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, 2012 and 2011. 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 of the Silverdale Water District exceeded its liabilities at the close of the most recent fiscal year by \$20,479,536 and in 2011 by \$19,958,689. Of this amount, \$2,359,138 in 2012 may be used to meet the government's ongoing obligations to citizens and creditors compared to \$2,582,576 in 2011.
- From 2012 to 2011 total net position increased by \$520,847 or nearly three percent.
- 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 assets are 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, 2012, and 2011.

## NET POSITION

December 31, 2012, 2011 and 2010

	2012	2011	2010
Assets:			
Current and Other Assets	\$ 5,584,965	\$ 5,840,048	\$ 6,739,748
Capital Assets, net	26,303,444	25,650,663	24,874,535
Total Assets	31,888,409	31,490,711	31,614,283
Deferred Outflows of Resources	122,266	-	-
Liabilities:			
Current and Other Liabilities	1,085,630	197,092	420,082
Noncurrent Liabilities	10,445,509	11,334,930	11,755,819
Total Liabilities	11,531,139	11,532,022	12,175,901
Net Position:			
Net Investment in Capital Assets	16,005,377	15,297,341	14,837,814
Restricted	2,115,021	2,078,772	2,051,406
Unrestricted	2,359,138	2,582,576	2,549,162
Total Net Position	\$ 20,479,536	\$ 19,958,689	\$ 19,438,382

At December 31, 2010, \$6.3 million in cash and cash equivalents and pooled investments represented 20% of total assets. At December 31, 2011 \$5.5 million of total assets (17%) represents cash, cash equivalents and pooled investments. These changes are a result of portions of the 2008 unspent bond proceeds being used. The district at December 31, 2012 has \$5.6 million in cash, cash equivalents and pooled investments remaining fairly stable compared to 2011.

At the end of 2012, 2011 and 2010, capital assets represent 83%, 81% and 79% of total assets, respectively. Capital assets are increasing as the District improves its system.

At December 31, 2012, 2011, and 2010, the District had long-term liabilities of \$10.4, \$11.3, and \$11.8 million, respectively. No new debt has been drawn down during this timeframe; decreases are due to the District making scheduled debt payments.

2012 total net position was \$20.5, increasing three percent over 2011. Likewise, 2011 total net position was \$20.0 million, which is up nearly three percent from 2010.

The District's investment in capital assets (land, structure and facilities, equipment and construction in progress) less any related debt is \$16.0 million at December 2012, \$15.3 million at December 2011, and \$14.8 million at December 2010. This has remained fairly stable over the last three years, as the District is depreciating assets at about the same rate they are constructing them.

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.

#### CHANGES IN NET POSITION

	2012	2011	2010
Revenues			
Operating Revenues			
Charge for Services	\$ 3,440,359	\$ 3,097,889	\$ 3,045,575
Miscellaneous	42,641	40,742	37,647
Non-Operating Revenues			
Interest Earned	38,729	54,479	95,575
Other Revenues	265,901	219,180	224,046
TOTAL REVENUES	<u>3,787,630</u>	<u>3,412,290</u>	<u>3,402,843</u>
Expenses			
Operating Expenses	3,373,051	3,248,125	3,341,930
Non-Operating Expenses	614,084	601,745	561,040
TOTAL EXPENSES	<u>3,987,135</u>	<u>3,849,870</u>	<u>3,902,970</u>
Excess or Deficiency before Contributions	(199,505)	(437,580)	(500,127)
Capital Contributions	886,163	957,887	365,137
Change in Net Assets	<u>686,658</u>	<u>520,307</u>	<u>(134,990)</u>
Net Assets - Beginning	19,958,689	19,438,382	19,578,291
Prior Period Adjustments	(165,811)	-	(4,919)
Net Assets - Ending	<u>\$ 20,479,536</u>	<u>\$ 19,958,689</u>	<u>\$ 19,438,382</u>

Total operating revenues for the District in 2012, 2011 and 2010 were \$3.4, \$3.1 and \$3.0 million, respectively. 2012 shows an increase due to a rate increase of at least eight percent which took effect February 2012.

Generally the increase in expenses paralleled inflation and growth in the demand for services. Total operating expenses for 2012, 2011 and 2010 were \$3.4, \$3.2, and \$3.3 million, respectively. The \$125,000 increase between 2012 and 2011 is a result of increased administrative expense and utility taxes. This occurred because of increased wages, retirement benefits, audit costs, leave usage, training and conference attendance compared to 2011. Moreover, nearly \$40,000 of additional taxes was required because of increased revenues. The \$93,000 decrease in expense between 2011 and 2010 is because of reduced maintenance expenses as the District concentrates on capital asset projects.

Capital contributions increased \$592,750 or 162% from 2010 to 2011. The majority of this increase is from donated capital assets. 2011 to 2012 capital contributions showed a slight decrease.

#### Notes to the basic financial statements

The notes to the District's basic financial statements can be found on pages 10-25 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, 2012, amounted to \$26,303,444 (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 2%. Many construction projects were completed in 2012 and transferred to plant. The change in capital assets is from continued construction projects, land purchase and the standard reduction for depreciation expense.

### CAPITAL ASSETS, NET

December 31, 2012, 2011 and 2010

	2012	2011
Land	\$ 731,975	\$ 358,982
Intangible - easements	137,524	49,669
Construction in progress	1,520,742	1,756,133
Plant	33,019,443	31,851,704
Machinery and Equipment	1,900,189	1,856,371
Intangible - depreciable	28,600	28,600
Less accumulated depreciation	(11,035,029)	(10,250,796)
	<u>\$ 26,303,444</u>	<u>\$ 25,650,663</u>

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

### Long-term debt

At December 31, 2012 and 2011, the District had total outstanding debt of \$11,001,022 and \$11,334,930. This debt was issued to meet the capital needs of the District.

Of this debt \$10,132,997 (2012) and \$10,420,647 (2011) is Revenue Bond Debt, which is secured through rates charged to water service customers. Of the remaining debt, \$287,331 (2012) and \$376,888 (2011) is Public Works Trust Fund Loans, secured by rates and capital connection charges.

As of December 31, 2012 and 2011, respectively, long-term compensated absences amounted to \$312,785 and \$320,846. In 2012 and 2011, the District also recognized Other Post Employment Benefits in the amount of \$267,909 and \$216,549, respectively.

The District has entered into contracts with the Department of Commerce and Department of Ecology for additional governmental loans. The PWTF loan amount is \$10 million and the DWSRF loan amount is \$2.5 million. The proceeds of this debt will be received in 2013.

Additional information on the District's long-term debt can be found in Note 6 on pages 20-22 of this report.

## **Economic Outlook**

The District experienced average growth in 2012, the District expects to see continued growth in its service area over the next year.

Preserving the financial condition of the District and building upon its financial health are primary goals. The District continues to seek better economics of scale and eliminate redundancies in its operations.

Significant elements in maintaining a healthy financial condition include:

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

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

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

## **Requests for Information**

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

**SILVERDALE WATER DISTRICT NO. 16**  
**STATEMENT OF NET POSITION**  
December 31, 2013 and 2012

<b>Assets</b>	2013	2012
<i>Current Assets</i>		
Cash, Cash Equivalents and Pooled Investments	\$ 1,844,330	\$ 3,068,157
Receivables (net):		
Customer	320,327	84,359
Lien	2,836	2,836
Miscellaneous	275	370
Contracts	30,424	14,669
CKFR	-	15,474
Inventories	159,579	124,643
Restricted Assets - Cash, Cash Equivalents and Pooled Investments		
Restricted for Debt	2,015,611	1,533,824
Restricted for Capital Projects	4,007,320	-
Restricted for Rate Stabilization	733,034	729,343
<b>Total Current Assets</b>	<u>9,113,736</u>	<u>5,573,675</u>
<i>Long-term Assets</i>		
Unamortized Plans and Studies	-	11,290
Land	731,975	731,975
Intangible Assets (with indefinite useful lives)	152,761	137,524
Construction in Progress	3,999,608	1,520,742
Depreciable Assets (Net Depreciation and Amortization)	24,408,955	23,913,203
<b>Total Noncurrent Assets</b>	<u>29,293,299</u>	<u>26,314,734</u>
<b>Total Assets</b>	<u>38,407,035</u>	<u>31,888,409</u>
<b>Deferred Outflows of Resources</b>		
Deferred Amount on Debt Refunding	111,861	122,266
<b>Total Deferred Outflows of Resources</b>	<u>111,861</u>	<u>122,266</u>
<b>Liabilities</b>		
<i>Current Liabilities</i>		
Accounts Payable	617,574	364,233
Accrued Liabilities	23,951	17,738
Accrued Compensated Absences - current	16,354	15,639
Payable from Restricted		
Bond Payable - Current	822,226	450,318
Note/Loan Payable - Current	168,213	89,556
Interest Payable	162,266	148,146
<b>Total Current Liabilities</b>	<u>1,810,584</u>	<u>1,085,630</u>
<i>Long-term Liabilities</i>		
Bonds Payable	13,822,476	9,682,679
Note/Loan Payable	1,445,373	197,775
Other Post Employment Benefits	320,420	267,909
Accrued Compensated Absences	310,736	297,146
<b>Total Noncurrent Liabilities</b>	<u>15,899,005</u>	<u>10,445,509</u>
<b>Total Liabilities</b>	<u>17,709,589</u>	<u>11,531,139</u>
<b>Net Position</b>		
Net Invested in Capital Assets	16,866,151	16,005,377
Restricted	2,874,420	2,115,021
Unrestricted	1,068,736	2,359,138
<b>Total Net Position</b>	<u>\$ 20,809,307</u>	<u>\$ 20,479,536</u>

The accompanying notes are an integral part of this statement

**SILVERDALE WATER DISTRICT NO. 16**  
**STATEMENT OF NET POSITION**  
December 31, 2012 and 2011

<b>Assets</b>	2012	2011
<i>Current Assets</i>		
Cash, Cash Equivalents and Pooled Investments	\$ 3,068,157	\$ 2,799,572
Receivables (net):		
Customer	84,359	66,001
Lien	2,836	2,836
Miscellaneous	370	225
Contracts	14,669	70,807
CKFR	15,474	0
Inventories	124,643	57,478
Restricted Assets - Cash, Cash Equivalents and Pooled Investments		
Restricted for Debt	1,533,824	1,508,992
Restricted for Capital Projects	0	420,606
Restricted for Rate Stabilization	729,343	724,113
<b>Total Current Assets</b>	<b>5,573,675</b>	<b>5,650,630</b>
<i>Long-term Assets</i>		
Unamortized Plans and Studies	11,290	23,607
Deferred Charges	-	165,811
Land	731,975	358,982
Intangible Assets (with indefinite useful lives)	137,524	49,669
Construction in Progress	1,520,742	1,756,133
Depreciable Assets (Net Depreciation and Amortization)	23,913,203	23,485,879
<b>Total Noncurrent Assets</b>	<b>26,314,734</b>	<b>25,840,081</b>
<b>Total Assets</b>	<b>31,888,409</b>	<b>31,490,711</b>
<b>Deferred Outflows of Resources</b>		
Deferred Amount on Debt Refunding	122,266	-
<b>Total Deferred Outflows of Resources</b>	<b>122,266</b>	<b>-</b>
<b>Liabilities</b>		
<i>Current Liabilities</i>		
Accounts Payable	364,233	42,759
Taxes Payable	0	0
Customer Deposits	0	0
Accrued Liabilities	17,738	0
Accrued Compensated Absences - current	15,639	7,534
Payable from Restricted		
Bond Payable - Current	450,318	409,912
Note/Loan Payable - Current	89,556	89,557
Interest Payable	148,146	154,333
<b>Total Current Liabilities</b>	<b>1,085,630</b>	<b>704,095</b>
<i>Long-term Liabilities</i>		
Bonds Payable	9,682,679	10,010,735
Note/Loan Payable	197,775	287,331
Other Post Employment Benefits	267,909	216,549
Accrued Compensated Absences	297,146	313,312
<b>Total Noncurrent Liabilities</b>	<b>10,445,509</b>	<b>10,827,927</b>
<b>Total Liabilities</b>	<b>11,531,139</b>	<b>11,532,022</b>
<b>Net Position</b>		
Net Investment in Capital Assets	16,005,377	15,297,341
Restricted	2,115,021	2,078,772
Unrestricted	2,359,138	2,582,576
<b>Total Net Position</b>	<b>\$ 20,479,536</b>	<b>\$ 19,958,689</b>

The accompanying notes are an integral part of this statement

**SILVERDALE WATER DISTRICT NO. 16**  
**STATEMENT OF REVENUES, EXPENSES**  
**AND CHANGES IN FUND NET POSITION**  
For Year Ended December 31, 2013 and 2012

	2013	2012
<b>Operating Revenues</b>		
Utility Sales & Service Fees	\$ 3,705,929	\$ 3,440,359
Miscellaneous Revenues	47,282	42,631
Total Operating Revenues	<u>3,753,211</u>	<u>3,482,990</u>
<b>Operating Expenses</b>		
Operations:		
General	293,955	294,298
Cost of Power	149,043	160,553
Maintenance	284,250	301,868
Customer Service & Marketing	12,696	12,427
Administration:	-	
General	1,697,060	1,618,079
Planning, Conversation, Research and Development	5,339	4,991
Depreciation & Amortization	834,386	796,550
Property, Excise and B&O Taxes	167,412	184,285
Total Operating Expenses	<u>3,444,141</u>	<u>3,373,051</u>
<b>Operating Income (Loss)</b>	309,070	109,939
<b>Non-Operating Revenues (Expenses)</b>		
Interest Earned	26,550	38,729
Interest and Fiscal Charges	(519,941)	(435,307)
Other Non-Operating Revenues	201,440	265,901
Other Non-Operating Expense	(111,845)	(178,777)
Gain (Loss) on Disposal of Assets	5,531	-
Total Non-Operating Revenues (Expenses)	<u>(398,265)</u>	<u>(309,454)</u>
Income (Loss) before Contributions	(89,195)	(199,515)
Capital Contributions	418,966	886,173
Change in Net Position	<u>329,771</u>	<u>686,658</u>
<b>Beginning Net Position</b>	20,479,536	19,958,689
Change in Accounting Principle	-	(165,811)
<b>Ending Net Position</b>	<u>\$ 20,809,307</u>	<u>\$ 20,479,536</u>

The accompanying notes are an integral part of this statement

**SILVERDALE WATER DISTRICT NO. 16**  
**STATEMENT OF REVENUES, EXPENSES**  
**AND CHANGES IN FUND NET POSITION**  
For Year Ended December 31, 2012 and 2011

	2012	2011
<b>Operating Revenues</b>		
Utility Sales & Service Fees	\$ 3,440,359	\$ 3,097,889
Miscellaneous Revenues	42,631	40,742
Total Operating Revenues	<u>3,482,990</u>	<u>3,138,631</u>
<b>Operating Expenses</b>		
Operations:		
General	294,298	250,861
Cost of Power	160,553	155,082
Maintenance	301,868	281,052
Customer Service & Marketing	12,427	23,057
Administration:		
General	1,618,079	1,459,883
Planning, Conversation, Research and Development	4,991	4,338
Depreciation & Amortization	796,550	923,885
Property, Excise and B&O Taxes	184,285	149,967
Total Operating Expenses	<u>3,373,051</u>	<u>3,248,125</u>
<b>Operating Income (Loss)</b>	109,939	(109,494)
<b>Non-Operating Revenues (Expenses)</b>		
Interest Earned	38,729	54,479
Interest and Fiscal Charges	(435,307)	(457,269)
Other Non-Operating Revenues	265,901	219,180
Other Non-Operating Expense	(178,777)	(144,476)
Total Non-Operating Revenues (Expenses)	<u>(309,454)</u>	<u>(328,086)</u>
Income (Loss) before Contributions	(199,515)	(437,580)
Capital Contributions	886,173	957,887
Change in Net Position	<u>686,658</u>	<u>520,307</u>
<b>Beginning Net Position</b>	19,958,689	19,438,382
Change in Accounting Principle	(165,811)	0
<b>Ending Net Position</b>	<u>\$ 20,479,536</u>	<u>\$ 19,958,689</u>

The accompanying notes are an integral part of this statement

**SILVERDALE WATER DISTRICT NO. 16**  
**STATEMENT OF CASH FLOWS**  
For Year Ended December 31, 2013 and 2012

	2013	2012
<b>Cash flows from operating activities</b>		
Cash received from customers	\$ 3,517,057	\$ 3,517,860
Cash received from other operating activities	201,440	265,899
Cash payment for goods and services	(1,031,617)	(944,328)
Cash payments to employees	(1,544,234)	(1,667,207)
Other payments made	(111,845)	(178,777)
Net cash provided (used) by operating activities	<u>1,030,801</u>	<u>993,447</u>
<b>Cash flows from noncapital financing activities</b>		
Net cash provided (used) by noncapital financing activities	<u>0</u>	<u>0</u>
<b>Cash flows from capital and related financing activities</b>		
Capital contributions received	380,641	593,059
Proceeds from issuance of bonds	4,919,067	0
Receipt of loan proceeds	1,415,811	0
Proceeds from sale/disposal of assets	5,531	0
Payment on loans and notes	(89,557)	(89,557)
Payment for acquisition/construction of capital assets	(3,499,090)	(819,254)
Payment of bonds	(445,000)	(415,000)
Interest and fiscal charges paid	<u>(475,783)</u>	<u>(423,386)</u>
Net cash provided (used) for capital and related financing activities	<u>2,211,620</u>	<u>(1,154,138)</u>
<b>Cash flows from investing activities</b>		
Receipts of interest and dividends	<u>26,550</u>	<u>38,732</u>
Net cash provided (used) from investing activities	<u>26,550</u>	<u>38,732</u>
<b>Net increase (decrease) in cash</b>	3,268,971	(121,959)
Cash and cash equivalents - January 1	<u>5,331,324</u>	<u>5,453,283</u>
Cash and cash equivalents - December 31	<u>\$ 8,600,295</u>	<u>\$ 5,331,324</u>
<b>Reconciliation to statement of net position</b>		
Cash & cash equivalents - unrestricted	1,844,330	3,068,157
Cash & cash equivalents - restricted for debt	2,015,611	1,533,824
Cash & cash equivalents - restricted for capital outlay	4,007,320	0
Cash & cash equivalents - restricted for rate stabilization	<u>733,034</u>	<u>729,343</u>
Cash and cash equivalents - December 31	<u>\$ 8,600,295</u>	<u>\$ 5,331,324</u>

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The accompanying notes are an integral part of this statement



**SILVERDALE WATER DISTRICT NO. 16**  
**STATEMENT OF CASH FLOWS**  
For Year Ended December 31, 2013 and 2012

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<b>Reconciliation of operating loss to net cash provided (used) by operating activities</b>		<u>2013</u>	<u>2012</u>
Net operating income (loss)	\$	309,070	\$ 109,939
Adjustments to reconcile net operating income (loss) to net cash provided (used) by operating activities			
Depreciation and amortization		834,386	796,550
Change in assets and liabilities:			
Decrease (increase) in accounts receivable		(236,154)	34,870
Increase (decrease) in accounts payable		(4,189)	(11,168)
Decrease (increase) in Inventories		(34,936)	(67,165)
Increase (decrease) in other payables		73,029	43,299
Other expenses (payments)		<u>89,595</u>	<u>87,122</u>
Total adjustments		<u>721,731</u>	<u>883,508</u>
Net cash provided (used) by operating activities	\$	<u>1,030,801</u>	\$ <u>993,447</u>
<b>Noncash Transactions</b>			
Donated Assets	\$	38,325	\$ 293,114

The accompanying notes are an integral part of this statement

**SILVERDALE WATER DISTRICT NO. 16**  
**STATEMENT OF CASH FLOWS**  
For Year Ended December 31, 2012 and 2011

	2012	2011
<b>Cash flows from operating activities</b>		
Cash received from customers	\$ 3,517,860	\$ 3,110,051
Cash received from other operating activities	265,899	219,180
Cash payment for goods and services	(944,328)	(1,331,245)
Cash payments to employees	(1,667,207)	(1,062,068)
Other payments made	(178,777)	(144,476)
Net cash provided (used) by operating activities	<u>993,447</u>	<u>791,442</u>
<b>Cash flows from noncapital financing activities</b>		
Net cash provided (used) by noncapital financing activities	<u>-</u>	<u>-</u>
<b>Cash flows from capital and related financing activities</b>		
Capital contributions received	593,059	405,234
Payment on loans and notes	(89,557)	(89,556)
Payment for acquisition/construction of capital assets	(819,254)	(1,096,824)
Payment of bonds	(415,000)	(400,000)
Interest and fiscal charges paid	(423,386)	(488,266)
Net cash provided (used) for capital and related financing activities	<u>(1,154,138)</u>	<u>(1,669,412)</u>
<b>Cash flows from investing activities</b>		
Receipts of interest and dividends	38,732	54,479
Net cash provided (used) from investing activities	<u>38,732</u>	<u>54,479</u>
<b>Net increase (decrease) in cash</b>	(121,959)	(823,491)
Cash and cash equivalents - January 1	5,453,283	6,276,774
Cash and cash equivalents - December 31	<u>\$ 5,331,324</u>	<u>\$ 5,453,283</u>
<b>Reconciliation to statement of net position</b>		
Cash & cash equivalents - unrestricted	3,068,157	2,799,572
Cash & cash equivalents - restricted for debt	1,533,824	1,508,992
Cash & cash equivalents - restricted for capital outlay	0	420,606
Cash & cash equivalents - restricted for rate stabilization	729,343	724,113
Cash and cash equivalents - December 31	<u>\$ 5,331,324</u>	<u>\$ 5,453,283</u>

The accompanying notes are an integral part of this statement

**SILVERDALE WATER DISTRICT NO. 16**  
**STATEMENT OF CASH FLOWS**  
For Year Ended December 31, 2012 and 2011

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<b>Reconciliation of operating loss to net cash provided (used) by operating activities</b>	<u>2012</u>	<u>2011</u>
Net operating income (loss)	\$ 109,939	\$ (109,494)
Adjustments to reconcile net operating income (loss) to net cash provided (used) by operating activities		
Depreciation and amortization	796,550	923,885
Change in assets and liabilities:		
Decrease (increase) in accounts receivable	34,870	15,006
Increase (decrease) in accounts payable	(11,168)	(178,049)
Decrease (increase) in Inventories	(67,165)	1,813
Increase (decrease) in other payables	43,299	63,577
Other expenses (payments)	87,122	74,704
Total adjustments	<u>883,508</u>	<u>900,936</u>
Net cash provided (used) by operating activities	<u>\$ 993,447</u>	<u>\$ 791,442</u>
<b>Noncash Transactions</b>		
Donated Assets	\$ 293,114	\$ 552,653

The accompanying notes are an integral part of this statement

**SILVERDALE WATER DISTRICT**  
*Notes To Financial Statements*  
*December 31, 2013 and 2012*

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**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.

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 2013 and 2012, inventories were valued at

**SILVERDALE WATER DISTRICT**  
***Notes To Financial Statements***  
***December 31, 2013 and 2012***

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\$159,579 and \$124,643, respectively by the weighted average method, which approximates the fair market value.

5. Amounts Due From Other Governments

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

6. Unamortized Plans and Studies

These accounts postponed expenses which are amortized over the life of the item. The Plans and Studies are amortized over the plan life, which is typically 6 years. At December 31, 2013 and 2012, plans and studies net of accumulated amortization, is \$0 and \$11,290 respectively.

7. Capital Assets and Depreciation (See Note 3)

Capital assets are defined by the District as assets with initial individual costs of more than \$1,000 and an estimated useful life in excess of two years. 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. Where historical cost is not known, assets are recorded at fair market value. Donations by developers and customers are recorded at donor cost, which approximates fair market 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 2013 and 2012, the District capitalized \$18,006 and \$27,787, respectively, of net interest costs for funds borrowed to finance the construction of capital assets.

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

8. Compensated Absences

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

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

9. Other Credits

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

10. Long-Term Debt

Long term debt and other obligations are reported as liabilities in the statement of net position. Bond premiums and discounts, as well as issuance costs, 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 and deferred amount on refunding. Bond issue costs are expensed in the period incurred. (See Note 6)

**SILVERDALE WATER DISTRICT**  
***Notes To Financial Statements***  
***December 31, 2013 and 2012***

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11. 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:

Purpose		12/31/2013		12/31/2012
Rate Stabilization	\$	733,034	\$	729,343
Construction		4,007,320		-
Bond Fund		657,752		557,355
Bond Reserve		1,357,859		976,469
Total	\$	6,755,965	\$	2,263,167

**NOTE 2 – CASH AND CASH EQUIVALENTS**

**Deposits**

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).

The District Treasurer, Kitsap County, was holding a total of \$8,450,353 and \$5,308,203 in cash and cash equivalents at December 31, 2013 and 2012, respectively. The District was holding \$149,942 and \$23,121 at December 31, 2013 and 2012, respectively, in petty cash, revolving and other deposit accounts. The book value of deposits does not materially differ from the bank balance of deposits.

**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 state and local investment pools. The County and State investment pools are not rated. All temporary investments are stated at cost, which approximates fair value.

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

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**NOTE 3 –CAPITAL ASSETS AND DEPRECIATION**

Capital assets activity for the year ended December 31, 2013 and 2012 was as follows:

	Beginning Balance 01/01/2013	Increases	Decreases	Ending Balance 12/31/2013
<i>Capital assets, not being depreciated:</i>				
Land	731,975	-	-	731,975
Intangible asset - easements	137,524	15,237	-	152,761
Construction in progress	1,520,742	3,886,627	1,407,761	3,999,608
Total capital assets, not being depreciated	<u>\$ 2,390,241</u>	<u>\$ 3,901,864</u>	<u>\$ 1,407,761</u>	<u>\$ 4,884,344</u>
<i>Capital assets, being depreciated:</i>				
Plant	33,019,443	1,312,897	37,500	34,294,840
Machinery and equipment	1,900,189	5,950	15,180	1,890,959
Intangible asset - software	28,600	-	-	28,600
Total capital assets being depreciated	<u>\$ 34,948,232</u>	<u>\$ 1,318,847</u>	<u>\$ 52,680</u>	<u>\$ 36,214,399</u>
<i>Less accumulated depreciation for:</i>				
Plant & Equipment	11,035,029	813,562	52,680	11,795,911
Intangible asset - amortization	-	9,533	-	9,533
Total accumulated depreciation	<u>\$ 11,035,029</u>	<u>\$ 823,095</u>	<u>\$ 52,680</u>	<u>\$ 11,805,444</u>
Total capital assets, being depreciated, net	<u>23,913,203</u>	<u>495,752</u>	<u>-</u>	<u>24,408,955</u>
Total capital assets	<u>\$ 26,303,444</u>	<u>\$ 4,397,616</u>	<u>\$ 1,407,761</u>	<u>\$ 29,293,299</u>

	Beginning Balance 01/01/2012	Increases	Decreases	Ending Balance 12/31/2012
<i>Capital assets, not being depreciated:</i>				
Land	358,982	372,993	-	731,975
Intangible asset - easements	49,669	87,855	-	137,524
Construction in progress	1,756,133	1,344,595	1,579,986	1,520,742
Total capital assets, not being depreciated	<u>\$ 2,164,784</u>	<u>\$ 1,805,443</u>	<u>\$ 1,579,986</u>	<u>\$ 2,390,241</u>
<i>Capital assets, being depreciated:</i>				
Plant	31,851,704	1,167,739	-	33,019,443
Machinery and equipment	1,856,371	43,818	-	1,900,189
Intangible asset - software	28,600	-	-	28,600
Total capital assets being depreciated	<u>\$ 33,736,675</u>	<u>\$ 1,211,557</u>	<u>\$ -</u>	<u>\$ 34,948,232</u>
<i>Less accumulated depreciation for:</i>				
Plant & Equipment	10,250,796	784,233	-	11,035,029
Intangible asset - amortization	-	-	-	-
Total accumulated depreciation	<u>\$ 10,250,796</u>	<u>\$ 784,233</u>	<u>\$ -</u>	<u>\$ 11,035,029</u>
Total capital assets, being depreciated, net	<u>23,485,879</u>	<u>427,324</u>	<u>-</u>	<u>23,913,203</u>
Total capital assets	<u>\$ 25,650,663</u>	<u>\$ 2,232,767</u>	<u>\$ 1,579,986</u>	<u>\$ 26,303,444</u>

**Significant Commitments**

The District has several significant construction projects as of December 31, 2012 and 2013. The District considers projects to be significant if the project has been started and the budget exceeds \$50,000. The project authorization, amount spent life to date and remaining commitment of these projects at December 31, 2013 is as follows:

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FUND & PROJECT NAME		TOTAL PROJECT AUTHORIZATION	EXPENSES AS OF 12/31/13	REMAINING COMMITMENT
<b>89806 - CAPITAL FUND (Charges &amp; Bond Proceeds)</b>				
600019	Water System Plan Update	106,563.93	96,563.93	10,000.00
500021	Service Installation (Development)	11,000.00	-	11,000.00
500025	Service Installation (District)	11,500.00	-	11,500.00
601600	Service Upgrade - Spirit Ridge	71,348.56	46,348.56	25,000.00
601800	Fire Hydrant Installation	-	-	-
601900	SCADA System Upgrades	310,000.00	-	310,000.00
602001	Pump Station (Well/Booster) - Newberry (KPUD)	180,000.00	1,667.59	178,332.41
603003	Water Main Ext -Will/Mer (KPUD 12 )	101.40	101.40	-
603006	Water Main Ext - Eldorado Blvd	159,600.00	20,178.08	139,421.92
603012	Water Main Ext - Mountain View Rd Overpass	52,500.00	10,228.86	42,271.14
603013	Water Main Ext - Silverdale Way	63,800.00	83.21	63,716.79
603015	Water Main Ext - Bayshore/Washington	548,000.00	311.70	547,688.30
603016	Water Main Ext - Shadow Glen Blvd - Relocate	500.00	-	500.00
603017	Water Main Ext - Mountain View Rd Relocate	500.00	-	500.00
603018	Water Main Ext - Bucklin Hill Bridge	328,000.00	-	328,000.00
605009	WM - Recycled - Bucklin Hill Bridge	328,000.00	-	328,000.00
605006	WM - Recycled - Paulson Road	512,250.00	477.85	511,772.15
606002	Water System Acquisition - Eldorado	233.46	233.46	-
606005	Water System Acquisition - Puddingstone	5,000.00	-	5,000.00
607003	RW Pump Station - Newberry	275.60	275.60	-
		<u>2,689,172.95</u>	<u>176,470.24</u>	<u>2,512,702.71</u>
<b>89809 - PUBLIC WORKS TRUST FUND</b>				
900001	Water Main Replacement	5,716,000.00	2,210,363.63	3,505,636.37
904000	WQ - Chlorination System	537,500.00	243,643.06	293,856.94
904001	WQ - Manganese Treatment - Ridgetop	868,500.00	251,283.79	617,216.21
909000	Pump Station/Reservior - Chena	2,915,000.00	277,931.42	2,637,068.58
909001	Reservoir - Mixing Valves	1,098,000.00	-	1,098,000.00
		<u>11,135,000.00</u>	<u>2,983,221.90</u>	<u>8,151,778.10</u>
<b>89810 - DRINKING WATER STATE REVOLVING FUND</b>				
100001	Meter Installation - Apex	55,000.00	27,080.05	27,919.95
104000	Water Main Ext - Apex	990,000.00	606,325.59	383,674.41
108000	Well Decommission - Apex	49,500.00	233.58	49,266.42
109000	Pump Station/Reservoir - Apex	1,370,000.00	190,114.90	1,179,885.10
109001	Reservoir Deommission - Apex	31,500.00	-	31,500.00
		<u>2,496,000.00</u>	<u>823,754.12</u>	<u>1,672,245.88</u>

**NOTE 4 – PENSION PLANS**

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



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pursuant to GASB Statements 27, *Accounting for Pensions by State and Local Government Employers* and 50, *Pension Disclosures, an Amendment of GASB Statements 25 and 27*.

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

Plan Description

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

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

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

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

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

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

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

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

PERS Plan 1 retirement benefits are actuarially reduced to reflect the choice, if made, of a survivor option.

Plan 1 members may elect to receive an optional COLA that provides an automatic annual adjustment based on the Consumer Price Index. The adjustment is capped at 3 percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

PERS Plan 1 provides duty and non-duty disability benefits. Duty disability retirement benefits for disablement prior to the age of 60 consist of a temporary life annuity. The benefit amount is \$350 a month, or two-thirds of the monthly

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AFC, whichever is less. The benefit is reduced by any workers' compensation benefit and is payable as long as the member remains disabled or until the member attains the age of 60, at which time the benefit is converted to the member's service retirement amount.

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

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

PERS Plan 2 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 reduced benefit. The benefit is reduced by an early retirement factor (ERF) that varies according to age, for each year before age 65.

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

- With a benefit that is reduced by 3 percent for each year before age 65; or
- With a benefit that has a smaller (or no) reduction (depending on age) that imposes stricter return-to-work rules.

PERS Plan 2 members hired on or after May 1, 2013 have the option to retire early by accepting a reduction of 5 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.

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

PERS Plan 3 has a dual benefit structure. Employer contributions finance a defined benefit component and member contributions finance a defined contribution component. As established by Chapter 41.34

RCW, employee contribution rates to the defined contribution component range from 5 percent to 15 percent of salaries, based on member choice. Members who do not choose a contribution rate default to a 5 percent rate. There are currently no requirements for employer contributions to the defined contribution component of PERS Plan 3.

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

For DRS' Fiscal Year 2013, PERS Plan 3 employee contributions were \$99.0 million, and plan refunds paid out were \$69.4 million.

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

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

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in PERS Plan 2 by June 1, 2003. Plan 3 members are immediately vested in the defined contribution portion of their plan.

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

- If they have at least ten service credit years and are 55 years old, the benefit is reduced by an ERF that varies with age, for each year before age 65.
- If they have 30 service credit years and are at least 55 years old, and were hired before May 1, 2013, they have the choice of a benefit that is reduced by 3 percent for each year before age 65; or a benefit with a smaller (or no) reduction factor (depending on age) that imposes stricter return-to-work rules.
- If they have 30 service credit years, are at least 55 years old, and were hired after May 1, 2013, they have the option to retire early by accepting a reduction of 5 percent for each year before age 65.

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

PERS Plan 2 and Plan 3 provide disability benefits. There is no minimum amount of service credit required for eligibility. The Plan 2 monthly benefit amount is 2 percent of the AFC per year of service.

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

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

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

From January 1, 2007 through December 31, 2007, judicial members of PERS were given the choice to elect participation in the Judicial Benefit Multiplier (JBM) Program enacted in 2006. Justices and judges in PERS Plan 1 and Plan 2 were able to make an irrevocable election to pay increased contributions that would fund a retirement benefit with a 3.5 percent multiplier. The benefit would be capped at 75 percent of AFC. Judges in PERS Plan 3 could elect a 1.6 percent of pay per year of service benefit, capped at

37.5 percent  
of AFC.

Newly elected or appointed justices and judges who chose to become PERS members on or after January 1, 2007, or who had not previously opted into PERS membership, were required to participate in the JBM Program.

There are 1,176 participating employers in PERS. Membership in PERS consisted of the following as of the latest actuarial valuation date for the plans of June 30, 2012:

Retirees and Beneficiaries Receiving Benefits	82,242
Terminated Plan Members Entitled to But Not Yet Receiving Benefits	30,515
Active Plan Members Vested	106,317
Active Plan Members Nonvested	44,273
<b>Total</b>	<b>263,347</b>

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Funding Policy

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

As a result of the implementation of the Judicial Benefit Multiplier Program in January 2007, a second tier of employer and employee rates was developed to fund, along with investment earnings, the increased retirement benefits of those justices and judges that participate in the program

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

The required contribution rates expressed as a percentage of current-year covered payroll, as of December 31, 2013, are as follows:

Members Not Participating in JBM:

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

\* The employer rates include the employer administrative expense fee currently set at 0.18%.

\*\* The employer rate for state elected officials is 13.73% for Plan 1 and 9.21% for Plan 2 and Plan 3.

\*\*\* Plan 3 defined benefit portion only.

\*\*\*\* The employee rate for state elected officials is 7.50% for Plan 1 and 4.92% for Plan 2.

\*\*\*\*\* Variable from 5.0% minimum to 15.0% maximum based on rate selected by the PERS 3 member.

Members Participating in JBM:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
Employer-State Agency*	11.71%	11.71%	11.71%**
Employer-Local Gov't Units*	9.21%	9.21%	9.21%**
Employee-State Agency	9.76%	9.80%	7.50%***
Employee-Local Gov't Units	12.26%	12.30%	7.50%***

\* The employer rates include the employer administrative expense fee currently set at 0.18%.

\*\* Plan 3 defined benefit portion only.

\*\*\*Minimum rate.

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The District and the employees made the required contributions. The District's required contributions for the years ending December 31 were as follows:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
2013	\$0	\$42,200	\$64,119
2012	0	53,338	57,102
2011	0	24,121	49,240
2010	0	15,319	43,286

**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.

The 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, 2013, there are 486 Enduris members representing a broad array of special purpose districts throughout the state.

Enduris members share in the self-insured retention, jointly purchase excess and/or reinsurance coverage and provide risk management services and other related administrative services. Enduris provides "per occurrence" based policies 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, electronic data processing equipment, and business interruption, course of construction and additions, property in transit, fine arts, and automobile physical damage to insured vehicles. Boiler and machinery coverage is included on a blanket limit of \$100 million for all members. Enduris offers employee dishonesty coverage up to a liability limit of \$1,000,000.

Members make an annual contribution to fund Enduris. Enduris acquires reinsurance from unrelated insurance companies on a "per occurrence" basis:

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

Insurance carriers cover all losses over the deductibles as shown to the policy maximum limits. 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.

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Enduris is fully funded by its member participants. Claims are filed by members with Enduris and are administered in house. The amount of settlements has not exceeded insurance coverage for each of the past three years.

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

**NOTE 6 – LONG-TERM DEBT AND LEASES**

**A. Long-Term Debt**

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

In prior years, the District issued Water Revenue bonds in the amount of \$12,065,000 for capital purposes and refunding previously issued debt. On November 15, 2013, the District issued \$4,825,000 in Water Revenue Bonds. The total proceeds including the premium was \$4,963,167. The outstanding balance at December 31, 2013 on the bonds was \$4,825,000.

A PWTF loan of \$10 million awarded during the fall of 2011. None of the proceeds of this loan was received in 2012, but the district began to drawdown on the loan in 2013. This loan is payable over 20 years with an interest rate of .5%.

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>	<u>12/31/12 Debt Outstanding</u>	<u>12/31/13 Debt Outstanding</u>	<u>Maturities</u>
1994 PWTF - Dawn Park Water System Intertie	Jun-94	Jul-14	2%	\$ 274,878	\$ 22,606	\$ 11,303	11,303
1995 PWTF - Water Main Replacement	Jun-95	Jul-15	1%	915,935	144,869	96,580	48,290
1996 PWTF - Water System Intertie	Jun-96	Jul-16	3%	568,483	119,856	89,892	29,964
2011 PWTF - Water System Intertie	Jun-11	Jul-31	0.5%	10,000,000	0	1,415,811	78,656
<i>Total Government Loans &amp; Notes</i>					<u>287,331</u>	<u>1,613,586</u>	
2006 Bond - Refunding 1999 Bond and Capital Projects	Oct-06	Sep-26	4%	7,635,000	6,235,000	5,960,000	\$280,000 to \$595,000
2008 Revenue Bond	Aug-09	Sep-28	4-5.125%	4,430,000	3,825,000	3,655,000	\$175,000 to \$335,000
2013 Revenue Bond	Oct-14	Sep-33	2% to 3%	4,825,000	0	4,825,000	\$30,000 to \$730,000
<i>Total Revenue Bond</i>					<u>10,060,000</u>	<u>14,440,000</u>	
					<u>\$ 10,347,331</u>	<u>\$ 16,053,586</u>	

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

	Principal	Interest	Total Requirements
2014	\$ 168,213	\$ 10,069	\$ 178,282
2015	156,910	8,367	165,277
2016	108,620	6,852	115,472
2017	78,656	5,899	84,555
2018	78,656	5,506	84,162
2019-2023	393,281	21,631	414,912
2024-2028	393,281	71,798	465,079
2029-2031	235,969	2,360	238,329
	<u>\$ 1,613,586</u>	<u>\$ 132,482</u>	<u>\$ 1,746,068</u>

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

	Principal	Interest	Total Requirements
2014	\$ 810,000	\$ 528,703	\$ 1,338,703
2015	1,220,000	1,088,965	2,308,965
2016	975,000	492,665	1,467,665
2017	1,015,000	461,187	1,476,187
2018	1,070,000	420,440	1,490,440
2019-2023	5,100,000	1,522,377	6,622,377
2024-2028	3,310,000	608,127	3,918,127
2029-2033	940,000	139,046	1,079,046
	<u>\$ 14,440,000</u>	<u>\$ 5,261,510</u>	<u>\$ 19,701,510</u>

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**B. Changes in Long-Term Liabilities**

During the year ended December 31, 2013 and 2012, the following changes occurred in long-term liabilities:

	<u>1/1/13</u>	<u>Additions</u>	<u>Reductions</u>	<u>12/31/13</u>	<u>Due Within One Year</u>
Revenue bonds	\$ 10,060,000	\$ 4,825,000	\$ 445,000	\$ 14,440,000	\$ 810,000
Less amount					
For issuance premiums (discounts)	<u>72,997</u>	<u>138,167</u>	<u>6,462</u>	<u>204,702</u>	<u>12,226</u>
Total bonds payable	<u>10,132,997</u>	<u>4,963,167</u>	<u>451,462</u>	<u>14,644,702</u>	<u>822,226</u>
Government loans	287,331	1,415,811	89,556	1,613,586	168,213
Other Postemployment Employee Benefits	267,909	59,617	7,106	320,420	0
Compensated Absences	<u>312,785</u>	<u>14,305</u>	<u>0</u>	<u>327,090</u>	<u>16,354</u>
Total long-term liabilities	<u>\$ 11,001,022</u>	<u>\$ 6,452,900</u>	<u>\$ 548,124</u>	<u>\$ 16,905,798</u>	<u>\$ 1,006,793</u>

	<u>1/1/12</u>	<u>Additions</u>	<u>Reductions</u>	<u>12/31/12</u>	<u>Due Within One Year</u>
Revenue bonds	\$ 10,475,000	\$ 0	\$ 415,000	\$ 10,060,000	\$ 445,000
Less amounts					
For issuance premiums (discounts)	<u>78,316</u>	<u>0</u>	<u>5,319</u>	<u>72,997</u>	<u>5,318</u>
Total bonds payable	<u>10,553,316</u>	<u>0</u>	<u>420,319</u>	<u>10,132,997</u>	<u>450,318</u>
Government loans	376,888	0	89,557	287,331	89,556
Other Postemployment Employee Benefits	216,549	58,785	7,425	267,909	0
Compensated Absences	<u>320,846</u>	<u>0</u>	<u>8,061</u>	<u>312,785</u>	<u>15,639</u>
Total long-term liabilities	<u>\$ 11,467,599</u>	<u>\$ 58,785</u>	<u>\$ 525,362</u>	<u>\$ 11,001,022</u>	<u>\$ 555,513</u>

**C. Bond Covenants**

The revenue bond covenants require the District to maintain bond reserves. The bond reserves are the lesser of the maximum annual debt service, 1.25 times the average debt service or 10% of the proceeds of the bonds. To satisfy this requirement, the District is holding \$1,357,859 and \$976,469 in debt reserves at December 31, 2013 and 2012, 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, 2013 and 2012, the District's net debt service coverage ratio was 1.86 and 1.87 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.



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**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, 2013 and 2014, 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 \$59,617, but only contributed \$7,106 at December 31, 2013. At December 31, 2012, the District was required to contribute \$58,785, but only contributed \$7,425. 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 \$320,420 and \$267,909 is the actuarial accrued liability recognized on the statement of net position at December 31, 2013 and 2012, respectively.

As of the most recent actuarial valuation date, the total unfunded actuarial liability (UAAL) is \$547,971. The covered payroll (annual payroll of active employees covered by the plan) was \$1,175,003 and the ratio of the UAAL to the covered payroll was 63 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:

Fiscal Year Ended	Annual OPEB Costs	Percentage of Annual OPEB	
		Costs Contributed	Net OPEB Obligation
2013	59,617	12%	\$ 320,420
2012	58,785	13%	267,909
2011	52,887	14%	216,549

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 .

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	2013	2012
Actuarial Required Contribution (ARC)	\$ 43,292	\$ 43,292
Interest on Net OPEB Obligation (NOO)	4,340	3,508
Adjustment to NOO	11,985	11,985
Annual OPEB Cost	59,617	58,785
Employer Contributions	7,106	7,425
Increase (Decrease) in NOO	52,511	51,360
Net OPEB Obligation January 1	267,909	216,549
Net OPEB Obligation December 31	\$ 320,420	\$ 267,909

**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 specific actuarial methods and significant assumptions used to determine the ARC for the current year are as follows:

Valuation Date	12/31/2012
Actuarial Cost Method	Entry Age Cost Method
Method used to determine the actuarial value of assets	N/A
Interest Rate for Discounting Future Liabilities	1.62%
Projected Payroll Growth	2.50%
Investment Return	N/A
Healthcare Cost Trend Rate - Initial	4.4%
Healthcare Cost Trend Rate - Ultimate	6.6%
Amortization Method	Level Percentage
Amortization Period - Open	30

**NOTE 8 – OTHER DISCLOSURES**

**A. 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, 2012 and 2013, the District owed CKFR \$16,744 and \$3,332 on joint transactions, therefore, this amount is included in accounts payable.

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

**SILVERDALE WATER DISTRICT**  
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**B. Accounting and Reporting Changes**

The District implemented GASB 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position. This renamed the *Statement of Net Assets* to the *Statement of Net Position*. Likewise the *Statement of Revenues, Expenses and Changes in Net Assets* was retitled to “*Statement of Revenues, Expenses and Changes in Net Position*.” All reference to *net asset* accounts was changed to *net position*.

The District implemented GASB 65, Items Previously Reported as Assets and Liabilities, effective January 1, 2012. This established accounting and financial reporting standards that reclassify, as *Deferred Outflows of Resources or Deferred Inflows of Resources*, certain items that were previously reported as *Assets and Liabilities* and recognizes, as *Outflows of Resources or Inflows of Resources*, certain items that were previously reported as *Assets and Liabilities*. The statement of net position was modified to include new sections, entitled “Deferred inflows of resources” and “Deferred outflows of resources”.

Further, the *Statement of Revenues, Expenses and Changes in Net Assets* presents a change in accounting principles of \$165,811 to remove the bond issue costs that are to be recorded as a current period expense rather than deferred over the life of the bonds.

Additionally, the District changed the method of accruing the accounts receivable in December 2013. The January 2014 bill cycle includes both December 2013 and January 2014. Beginning December 2013, the December portion of the revenues included in the January 2014 billing was accrued as a revenue in 2013 and offset with customer accounts receivable. As a result, the 2013 financial statements display an extra month of revenue.

**C. Subsequent Events**

The District was awarded a \$10,000,000 Public Works Trust Fund loan with the Washington Department of Commerce. The contract with the State was signed on September 9, 2011. Interest rate on the loan is .5%, payable over 20 years. At December 31, 2012, no drawdowns have been taken on this loan. At December 31, 2013, \$1,415,811 had been drawn on this loan, which was made to finance capital system improvements.

**D. Interlocal Agreement**

The district entered into an 100-year term interlocal agreement with Kitsap County PUD on June 25, 2013, with the purpose to cooperate in providing efficient water service for the growing needs of the PUD’s and the district’s customers. The District and the PUD will construct water transmission systems and pumping stations, sharing the construction, operation and maintenance costs of the improvements. Each entity will have a fractional interest in the constructed assets, as spelled out in the agreement. In addition, the entities will share the use of existing water sources and infrastructure for consideration. Regular cost-sharing payments from the PUD for operations and maintenance will commence in 2015. No additional entity or fund was created as a result of this agreement.

**SILVERDALE WATER DISTRICT**  
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**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.

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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 expenditure at the time individual inventory items are consumed. At year end 2012 and 2011, inventories were valued at \$124,643 and \$57,478, respectively by the weighted average method, which approximates the fair market value.

5. Amounts Due From Other Governments

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

6. Deferred Charges

These accounts represent deferred expenses which are amortized over the life of the item. Deferred charges represent Unamortized Bond Issue Costs. The Bond Issue Costs are amortized over the life of the debt issue. At December 31, 2011, unamortized bond issue costs were \$165,811. Bond issue costs were written off as a prior period adjustment in 2012 in accordance with GASB Statement 65. The Plans and Studies are amortized over the plan life, which is typically 6 years. At December 31, 2012 and 2011, plans and studies net of accumulated amortization, is \$11,290 and \$23,607 respectively.

7. Capital Assets and Depreciation (See Note 3)

Capital assets are defined by the District as assets with initial individual costs of more than \$1,000 and an estimated useful life in excess of two years. 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. Where historical cost is not known, assets are recorded at fair market value. Donations by developers and customers are recorded at donor cost, which approximates fair market 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 2012 and 2011, the District capitalized \$23,787 and \$30,098, respectively, of net interest costs for funds borrowed to finance the construction of capital assets.

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

8. Compensated Absences

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

Employee absences are funded from current revenues when taken. Unused vacation balances may be accumulated up to 240 hours and may be carried over to the next calendar year. Costs are expensed when incurred and unused vacation time is accrued at year-end. Sick leave may be accumulated up to 1040 hours and carried into the next calendar year, at the end of each calendar year the value of any sick leave in excess of 1040 hours shall be deposited into a VEBA account for the

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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.

9. Other Credits

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

10. Long-Term Debt

Long term debt and other obligations are reported as liabilities in the statement of net position. Bond premiums and discounts, as well as issuance costs, 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 and deferred amount on refunding. Bond issue costs are reported as deferred charges and amortized over the term of the related debt. (See Note 6)

11. 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>12/31/2012</u>	<u>12/31/2011</u>
Rate Stabilization	\$ 729,343	\$ 724,113
Construction	-	420,606
Bond Fund	557,355	532,434
Bond Reserve	976,469	976,558
Total	\$ <u>2,263,167</u>	\$ <u>2,653,711</u>

## **NOTE 2 – CASH AND CASH EQUIVALENTS**

### **Deposits**

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).

The District Treasurer, Kitsap County, was holding a total of \$5,308,703 and \$5,378,190 in cash and cash equivalents at December 31, 2012 and 2011, respectively. The District was holding \$22,621 and \$75,093 at December 31, 2012 and 2011, respectively, in petty cash, revolving and other deposit accounts. The book value of deposits does not materially differ from the bank balance of deposits.

### **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 state and local investment pools. The County and State investment pools are not rated. All temporary investments are stated at cost, which approximates fair value.

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

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**NOTE 3 –CAPITAL ASSETS AND DEPRECIATION**

Capital assets activity for the year ended December 31, 2012 and 2011 was as follows:

	Beginning Balance 01/01/2012	Increases	Decreases	Ending Balance 12/31/2012
<i>Capital assets, not being depreciated:</i>				
Land	358,982	372,993	-	731,975
Intangible asset - easements	49,669	87,855	-	137,524
Construction in progress	1,756,133	1,344,595	1,579,986	1,520,742
Total capital assets, not being depreciated	<u>\$ 2,164,784</u>	<u>\$ 1,805,443</u>	<u>\$ 1,579,986</u>	<u>\$ 2,390,241</u>
<i>Capital assets, being depreciated:</i>				
Plant	31,851,704	1,167,739	-	33,019,443
Machinery and equipment	1,856,371	43,818	-	1,900,189
Intangible asset - software	28,600	-	-	28,600
Total capital assets being depreciated	<u>\$ 33,736,675</u>	<u>\$ 1,211,557</u>	<u>\$ -</u>	<u>\$ 34,948,232</u>
<i>Less accumulated depreciation for:</i>				
Plant & Equipment	10,250,796	784,233	-	11,035,029
Total accumulated depreciation	<u>\$ 10,250,796</u>	<u>\$ 784,233</u>	<u>\$ -</u>	<u>\$ 11,035,029</u>
Total capital assets, being depreciated, net	<u>23,485,879</u>	<u>427,324</u>	<u>-</u>	<u>23,913,203</u>
Total capital assets	<u><u>\$ 25,650,663</u></u>	<u><u>\$ 2,232,767</u></u>	<u><u>\$ 1,579,986</u></u>	<u><u>\$ 26,303,444</u></u>
	Beginning Balance 01/01/2011	Increases	Decreases	Ending Balance 12/31/2011
<i>Capital assets, not being depreciated:</i>				
Land	358,982	-	-	358,982
Intangible asset - easements	15,773	33,896	-	49,669
Construction in progress	1,501,763	1,118,803	864,433	1,756,133
Total capital assets, not being depreciated	<u>\$ 1,876,518</u>	<u>\$ 1,152,699</u>	<u>\$ 864,433</u>	<u>\$ 2,164,784</u>
<i>Capital assets, being depreciated:</i>				
Plant	30,488,584	1,383,189	20,069	31,851,704
Machinery and equipment	1,856,371	-	-	1,856,371
Intangible asset - software	28,600	-	-	28,600
Total capital assets being depreciated	<u>\$ 32,373,555</u>	<u>\$ 1,383,189</u>	<u>\$ 20,069</u>	<u>\$ 33,736,675</u>
<i>Less accumulated depreciation for:</i>				
Plant & Equipment	9,375,538	876,463	1,205	10,250,796
Total accumulated depreciation	<u>\$ 9,375,538</u>	<u>\$ 876,463</u>	<u>\$ 1,205</u>	<u>\$ 10,250,796</u>
Total capital assets, being depreciated, net	<u>22,998,017</u>	<u>506,726</u>	<u>18,864</u>	<u>23,485,879</u>
Total capital assets	<u><u>\$ 24,874,535</u></u>	<u><u>\$ 1,659,425</u></u>	<u><u>\$ 883,297</u></u>	<u><u>\$ 25,650,663</u></u>

**Significant Commitments**

The District has several significant construction projects as of December 31, 2012 and 2011. The District considers projects to be significant if the project has been started and the budget exceeds \$50,000. The project authorization, amount spent life to date and remaining commitment of these projects at December 31, 2012 is as follows:



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PROJECT NAME	PROJECT AUTHORIZATION	EXPENSES PROJECT TO DATE	REMAINING COMMITMENT
<b>89806 - CAPITAL FUND</b>			
Reservoir Zone 1	2,050.00	2,050.18	(0.18)
Water System Plan Update	140,000.00	56,160.09	83,839.91
Pressure Reducing Station - Westridge	24,000.00	-	24,000.00
Pump Station (Well/Booster) - Newberry (KPUD)	222,000.00	1,028.22	220,971.78
Service Installation (Development)	10,500.00		10,500.00
Service Installation (District)	10,550.00		10,550.00
Water Main Ext - Chagnon Place	297,250.00	13,490.12	283,759.88
Water Main Ext - Eldorado Boulevard	159,600.00	1,265.64	158,334.36
Water Main Ext - Mountain View Rd Overpass	177,500.00	8,721.41	168,778.59
Water Main Ext - Paulson Road 2011	166,500.00	-	166,500.00
Water Main Ext - Silverdale Way	63,800.00	83.21	63,716.79
Water Main Ext - Silverdale Way Round-a-bout	80,000.00	56,936.50	23,063.50
Water System Acquisition - Avellana	10,000.00	-	10,000.00
Water System Acquisition - Brianwood	10,000.00	-	10,000.00
Water System Acquisition - Crystal Creek	30,500.00	-	30,500.00
Water System Acquisition - Eldorado	5,000.00	210.10	4,789.90
Reclaimed Water Main Ext - Paulson - 2011	512,250.00	477.85	511,772.15
Reclaimed Water Main Ext - Silverdale Way Roundabout	90,000.00	70,838.16	19,161.84
Reclaimed Water Main Ext - South Central	958,000.00	491,092.15	466,907.85
Reclaimed Water Pump Station Newberry	265.00	275.60	(10.60)
	2,969,765.00	702,629.23	2,267,135.77
<b>89809 - PUBLIC WORKS TRUST FUND</b>			
Cultural Review	6,500.00	3,186.32	3,313.68
Public Outreach	5,000.00		5,000.00
Pump Station/Reservoir - Chena	2,915,000.00	165,118.98	2,749,881.02
Reservoir - Mixing Valves	1,098,000.00		1,098,000.00
Water Main Replacement	5,616,000.00	266,826.38	5,349,173.62
Water Quality - Chlorination System	537,500.00	164,614.58	372,885.42
Water Quality - Manganese Treatment - Ridgetop	868,500.00	69,211.26	799,288.74
	11,046,500.00	668,957.52	10,377,542.48
<b>89810 - DRINKING WATER STATE REVOLVING FUND</b>			
Meter Installation - Apex	55,000.00	94.02	54,905.98
Pump Station/Reservoir - Apex	1,370,000.00	133,001.51	1,236,998.49
Reservoir Decommission - Apex	31,500.00		31,500.00
Water Main Ext - Apex	990,000.00	6,046.91	983,953.09
Well Decommission - Apex	49,500.00		49,500.00
	2,496,000.00	139,142.44	2,356,857.56

**NOTE 4 – PENSION PLANS**

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



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website at [www.drs.wa.gov](http://www.drs.wa.gov). The following disclosures are made pursuant to the GASB Statement 27, *Accounting for Pensions by State and Local Government Employers* and the GASB Statement 50, *Pension Disclosures, an Amendment of GASB Statements No. 25 and No. 27*.

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

Plan Description

The Legislature established PERS in 1947. Membership in the system includes: elected officials; state employees; employees of the Supreme, Appeals, and Superior courts; employees of legislative committees; community and technical colleges, college and university employees not participating in higher education retirement programs; employees of district and municipal courts; and employees of local governments. Approximately 50 percent of PERS salaries are accounted for by state employment. PERS retirement benefit provisions are established in Chapters 41.34 and 41.40 RCW and may be amended only by the State Legislature.

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

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

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

PERS Plan 1 and Plan 2 retirement benefits are financed from a combination of investment earnings and employer and employee contributions. Employee contributions to the PERS Plan 1 and Plan 2 defined benefit plans accrue interest at a rate specified by the Director of DRS. During DRS' Fiscal Year 2012, the rate was five and one-half percent compounded quarterly. Members in PERS Plan 1 and Plan 2 can elect to withdraw total employee contributions and interest thereon upon separation from PERS-covered employment.

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

PERS Plan 1 members are eligible for retirement after 30 years of service, or at the age of 60 with five years of service, or at the age of 55 with 25 years of service. The monthly benefit is 2 percent of the average final compensation (AFC) per year of service, but the benefit may not exceed 60 percent of the AFC. The AFC is the monthly average of the 24 consecutive highest-paid service credit months.

The monthly benefit is subject to a minimum for retirees who have 25 years of service and have been retired 20 years, or who have 20 years of service and have been retired 25 years. If a survivor option is chosen, the benefit is reduced. Plan 1 members retiring from inactive status prior to the age of 65 may also receive actuarially reduced benefits. Plan 1 members may elect to receive an optional COLA that provides an automatic annual adjustment based on the Consumer Price Index. The adjustment is capped at 3 percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

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PERS Plan 1 provides duty and non-duty disability benefits. Duty disability retirement benefits for disablement prior to the age of 60 consist of a temporary life annuity. The benefit amount is \$350 a month, or two-thirds of the monthly AFC, whichever is less. The benefit is reduced by any workers' compensation benefit and is payable as long as the member remains disabled or until the member attains the age of 60, at which time the benefit is converted to the member's service retirement amount. A member with five years of covered employment is eligible for non-duty disability retirement. Prior to the age of 55, the benefit amount is 2 percent of the AFC for each year of service reduced by 2 percent for each year that the member's age is less than 55. The total benefit is limited to 60 percent of the AFC and is actuarially reduced to reflect the choice of a survivor option. Plan 1 members may elect to receive an optional COLA amount (based on the Consumer Price Index), capped at 3 percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

PERS Plan 1 members can receive credit for military service while actively serving in the military if such credit makes them eligible to retire. Members can also purchase up to 24 months of service credit lost because of an on-the-job injury.

The survivor of a PERS Plan 1 member who dies after having earned ten years of service credit has the option, upon the member's death, of either a monthly survivor benefit or the lump sum of contributions plus interest.

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

PERS Plan 2 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 reduced benefit. The benefit is reduced by an early retirement factor (ERF) that varies according to age, for each year before age 65.

PERS Plan 2 members who have 30 or more years of service credit and are at least 55 years old can retire under one of two provisions:

- With a benefit that is reduced by 3 percent for each year before age 65; or.
- With a benefit that has a smaller (or no) reduction (depending on age) that imposes stricter return-to-work rules.

PERS Plan 2 retirement benefits are also actuarially reduced to reflect the choice, if made, of a survivor option. The surviving spouse or eligible child(ren) of a PERS Plan 2 member who dies after having earned ten years of service credit has the option of either a monthly benefit or a lump sum payment of the member's contributions plus interest.

PERS Plan 3 has a dual benefit structure. Employer contributions finance a defined benefit component and member contributions finance a defined contribution component. As established by Chapter 41.34 RCW, employee contribution rates to the defined contribution component range from 5 percent to 15 percent of salaries, based on member choice. There are currently no requirements for employer contributions to the defined contribution component of PERS Plan 3.

PERS Plan 3 defined contribution retirement benefits are dependent upon the results of investment activities. Members may elect to self-direct the investment of their contributions. Any expenses incurred in conjunction with self-directed investments are paid by members. Absent a member's self-direction, PERS Plan 3 investments are made in the same portfolio as that of the PERS 2/3 defined benefit plan.

For DRS' fiscal year 2012, PERS Plan 3 employee contributions were \$95.2 million, and plan refunds paid out were \$66.2 million.

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

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

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

- If they have at least ten service credit years and are 55 years old, the benefit is reduced by an ERF that varies with age, for each year before age 65.
- If they have 30 service credit years and are at least 55 years old, they have the choice of a benefit that is reduced by 3 percent for each year before age 65; or a benefit with a smaller (or no) reduction factor (depending on age) that imposes stricter return-to-work rules.

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

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

PERS Plan 2 and Plan 3 members may have up to ten years of interruptive military service credit; five years at no cost and five years that may be purchased by paying the required contributions.

PERS Plan 2 and Plan 3 members who become totally incapacitated for continued employment while serving the uniformed services, or a surviving spouse or eligible child(ren), may request interruptive military service credit.

PERS Plan 2 and Plan 3 members can purchase up to 24 months of service credit lost because of an on-the-job injury.

PERS members may also purchase up to five years of additional service credit once eligible for retirement. This credit can only be purchased at the time of retirement and can be used only to provide the member with a monthly annuity that is paid in addition to the member's retirement benefit.

Beneficiaries of a PERS Plan 2 or Plan 3 member with ten years of service who is killed in the course of employment receive retirement benefits without actuarial reduction. This provision applies to any member killed in the course of employment, on or after June 10, 2004, if found eligible by the Director of the Department of Labor and Industries.

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

From January 1, 2007 through December 31, 2007, judicial members of PERS were given the choice to elect participation in the Judicial Benefit Multiplier (JBM) Program enacted in 2006. Justices and judges in PERS Plan 1 and Plan 2 were able to make an irrevocable election to pay increased contributions that would fund a retirement benefit with a 3.5 percent multiplier. The benefit would be capped at 75 percent of AFC. Judges in PERS Plan

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3 could elect a 1.6 percent of pay per year of service benefit, capped at 37.5 percent of AFC.

Members who chose to participate would: accrue service credit at the higher multiplier beginning with the date of their election; be subject to the benefit cap of 75 percent of AFC; stop contributing to the Judicial Retirement Account (JRA); pay higher contributions; and be given the option to increase the multiplier on past judicial service. Members who did not choose to participate would: continue to accrue service credit at the regular multiplier; not be subject to a benefit cap; continue to participate in JRA, if applicable; continue to pay contributions at the regular PERS rate; and never be a participant in the JBM Program.

Newly elected or appointed justices and judges who chose to become PERS members on or after January 1, 2007, or who had not previously opted into PERS membership, were required to participate in the JBM Program. Members required into the JBM program would: return to prior PERS Plan if membership had previously been established; be mandated into Plan 2 and not have a Plan 3 transfer choice, if a new PERS member; accrue the higher multiplier for all judicial service; not contribute to JRA; and not have the option to increase the multiplier for past judicial service.

There are 1,184 participating employers in PERS. Membership in PERS consisted of the following as of the latest actuarial valuation date for the plans of June 30, 2011:

Retirees and Beneficiaries Receiving Benefits	79,363
Terminated Plan Members Entitled to But Not Yet Receiving Benefits	29,925
Active Plan Members Vested	105,578
Active Plan Members Non-vested	46,839
<b>Total</b>	<b>261,705</b>

**Funding Policy**

Each biennium, the state Pension Funding Council adopts PERS Plan 1 employer contribution rates, PERS Plan 2 employer and employee contribution rates, and PERS Plan 3 employer contribution rates. Employee contribution rates for Plan 1 are established by statute at 6 percent for state agencies and local government unit employees, and at 7.5 percent for state government elected officials. The employer and employee contribution rates for Plan 2 and the employer contribution rate for Plan 3 are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. Under PERS Plan 3, employer contributions finance the defined benefit portion of the plan and member contributions finance the defined contribution portion. The Plan 3 employee contribution rates range from 5 percent to 15 percent, based on member choice. Two of the options are graduated rates dependent on the employee's age.

As a result of the implementation of the Judicial Benefit Multiplier Program in January 2007, a second tier of employer and employee rates was developed to fund, along with investment earnings, the increased retirement benefits of those justices and judges that participate in the program.

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

The required contribution rates expressed as a percentage of current-year covered payroll, as of December 31, 2012, are as follows:

Members Not Participating in JBM:

	<b>PERS Plan 1</b>	<b>PERS Plan 2</b>	<b>PERS Plan 3</b>
Employer*	7.21%**	7.21%**	7.21%***
Employee	6.00%****	4.64%****	*****

\* The employer rates include the employer administrative expense fee currently set at 0.16%.

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\*\* The employer rate for state elected officials is 10.74% for Plan 1 and 7.21% for Plan 2 and Plan 3.  
 \*\*\* Plan 3 defined benefit portion only.  
 \*\*\*\* The employee rate for state elected officials is 7.50% for Plan 1 and 4.64% for Plan 2.  
 \*\*\*\*\* Variable from 5.0% minimum to 15.0% maximum based on rate selected by the PERS 3 member.

Members Participating in JBM:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
Employer-State Agency*	9.71%	9.71%	9.71%**
Employer-Local Government*	7.21%	7.21%	7.21%**
Employee-State Agency	9.76%	9.10%	7.50%***
Employee-Local Government	12.26%	11.60%	7.50%***

\* The employer rates include the employer administrative expense fee currently set at 0.16%.  
 \*\* Plan 3 defined benefit portion only.  
 \*\*\*Minimum rate.

The District and the employees made the required contributions. The District's required contributions for the years ending December 31 were as follows:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
2012	\$0	\$53,338	\$57,102
2011	0	24,121	49,240
2010	0	15,319	43,286

#### **NOTE 5 – RISK MANAGEMENT**

The 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, 2012, there are 477 Enduris members representing a broad array of special purpose districts throughout the state.

Enduris members share in the self-insured retention, jointly purchase excess and/or reinsurance coverage and provide risk management services and other related administrative services. Enduris provides "per occurrence" based policies 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, electronic data processing equipment, business interruption, course of construction and additions, property in transit, fine arts, and automobile physical damage to insured vehicles. Boiler and machinery coverage is included on a blanket limit of \$100 million for all members. Enduris offers employee dishonesty coverage up to a liability limit of \$1,000,000.

Members make an annual contribution to fund Enduris. Enduris acquires reinsurance from unrelated insurance companies on a "per occurrence" basis:

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

Insurance carriers cover all losses over the deductibles as shown to the policy maximum limits. 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. The amount of settlements has not exceeded insurance coverage for each of the past three years.

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

## **NOTE 6 – LONG-TERM DEBT AND LEASES**

### **A. Long-Term Debt**

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

On September 28, 2006, the District issued \$7,635,000 in Water Revenue and Refunding Bonds. The total proceeds, including the premium on the issuance, amounted to 7,751,881. The outstanding balance on the bonds at December 31, 2012 totals \$6,235,000.

On August 7, 2008, the District issued \$4,430,000 in Water Revenue Bonds. The total proceeds, including the discount on the issuance, amounted to \$4,381,626. The outstanding balance at year end of 2012 on the bond totals \$3,825,000.

A PWTF loan of \$10 million awarded during the fall of 2011. None of the proceeds of this loan was received in 2011 or 2012. This loan is payable over 20 years with an interest rate of .5%.

No new debt was issued in 2011. Long-Term debt instruments outstanding at year-end are as follows:

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<u>Name of Issuance-Purpose</u>	<u>Issuance Date</u>	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Original Amount</u>	<u>12/31/11 Debt Outstanding</u>	<u>12/31/12 Debt Outstanding</u>	<u>Maturities</u>
1994 PWTF - Dawn Park Water System Intertie	Jun-94	Jul-14	2%	\$ 274,878	\$ 33,909	\$ 22,606	\$ 11,303
1995 PWTF - Water Main Replacement	Jun-95	Jul-15	1%	915,935	193,159	144,869	48,290
1996 PWTF - Water System Intertie	Jun-96	Jul-16	3%	568,483	149,820	119,856	29,964
<i>Total Government Loans &amp; Notes</i>					<u>376,888</u>	<u>287,331</u>	
2006 Bond - Refunding 1999 Bond and Capital Projects	Oct-06	Sep-26		7,635,000	6,490,000	6,235,000	\$255,000 to \$595,000
2008 Revenue Bond	Aug-09			4,430,000	3,985,000	3,825,000	\$160,000 to \$335,000
<i>Total Revenue Bond</i>					<u>10,475,000</u>	<u>10,060,000</u>	
					<u>\$ 10,851,888</u>	<u>\$ 10,347,331</u>	

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

	<u>Principal</u>	<u>Interest</u>	<u>Total Requirements</u>
2013 \$	89,557	\$ 4,298	\$ 93,855
2014	89,556	2,990	92,546
2015	78,254	1,681	79,935
2016	29,964	559	30,523
\$	<u>287,331</u>	<u>\$ 9,528</u>	<u>\$ 296,859</u>

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

	<u>Principal</u>	<u>Interest</u>	<u>Total Requirements</u>
2013 \$	445,000	\$ 437,990	\$ 882,990
2014	455,000	420,190	875,190
2015	490,000	401,990	891,990
2016	555,000	382,390	937,390
2017	610,000	359,240	969,240
2018-2022	3,485,000	1,354,288	4,839,288
2023-2027	3,685,000	541,811	4,226,811
2028	335,000	17,169	352,169
\$	<u>10,060,000</u>	<u>\$ 3,915,068</u>	<u>\$ 13,975,068</u>



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**B. Changes in Long-Term Liabilities**

During the year ended December 31, 2012 and 2011, the following changes occurred in long-term liabilities:

	1/1/12	Additions	Reductions	12/31/12	Due Within One Year
Revenue bonds	\$ 10,475,000	\$ 0	\$ 415,000	\$ 10,060,000	\$ 445,000
Less amounts					
For issuance premiums (discounts)	78,316	0	5,319	72,997	5,318
Total bonds payable	10,553,316	0	420,319	10,132,997	450,318
Government loans	376,888	0	89,557	287,331	89,556
Other Postemployment Employee Benefits	216,549	58,785	7,425	267,909	0
Compensated Absences	320,846	0	8,061	312,785	15,639
Total long-term liabilities	\$ 11,467,599	\$ 58,785	\$ 525,362	\$ 11,001,022	\$ 555,513

	1/1/11	Additions	Reductions	12/31/11	Due Within One Year
Revenue bonds	\$ 10,875,000	\$ 0	\$ 400,000	\$ 10,475,000	\$ 415,000
Less deferred amounts					
For issuance premiums (discounts)	83,634	0	5,318	78,316	5,318
On refunding	(143,077)	0	(10,408)	(132,669)	(10,406)
Total bonds payable	10,815,557	0	394,910	10,420,647	409,912
Government loans	466,444	0	89,556	376,888	89,557
Other Postemployment Employee Benefits	171,312	52,887	7,650	216,549	0
Compensated Absences	302,506	18,340	0	320,846	7,534
Total long-term liabilities	\$ 11,755,819	\$ 71,227	\$ 492,116	\$ 11,334,930	\$ 507,003

**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 of the bonds. The District is holding a minimum of \$976,000 in debt reserves to satisfy this requirement.

**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.



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**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, 2012 and 2011, 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 \$58,785, but only contributed \$7,425 at December 31, 2012. At December 31, 2011, the District was required to contribute \$52,887, but only contributed \$7,650. 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 \$267,909 and \$216,549 is the actuarial accrued liability recognized on the statement of net position at December 31, 2012 and 2011, respectively.

As of the most recent actuarial valuation date, the total unfunded actuarial liability (UAAL) is \$547,971. The covered payroll (annual payroll of active employees covered by the plan) was \$1,175,003 and the ratio of the UAAL to the covered payroll was 63 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:

Fiscal Year Ended	Annual OPEB Costs	Percentage of Annual OPEB	
		Costs Contributed	Net OPEB Obligation
2012	58,785	13%	\$ 267,909
2011	52,887	14%	216,549
2010	52,159	14%	171,312

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 .

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	2012	2011
Actuarial Required Contribution (ARC)	\$ 43,292	\$ 34,157
Interest on Net OPEB Obligation (NOO)	3,508	2,775
Adjustment to NOO	11,985	15,955
Annual OPEB Cost	58,785	52,887
Employer Contributions	7,425	7,650
Increase (Decrease) in NOO	51,360	45,237
Net OPEB Obligation January 1	216,549	171,312
Net OPEB Obligation December 31	\$ 267,909	\$ 216,549

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 specific actuarial methods and significant assumptions used to determine the ARC for the current year are as follows:

Valuation Date	12/31/2012
Actuarial Cost Method	Entry Age Cost Method
Method used to determine the actuarial value of assets	N/A
Interest Rate for Discounting Future Liabilities	1.62%
Projected Payroll Growth	2.50%
Investment Return	N/A
Healthcare Cost Trend Rate - Initial	4.4%
Healthcare Cost Trend Rate - Ultimate	6.6%
Amortization Method	Level Percentage
Amortization Period - Open	30

**NOTE 8 – OTHER DISCLOSURES**

**A. 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

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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, 2011 and 2012, the District owed CKFR \$2,391 and \$16,744 on joint transactions, therefore, this amount is included in accounts payable.

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

**B. Accounting and Reporting Changes**

The District implemented GASB 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position. This renamed the *Statement of Net Assets* to the *Statement of Net Position*. Likewise the *Statement of Revenues, Expenses and Changes in Net Assets* was retitled to “*Statement of Revenues, Expenses and Changes in Net Position*.” All reference to *net asset* accounts was changed to *net position*.

The District implemented GASB 65, Items Previously Reported as Assets and Liabilities, effective January 1, 2012. This established accounting and financial reporting standards that reclassify, as *Deferred Outflows of Resources or Deferred Inflows of Resources, certain items that were previously reported as Assets and Liabilities* and recognizes, as *Outflows of Resources or Inflows of Resources*, certain items that were previously reported as *Assets and Liabilities*. The statement of net position was modified to include new sections, entitled “Deferred inflows of resources” and “Deferred outflows of resources”.

Further, the *Statement of Revenues, Expenses and Changes in Net Assets* presents a change in accounting principles of \$165,811 to remove the bond issue costs that are to be recorded as a current period expense rather than deferred over the life of the bonds.

**SILVERDALE WATER DISTRICT NO. 16**

Required Supplementary Information

Other Post Employment Benefit

Schedule of Funding Progress

December 31, 2013 and 2012

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<b>Fiscal Year Ended</b>	<b>Actuarial Value of Assets (a)</b>	<b>Actuarial Accrued Liability (b)</b>	<b>Unfunded Actuarial Accrued Liabilities (b-a)</b>	<b>Funded Ratio (a/b)</b>	<b>Covered Payroll ( c )</b>	<b>UAAL as a Percentage of Covered Payroll ((b-a)/c)</b>
12/31/2008	\$ -	\$ 694,761	\$ 694,761	0%	\$ 1,202,074	58%
12/31/2009	-	729,529	729,529	0%	1,155,848	63%
12/31/2012	-	547,971	547,971	0%	1,175,003	47%

**SILVERDALE WATER DISTRICT NO. 16**

Required Supplementary Information

Other Post Employment Benefit

Schedule of Funding Progress

December 31, 2012 and 2011

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<b>Fiscal Year Ended</b>	<b>Actuarial Value of Assets (a)</b>	<b>Actuarial Accrued Liability (b)</b>	<b>Unfunded Actuarial Accrued Liabilities (b-a)</b>	<b>Funded Ratio (a/b)</b>	<b>Covered Payroll ( c )</b>	<b>UAAL as a Percentage of Covered Payroll ((b-a)/c)</b>
12/31/2008	\$ -	\$ 694,761	\$ 694,761	0%	\$ 1,202,074	58%
12/31/2009	-	729,529	729,529	0%	\$ 1,155,848	63%
12/31/2012	-	547,971	547,971	0%	\$ 1,175,003	47%

## ABOUT THE STATE AUDITOR'S OFFICE

The State Auditor's Office is established in the state's Constitution and is part of the executive branch of state government. The State Auditor is elected by the citizens of Washington and serves four-year terms.

We work with our audit clients and citizens to achieve our vision of government that works for citizens, by helping governments work better, cost less, deliver higher value, and earn greater public trust.

In fulfilling our mission to hold state and local governments accountable for the use of public resources, we also hold ourselves accountable by continually improving our audit quality and operational efficiency and developing highly engaged and committed employees.

As an elected agency, the State Auditor's Office has the independence necessary to objectively perform audits and investigations. Our audits are designed to comply with professional standards as well as to satisfy the requirements of federal, state, and local laws.

Our audits look at financial information and compliance with state, federal and local laws on the part of all local governments, including schools, and all state agencies, including institutions of higher education. In addition, we conduct performance audits of state agencies and local governments as well as [fraud](#), state [whistleblower](#) and [citizen hotline](#) investigations.

The results of our work are widely distributed through a variety of reports, which are available on our [website](#) and through our free, electronic [subscription](#) service.

We take our role as partners in accountability seriously, and provide training and technical assistance to governments, and have an extensive quality assurance program.

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