

**SEAL ROCK WATER DISTRICT
OREGON**

AUDIT REPORT

JUNE 30, 2017

Prepared By
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SEAL ROCK WATER DISTRICT, OREGON

COMMISSIONERS

President	John Garcia	253 SE 143 rd St. South Beach, OR 97366
Secretary	Saundra Mies-Grantham	7227 SW Abalone St. South Beach, OR 97366
Treasurer	Glen Morris	PO Box 283 Newport, OR 97365
Commissioner	Karen Otta	9080 S Coast Hwy. South Beach, OR 97366
Commissioner	Rob Mills	PO Box 339 Seal Rock, OR 97376

ADMINISTRATION

District General Manager	Adam Denlinger
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REGISTERED AGENT

Joy King
PO Box 190
Seal Rock, OR 97376

SEAL ROCK WATER DISTRICT, OREGON

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INDEPENDENT AUDITOR'S REPORT

Board of Commissioners
Seal Rock Water District
Seal Rock, Oregon

Report on the Financial Statements

I have audited the accompanying financial statements of the business-type activities of Seal Rock Water District as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

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

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit 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 I 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 entity'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 entity's internal control. Accordingly, I 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of Seal Rock Water District as of June 30, 2017, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussions and analysis and defined employee pension plan (PERS) schedules and notes, listed in the table of contents, 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. I 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 my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

Other Information

My audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Seal Rock Water District's basic financial statements. The accompanying supplemental information, budget and actual and reconciliation of budget basis to net position, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.


The budget and actual, budget reconciliation and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In my opinion, budget and actual, reconciliation of budget basis to net position, and schedule of expenditures of federal awards, are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, I have also issued my report dated November 30, 2017, on my consideration of Seal Rock Water District's internal control over financial reporting and on my 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 my 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 Seal Rock Water District's internal control over financial reporting and compliance.

Other Reporting Required by Oregon State Regulations

In accordance with the Minimum Standards Audit of Oregon Municipal Corporations, I have issued my report dated November 30, 2017 on my consideration of Seal Rock Water District's compliance with certain laws and regulations, including the provisions of Oregon Revised Statutes as specified in Oregon Administrative Rules. The purpose of that report is to describe the scope of my testing of compliance and the results of that testing and not to provide an opinion on compliance.


SIGNE GRIMSTAD
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November 30, 2017



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Seal Rock Water District

Management Discussion and Analysis (MD&A) Fiscal Year Ended June 30, 2017

The intent of the Management Discussion and Analysis is to provide highlights of the Seal Rock Water District's financial activities for fiscal year 2016-17, ending June 30, 2017. The readers are encouraged to read this narrative overview in conjunction with the accompanying financial statements.

Financial Highlights

- Total Assets and Deferred Outflows of Resources of the District are \$22,027,926 with Capital Assets of \$18,795,561 net of accumulated depreciation. Current Assets are \$2,842,088 and other noncurrent assets are \$23,894. Deferred Outflows of Resources for Pension Contributions are \$366,383 at June 30, 2017.
- The assets of Seal Rock Water District exceeded its liabilities at the close of the fiscal year by \$7,266,821 (Net Position). Of this amount \$1,928,018 (unrestricted net position) may be used to meet the District's ongoing obligations.
- Net investment in capital assets, less related debt is \$4,891,328. Revenue Bonded debt is \$1,330,965 and General Obligation debt is \$10,724,171. Notes Payable is \$1,742,785.
- The District's net position increased by \$1,267,713 from June 30, 2016 and increased by \$13,048 the previous year.
- Total Operating Revenues for fiscal year 2016-17 were \$1,759,780 which is an increase of 2.06% over the prior year. This change reflects the increases in water rates and other services.
- Total Operating Expenses for the fiscal year 2016-17 were \$1,872,501. This figure is 9.03% lower than the prior year, due primarily to decreases in Payroll and Benefits, and Water Purchase.
- Total Liabilities and Deferred Inflows of Resources are \$14,761,105 with long-term liabilities at \$13,969,977 current liabilities at \$762,596 and deferred inflows of resources for pension at \$28,532.

Overview of Financial Statements

Seal Rock Water District is a single enterprise utility district and follows proprietary fund reporting. Accordingly, the financial statements are represented using the economic resources measurement focus and the accrual basis of accounting. The District's basic financial statements are comprised of three components; 1) Statement of Net Position, 2) Statement of Revenues, Expenses and Changes in Net Position, and 3) Statement of Cash Flows. This report also contains other supplementary information in addition to the basic financial statements themselves.

The Statement of Net Position presents the current and long-term portions of assets and liabilities separately and may provide a useful indicator of whether the financial position of the District is improving or deteriorating if viewed over time. This statement includes all of the District's assets and liabilities and provides information about the nature and amounts of investments in assets and the obligations to the District's creditors (liabilities). The Statement of Net Position also provides the basis for evaluating the capital structure of the District and assessing the liquidity and financial flexibility of the District.

The Statement of Revenues, Expenses and Changes in Fund Net Position presents information showing profitability and credit worthiness as well as how the District's financial position changed during the fiscal year. This statement shows income and expenses from operations, non-operating revenues and expenses, and a reconciliation of the change in net position from the beginning to the end of the fiscal year. This statement measures the success of the District's operations over the past year and can be used to determine whether the District has successfully recovered all of its costs through user fees and other charges.

The Statement of Cash Flows is prepared using the direct method and is concerned solely with input and outlay of cash from operating, investing and financing activities. This statement also includes reconciliation to the Statement of Revenues, Expenses and Changes in Net Position. The primary purpose of this statement is to provide information about the District's cash receipts and cash payments during the reporting period. It answers such questions as where did the cash come from, what was the cash used for and what was the change in cash balance during the reporting period.

Notes to Financial Statements

The notes to the financial statements found on pages 6 through 26 provide additional information that is essential to a full understanding of the data provided in the financial statements.

Financial Analysis

Over time, changes in net position may serve as a useful indicator of the District's financial position. In the Seal Rock Water District's case, assets exceeded liabilities by \$7,266,821 at the close of the fiscal year, an increase of \$1,267,713 from the prior year. This is primarily due to the completion of the City of Toledo's Capital Improvements that the District has a contractual obligation to contribute its share of the cost.

67% of the District's net positions (\$4,891,328) reflect its investment in capital assets (e.g., land, building, equipment, reservoirs and pipelines); less related debt obligations used to acquire those assets that are still outstanding. The District uses these assets to provide services to rate payers, consequently, these assets are not available for future spending. Although the District's investment in capital assets is reported net of

related debt, it should be noted that the resources needed to pay this debt must be provided from user fees to customers (rate payers) or other sources, since capital assets cannot be used to liquidate these liabilities.

Net Position					
	2017	2016	2015	Difference 2017-2016	%
ASSETS					
Current Assets	\$2,842,088	\$3,945,815	\$2,480,004	(\$1,103,727)	-27.97%
Capital Assets	18,795,561	17,323,693	14,979,803	1,471,868	8.50%
Other noncurrent Assets	23,894	25,987	117,802	(2,093)	-8.05%
Total Assets	21,661,543	21,295,495	17,577,609	366,048	1.72%
Deferred Outflows-Pension Contributions	366,383	64,897	22,008	301,486	464.56%
Total Assets & Deferred Outflows	22,027,926	21,360,392	17,599,617	667,534	3.13%
LIABILITIES					
Current Liabilities	762,596	1,346,622	1,211,085	(584,026)	-43.37%
Long Term Liabilities	13,969,977	13,927,240	10,218,457	42,737	0.31%
Total Liabilities	14,732,573	15,273,862	11,429,542	(541,289)	-3.54%
Deferred Inflows-Pension	28,532	87,422	184,015	(58,890)	-67.36%
Total Liabilities & Deferred Inflows	14,761,105	15,361,284	11,613,557	(600,179)	-3.91%
NET POSITION					
Net Invested in Capital Assets-Restated	4,891,328	3,265,526	4,334,475	1,625,802	49.79%
Restricted	447,475	419,998	418,290	27,477	6.54%
Unrestricted	1,928,018	2,313,584	1,233,295	(385,566)	-16.67%
Total Net Position	\$7,266,821	\$5,999,108	\$5,986,060	\$1,267,713	21.13%

Restatement – Net Position for June 30, 2016 was restated to reflect net invested in Capital assets net of debt principal only.

A portion of the District’s net position (6% or \$447,475) represents resources that are subject to external restrictions on how they may be used. Unrestricted net position (27% or \$1,928,018) may be used to meet the District’s ongoing obligations to rate payers and creditors.

Operating and non-operating activities increased the District’s net position by \$1,267,713, an increase of 21% over the previous year. The change in net position is comprised of operating and non-operating income of \$1,183,291 and capital contributions of \$84,422 which represents system development charges. Operating loss decreased net position by \$112,721 primarily due to increases in Maintenance and Repair, General and Administrative and Depreciation.

Governmental Accounting Standard Board Statement 68 (GASB 68) requires governmental entities that participate in pension plan to include an entry for the employer's proportionate share of the system's Unfunded Liability (UL). The District's proportionate share of the Net Pension Liability as of June 30, 2017 was .00465156 or \$698,307.

At end of the FY 2016-17 the District's financial reports reflected deferred outflows of resources of \$366,383. This amount was derived by adding the differences between expected and actual experience which was \$23,103, changes in assumptions which was \$148,932, net difference between projected and actual earnings on investments which was \$137,956, changes in proportionate share which was \$13,960, and the contributions the District made subsequent to measurement date which was \$42,432. The District also reported deferred inflows of resources of \$28,532. This amount was the differences between employer contributions and employer's proportionate share of system contributions.

Change in Net Position

	2017	2016	2015	Difference 2017-2016	%
OPERATING REVENUES					
Water Service	\$1,686,796	\$1,656,422	\$1,609,406	\$30,374	1.83%
Other Services	47,975	39,106	39,988	8,869	22.68%
Miscellaneous	25,009	28,667	106,128	(3,658)	-12.76%
Total Operating Revenues	1,759,780	1,724,195	1,755,522	35,585	2.06%
OPERATING EXPENSES					
Payroll and benefits	632,035	891,130	658,080	(259,095)	-29.07%
Water purchase	372,293	458,420	387,905	(86,127)	-18.79%
Maintenance & repairs	263,527	211,243	216,594	52,284	24.75%
General and admin	87,140	36,887	84,582	50,253	136.23%
Depreciation	517,506	460,700	455,805	56,806	12.33%
Total Operating Expenses	1,872,501	2,058,380	1,802,966	(185,879)	-9.03%
OPERATING INCOME (LOSS)	(112,721)	(334,185)	(47,444)	221,464	-66.27%
NON OPERATING REVENUES (EXPENSES)					
Interest income	13,181	11,744	2,400	1,437	12.24%
Property taxes	649,325	609,709	622,319	39,616	6.50%
Grants/Loan Proceeds	1,059,869	556,519	250,368	503,350	90.45%
Bond amortization	11,286	11,286	11,286	0	0.00%
Boundary Income	9,535	65,471	0	(55,936)	-85.44%
Disposal of Assets	(61,965)	0	0	(61,965)	0.00%
Capital contributions-City of Toledo	0	(635,619)	(1,172,306)	635,619	-100.00%
Interest expense	(385,219)	(340,416)	(305,846)	(44,803)	13.16%
Total Nonoperating Revenues (Expenses)	1,296,012	278,694	(591,779)	1,017,318	365.03%
Income (Loss) Before Contributions	1,183,291	(55,491)	(639,223)	1,238,782	-2232.40%
CAPITAL CONTRIBUTIONS	84,422	68,539	36,705	15,883	23.17%
CHANGES IN NET POSITION	1,267,713	13,048	(602,518)	1,254,665	9615.76%
Net Position - Beginning of Year	5,999,108	5,986,060	6,588,578	13,048	0.22%
Net Position - End of Year	\$7,266,821	\$5,999,108	\$5,986,060	\$1,267,713	21.13%

Financial Condition

The District's financial condition improved over the previous year with adequate liquid assets for ongoing operations at a level necessary to meet demand. Unrestricted net position decreased by \$385,566 over the previous year. The District used part of its reserve to fund Phase IV – Beaver Creek Source Water Improvements preliminary expenses which is reimbursable from loan proceeds. These preliminary expenses included the Phase IV Conceptual Design Report for the SRWD Beaver Creek Water Supply and the Preliminary Engineering Report and Environmental Report.

On November 8, 2011, the voters of the District approved a \$15 million General Obligation Bond Authority. The G.O. Bond is payable from property taxes revenue. This is to finance the District's Water System Improvements as outlined in the 2010 Master Plan and Amendments to the Master Plan; refinance outstanding borrowings to reduce costs to taxpayers; and to pay for the District's share of the City of Toledo's capital costs associated with providing water to the District. On June 13, 2012, the District issued a \$5 million General Obligation Bond. Part of the Bond proceeds was used to refinance two Revenue Bonds which lowered the interest rate to 3.22% from 6.5%. The remaining Bond proceeds funded the construction of Phase 1 and Phase 2 of the District's Water System Improvements. The District has a \$6.5 million remaining General Bond Authority which will be issued in the future to finance a portion of the District's Phase IV Beaver Creek primary source water project.

The District received notification on May 9, 2014 from the United States Department of Agriculture Rural Development (USDA-RD) program coordinator, through a Letter of Condition (LOC) that the District's application for funding in the amount of \$6,000,045 was approved. The application requested federal assistance towards the completion of the District's Phase 3 Capital Improvements. The USDA-RUS loan funds are not to exceed \$3,451,000 with a grant amount not to exceed \$2,549,045. The loan amount which was closed on November 2017 will be payable over a period of 25 years from property taxes. The annual payment will be \$174,207 with an interest of rate 1.875%.

The current financial condition, staff capabilities, operating and Capital Improvement Plans (CIP) to meet anticipated growth within the service area, are well balanced and under control.

Part of the philosophy of the District has been to maintain a program of small annual rate increases to lessen the need for large one-time increases, and to meet the anticipated annual increases from the District's wholesale water supplier. The District increased the water rates for fiscal year 2016 – 17 to fund a requirement from USDA-RD to develop annual reserves for Short-Lived Assets Replacement Reserve Account (SLARRA) of \$84,000 which will be used for replacement of assets with 5 to 15 years lifespan. In December 2016, the District received written notification that the City of Toledo will reduce the cost of water per 1,000 gallons from \$3.57 to \$3.35 effective January 2017. The District can expect wholesale water rate adjustments annually from the City of Toledo to cover the cost of providing wholesale water. It has been the general practice of the SRWD Board of Commissioners to pass along increases in the purchase of wholesale water to district customers.

Operating expenses are Personnel and Benefits, Water Purchase, Maintenance and Repairs, General and Administrative, and Depreciation. They combined for a net decrease of \$185,879 over the prior year and Net Operating loss decrease of 66% over the prior year. Net Position increased by \$1,267,713 due primarily

to the completion of the City of Toledo's Capital Improvements so the District did not have to make any contribution to its share of project cost.

Capital Assets and Debt Administration

Capital Assets

Seal Rock Water District's investment in capital assets as of June 30, 2017 is \$18.80 million (net of depreciation). This investment in capital assets includes land, buildings, reservoirs, pipelines, pump stations, automotive, and maintenance and office equipment. The District's total investment in capital assets increased by 8.5% compared to the prior year. This figure includes the newly completed Phase 3 projects Schedule 1 and Schedule 2 which included distribution system looping, pipeline replacement, upsizing pipeline diameter to improve pressure and fire flow in various locations of the District.

Major capital asset events during the current fiscal year included the following:

The District's application for funding the Phase 3 projects was approved by USDA. Civil West Engineering completed the Preliminary Engineering Report (PER) and Environmental Report (ER) required by USDA as part of the District's application for funding. These reports had been submitted to USDA-RD for their engineer's review and approval. Phase 3 projects include distribution system looping, pipeline replacement, upsizing pipeline diameter in some areas with insufficient fire flow or pressure, installation of Pressure Reducing Valves (PRVs) to reduce supply pressure in low lying elevations to increase fire flow capacity and to install an automated meter reading system.

Current year expenditures were primarily related to the cost of completing a portion of USDA funded Phase-3 improvements and engineering fees for the preparation and completion of final design and bid documents for the District's Automated Meter Integration (AMI) system as required by USDA-RD.

Long Term Debt

At the end of the fiscal year, Seal Rock Water District had long-term debt outstanding of \$13,797,921. \$1,330,965 of this is secured by revenue bonds, \$1,742,785 is notes payable and \$10,724,171 (includes bond premium of \$174,900) is general obligation bonds payable from property tax revenue. There is a portion of this debt that is payable within the next fiscal year, therefore, classified as current debt of \$526,251.

The District issues bonds to fund capital improvements or to refinance existing bonds at more advantageous interest rates.

Economic Factors and Next Year's Budget and Finances

The District adopted a budget of \$20,283,878 for fiscal year 2017-18. The following circumstances were known by the District at the time the financial statements were prepared and audited.

- PERS employer contribution rates for fiscal year 2017-18 are 17.21% for Tier 1/Tier 2 and 10.71% for OPSRP.

- Health Insurance Premium continues to increase.
- The District completed its contract negotiation with the City of Toledo effective December 21, 2012 through June 30, 2037. The wholesale rate will decrease from \$3.57 to \$3.35 per 1,000 gallons as of January 2017. The decrease is a result of vacancies affecting the methodology for calculating the annual wholesale water rate by the City of Toledo. It is anticipated that the wholesale rate will increase as vacancies are filled.
- Pursuant to Section 3.2.4 of the 2012 Water Purchase Agreement, the Seal Rock Water District Board of Commissioners adopted a resolution terminating the 2012 Water Purchase Agreement effective October 31, 2020. Pursuant to Sections 6.2.1.1.2, and Section 6.2.2.3, the District will no longer be obligated to fund future major or minor capital improvements related to the delivery of water to the District effective on the date the letter was received. A hand delivered notice was presented to the City Manager on October 30, 2017.
- Because the District has supported City of Toledo capital improvements totaling more than \$2.4M in the past 3-years, and because there exists a delivery system between the District and the City, the District Board of Commissioners approved to enter into negotiations for future provision of water to and from the City. The potential exists that long-term benefits for the City and the District could be recognized through collaboration.
- The District received approval from USDA through a Letter of Conditions approving a loan amount not to exceed \$3,451,000 and grant amount not to exceed \$2,549,000 to fund the District's Phase 3 Capital Improvement Projects. Schedule 1 and 2 of Phase 3 improvements was awarded on November 9, 2015 for a total \$3,262,793. Notice to proceed was issued to the contractor on November 9, 2015, which included a 300-day work schedule to meet substantial completion. District staff and engineer were successful at bringing this project to a satisfactory completion in November 2016.
- The District staff and engineers successfully completed design specifications and contract documents for the final schedule of Phase-3 improvements consisting of installing an Automated Meter Integration (AMI) system. The District's current water meter reading practices are inefficient, time consuming, and expensive. By transitioning to AMI technology meters, the District will eliminate manual meter reading, will reduce re-read requests due to erroneous meter readings, and will ultimately reduce the operating costs of the water system by reducing the amount of man- hours required to read and process meter recordings. It is anticipated that installation and integration of the AMI system will spend down the remaining USDA funding consisting of grant funds. AMI Metering project was awarded to Ferguson Enterprises for the installation of Sensus metering technology with a notice to proceed approved by the SRWD Board and issued on September 8, 2017. Completion date for the AMI project is May 6, 2018. Total project cost is \$1,479,589.
- On December 1, 2017, the District presented Phase-IV Beaver Creek Source Water Improvements project before the Business Oregon, Infrastructure Finance Authority (IFA) board. As a result, District staff received preliminary approval for project funding in the amount of \$3,481,000 IFA funding package includes a loan in the amount of \$2,451,000 at 1% for 30 years, and \$1,030,000 in forgivable loan (grant).

- Because USDA only finances loans for system improvements that the District owns, it became necessary to obtain separate financing to fund the District's share of Toledo Phase-2 improvements completed in the fall of 2015. As such the District Board of Commissioners approved a resolution on April 9, 2015 to execute a line-of-credit (LOC) in the amount of \$2 million to meet this obligation.
- The original LOC with Key Bank, used to finance the District's share of Toledo Improvements was refinanced with Cashmere Valley Bank in February 2017. \$380,000 remains available as a line-of-credit.
- Consideration is being given to the potential for using the remaining LOC funding to support the preliminary engineering design for the District's Phase-IV Source Water Improvements on Beaver Creek consisting of developing a primary source water intake on Beaver Creek. The proposed project includes constructing an advance membrane treatment facility on District owned property located in the Makai tank site. Final elements of the project include constructing a 1.5-mile raw water supply pipeline from the intake site on Beaver Creek to the Makai tank site. Phase IV conceptual design was completed by ch2m Engineering consultants. The estimated cost to complete the Phase-IV improvements is \$12.7M.

With the recent completion of the *Reconnaissance Level Source Water Study* adopted by the SRWD Board of Commissioners in March 2015, and the companion study; *Phase IV Conceptual Design Report for the SRWD Beaver Creek Water Supply*, also adopted by the Board in September 2016, and the *Preliminary Engineering Report, and Environmental Report* both completed in May 2017, and adopted by the SRWD Board. The District will seek the best options for financing major capital improvements designed to enhance system resiliency. This will allow project spending to be matched with either cash reserves or debt financing.

All of these factors were considered in preparing the Seal Rock Water District's budget for 2017-18.

The following tables represent relevant historic tax information for the District.

**SEAL ROCK WATER DISTRICT
TAX RATE HISTORY AND TAX COLLECTION RECORD**

Fiscal Year	Real Market Value(1)	Taxable Assessed Value(2)	Net Tax Imposed	Billing Rate Per \$1,000 of Taxable Assessed Value	Bond Levy Rate Per \$1,000 of Assessed Value (3)	Percentage Collected	
						Year of Levy (4)	as of 11/30/2017
2017-18	852,959,535	635,866,995	1,059,581	0.1259	1.5021	-	88.86%
2016-17	787,299,983	619,210,470	663,436	0.1259	0.9487	96.89%	97.92%
2015-16	663,486,573	597,760,160	623,764	0.1259	0.9225	96.37%	98.26%
2014-15	704,621,926	609,717,600	630,683	0.1259	0.9127	96.36%	98.82%
2013-14	696,506,325	574,993,497	727,905	0.1259	1.1000	95.78%	99.56%
2012-13	746,917,907	571,208,327	797,076	0.1259	1.2264	95.30%	99.67%
2011-12	818,312,397	556,310,453	414,647	0.1259	0.5990	94.87%	99.74%

(1) Value represents the Real Market Value of taxable properties, including special assessed properties such as farms. This value is also commonly referred to as the "Measure 5 value" by county assessors.

(2) Assessed Value used to compute levy rates is the total Assessed Value of property in the District, excluding urban renewal and any other offsets.

(3) Bond Levy Rate is the voter-approved levy rate for obligation bonds outside of the tax limitation measure.

(4) In process of collection.

Source: Lincoln County Treasurer and Assessor, November 30, 2017

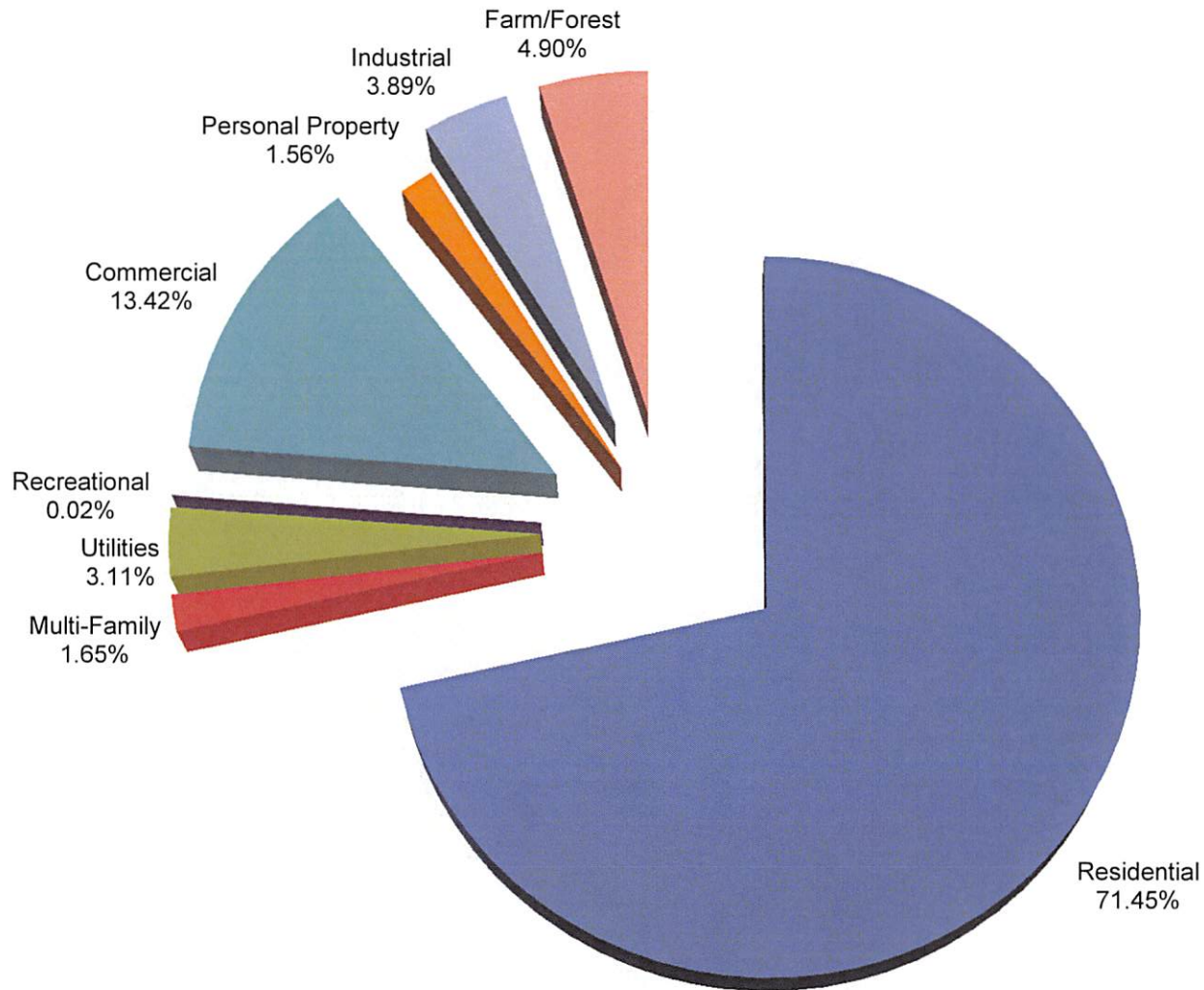
**LINCOLN COUNTY
MAJOR TAXPAYERS
2017-18 FISCAL YEAR**

Owner of Record (Taxpayer)	Total Assessed Value	% of Total County Assessed Value	Taxes Imposed	% of All Countywide Taxes Imposed
Georgia Pacific Toledo LLC	\$206,238,350	2.70%	\$3,215,405	2.80%
Central Lincoln PUD	80,538,000	1.06%	1,165,762	1.02%
Weyerhaeuser	62,718,890	0.82%	779,014	0.68%
Northwest Natural Gas Co.	44,519,000	0.58%	705,599	0.62%
Devils Lake Road LLC	38,645,970	0.51%	636,970	0.56%
Charter Communications	36,796,700	0.48%	606,696	0.53%
Worldmark The Club	39,853,530	0.52%	513,801	0.45%
Nestucca Forests LLC	33,758,320	0.44%	424,831	0.37%
Century Link	20,735,700	0.27%	299,823	0.26%
Pacificorp	21,053,000	0.28%	283,853	0.25%
Total Top Ten Tax Payers in the County	\$584,857,460	7.67%	\$8,631,754	7.52%
Remaining County Taxpayers	7,042,334,958	92.33%	106,088,666	92.48%
Total County	\$7,627,192,418	100.00%	\$114,720,421	100.00%

Requests for Information

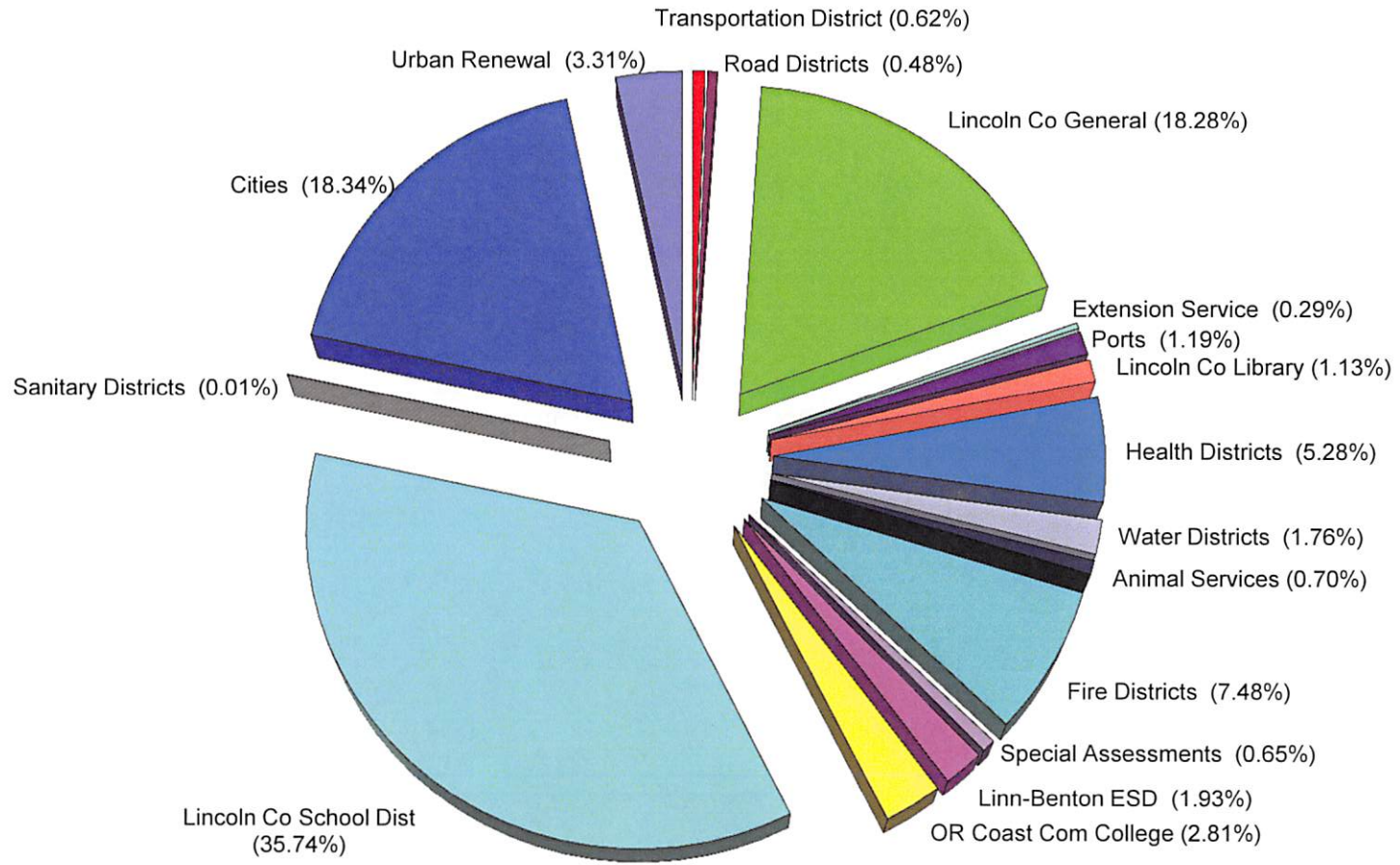
The financial report is designed to provide a general overview of Seal Rock Water District's finances for all those with an interest in the District's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Office Manager, Seal Rock Water District, P.O. Box 190, Seal Rock, Oregon 97376.

WHO PAYS LINCOLN COUNTY PROPERTY TAXES
2017-2018



XIX

LINCOLN COUNTY 2017-2018 YOUR TAX DOLLAR DISTRIBUTION



IIIX

**Supplemental
Continuing Disclosure
Information
Seal Rock Water District November 30, 2017**

General Obligation Debt	2016-17	2017-18
Real Market Value	787,299,983	852,959,535
General Obligation Debt Capacity (10.0% of RMV)	78,729,998	85,295,954
Outstanding Obligations Subject to Limitation ⁽¹⁾	7,453,299	10,512,931
Remaining General Obligation Debt Capacity	71,276,699	74,783,023
Percent of Remaining Debt Capacity/Total Debt Capacity	90.53%	87.67%
Percent of Outstanding Obligation/Total Debt Capacity	9.47%	12.33%
Percent of Outstanding Obligation/Real Market Value	0.95%	1.23%

Source : the District

**Consolidated Tax Rates Per \$1,000
TAX CODE AREA: 326 (AV \$157,361,120)
REPRESENTS 24.75% OF DISTRICT'S ASSESSED VALUE ON ROLL**

Fiscal Year	Real Market Value ⁽¹⁾	Taxable Assessed Value ⁽²⁾	Net Tax Imposed	Billing Rate Per \$1,000 of Taxable	Bond Levy Rate Per \$1,000 of Assessed Value ⁽³⁾	Consolidated Rate	Percent Collected as of	
							Year of Levy	11/30/2017
2017-18	852,959,535	635,866,995	1,059,518	0.1259	1.5021	1.6280	In process of collection	88.86%
2016-17	787,299,983	619,210,470	663,436	0.1259	0.9487	1.0746	96.89%	97.92%
2015-16	663,486,573	597,760,160	624,764	0.1259	0.9225	1.0484	96.37%	98.26%
2014-15	704,621,926	609,717,600	630,683	0.1259	0.9127	1.0386	96.36%	98.82%
2013-14	696,506,325	574,993,497	727,905	0.1259	1.1000	1.2259	95.78%	99.56%
2012-13	746,917,907	571,208,327	797,076	0.1259	1.2264	1.3523	95.30%	99.67%
2011-12	818,312,397	556,310,453	414,947	0.1259	0.5990	0.7249	94.87%	99.74%

(1) Value represents the Real Market Value of taxable properties, including special assessed properties such as farms. This value is also commonly referred to as the "Measure 5 value" by county assessors.

(2) Assessed Value used to compute levy rates is the total Assessed Value of property in the District, excluding urban renewal and any other offsets.

(3) Bond Levy Rate is the voter-approved levy rate for obligation bonds outside of the tax limitation measure.

Source: Lincoln County Treasurer and Assessor

**Seal Rock Water District
Outstanding Debt Obligations
As of November 30, 2017**

Outstanding Debt	Date of Issue	Date of Maturity	Amount Issued	Outstanding Principal Amount
Revenue Obligations				
Water Revenue Installment Bonds (US Department of Agriculture)	6/1/2012	6/1/2042	1,505,000	1,330,693
Notes Payable - IFA	12/1/2016	12/1/2023	126,285	126,285
Notes Payable - Cashmere Valley Bank	4/19/2017	12/1/2030	1,616,500	1,616,500
Total Revenue Obligations			3,247,785	3,073,478
General Obligation Bonds				
General Obligation Bonds, Series 2011	10/27/2011	10/27/2041	1,626,200	1,426,931
General Obligation Bonds, Series 2012	6/13/2012	6/1/2032	5,000,000	3,815,000
General Obligation Bonds, Series 2013	2/27/2013	6/1/2036	2,075,000	1,820,000
General Obligation Bonds, Series 2016	12/1/2016	12/1/2041	3,451,000	3,451,000
Total General Obligations			12,152,200	10,512,931
Total Outstanding Obligations			\$15,399,985	\$13,586,409

Source: The District.

SEAL ROCK WATER DISTRICT, OREGON
STATEMENT OF NET POSITION - PROPRIETARY FUNDS
as of June 30, 2017

ASSETS

Current assets

Cash and cash equivalents	\$ 2,438,357
Accounts receivable	115,266
Property taxes receivable	57,334
Prepaid expense	46,613
Inventory	<u>184,518</u>
Total current assets	<u>2,842,088</u>

Noncurrent assets

Prepaid bond insurance	<u>23,894</u>
Capital assets	
Land	400,729
Construction in progress	536,227
Plant and equipment (net of depreciation)	<u>17,858,605</u>
Total capital assets	<u>18,795,561</u>
Total noncurrent assets	<u>18,819,455</u>
Total assets	<u>21,661,543</u>
Deferred outflows of resources - pension contributions	<u>366,383</u>
Total assets and deferred outflows of resources	<u>22,027,926</u>

LIABILITIES

Current liabilities

Accounts payable	61,318
Compensated absences	44,697
Unearned revenue	24,018
Accrued interest payable from restricted	106,312
Current portion of long-term debt, payable from restricted	<u>526,251</u>
Total current liabilities	<u>762,596</u>

Long-term liabilities

Interim loans	1,725,107
Net pension liability	698,307
Revenue bond, net	1,293,234
General Obligation bonds, net	<u>10,253,329</u>
Total long-term liabilities	<u>13,969,977</u>
Total liabilities	<u>14,732,573</u>

Deferred inflows of resources - pension

Total liabilities and deferred inflows of resources	<u>14,761,105</u>
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NET POSITION

Net invested in capital assets	4,891,328
Restricted	
Debt service	301,498
Construction	145,977
Unrestricted	<u>1,928,018</u>
Total net position	<u>\$ 7,266,821</u>

The notes to the financial statements are an integral part of this statement.

SEAL ROCK WATER DISTRICT. OREGON

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET
POSITION - PROPRIETARY FUNDS for the Year Ended June 30, 2017

OPERATING REVENUES	
Water service pledged as security for revenue bonds	\$ 1,686,796
Hookups	47,975
Miscellaneous income	<u>25,009</u>
Total operating revenues	<u>1,759,780</u>
OPERATING EXPENSES	
Payroll and benefits	632,035
Water purchase	372,293
Maintenance and repairs	263,527
General and administrative	87,140
Depreciation	<u>517,506</u>
Total operating expenses	<u>1,872,501</u>
OPERATING INCOME (LOSS)	<u>(112,721)</u>
NONOPERATING REVENUES (EXPENSES)	
Interest income	13,181
Property taxes	649,325
Boundary withdrawal income	9,535
Grants	1,059,869
Disposal of assets	(61,965)
Interest expense	<u>(373,933)</u>
Total nonoperating revenues (expenses)	<u>1,296,012</u>
Income (loss) before contributions	1,183,291
CAPITAL CONTRIBUTIONS	<u>84,422</u>
Change in net position	1,267,713
NET POSITION - Beginning of year	<u>5,999,108</u>
NET POSITION - End of year	<u>\$ 7,266,821</u>

The notes to the financial statements are an integral part of this statement.

SEAL ROCK WATER DISTRICT, OREGON

**STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
for the Year Ended June 30, 2017**

CASH FLOWS FROM OPERATING ACTIVITIES	
Cash receipts from customers	\$ 1,778,470
Cash payments for goods and services	(1,463,973)
Cash payments for employees and benefits	(554,888)
Net cash provided (used) by operating activities	<u>(240,391)</u>
 CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Property taxes	652,365
Grants	1,059,869
Net cash provided (used) by noncapital financing activities	<u>1,712,234</u>
 CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Acquisition and construction of capital assets	(2,029,575)
Proceeds from loans	5,193,785
Principal paid on debt	(5,442,748)
Interest paid on debt	(384,644)
Capital contributed by customers	84,422
Contribution City of Toledo	0
Net cash provided (used) by capital and related financing activities	<u>(2,578,760)</u>
 CASH FLOWS FROM INVESTING ACTIVITIES	
Interest on investments	<u>13,181</u>
Net increase (decrease) in cash and cash equivalents	(1,093,736)
Cash and cash equivalents - Beginning of year (restricted \$2,369,028)	<u>3,532,093</u>
Cash and cash equivalents - End of year (restricted \$1,119,580)	<u>\$ 2,438,357</u>
 RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	
Operating income (loss)	\$ (112,721)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities	
Depreciation	517,506
(Increase) decrease in operating assets	
Pension related accounts	77,112
Accounts receivable	17,662
Inventory	(11,143)
Prepaid expense	432
Increase (decrease) in operating liabilities	
Accounts payable	(730,302)
Accrued payroll liabilities	35
Unearned revenue	1,028
Net cash provided (used) by operating activities	<u>\$ (240,391)</u>

The notes to the financial statements are an integral part of this statement.

SEAL ROCK WATER DISTRICT, OREGON

NOTES TO FINANCIAL STATEMENTS as of June 30, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Seal Rock Water District (District) prepares its financial statements in accordance with Generally Accepted Accounting Principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations).

The more significant of the District's accounting policies are described below.

Reporting Entity

The District is a municipal corporation and is exempt from federal income taxes. The District operates under the laws of the State of Oregon for the purpose of providing water service to customers within the boundaries of the District. There are five commissioners elected for terms of four years. The elections are held on odd numbered years with terms expiring on a staggered basis.

There are various other governmental agencies and special service districts which provide services within the District's boundaries. However, the District is not financially accountable for any of these entities and accordingly, their financial information is not included in these financial statements.

Basis of Accounting and Presentation

The District is considered to be a single enterprise similar to a commercial entity for financial reporting purposes. Accordingly, these financial statements are maintained on the flow of economic resources measurement focus using the accrual basis of accounting utilizing accounting principles applicable to commercial enterprises. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized when liabilities are incurred.

Deposits and Investments

The District's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition. For purposes of the statement of cash flows, the proprietary funds considered all highly liquid investments with a maturity of three months or less when purchased are considered to be cash equivalents.

The District's investment policies are governed by Oregon statutes. The statutes authorize the District to invest primarily in general obligations of the U.S. Government and its agencies, certain bonded obligations of Oregon municipalities, bank repurchase agreements, bankers' acceptances, high-grade commercial paper and the State Treasurer's Local Government Investment Pool (LGIP). See Note 3.

Inventory

Inventories are valued at cost, which approximates market value, using the first-in/first-out (FIFO) method. The cost of governmental fund type inventories are recorded as expenditures when consumed rather than when purchased.

Restricted Assets

Cash and receivables held in the Debt Service, RD Requirement Reserve, and Revenue Bond are classified as restricted assets on the Statement of Net Position as their use is limited to servicing debt and construction.

SEAL ROCK WATER DISTRICT, OREGON

NOTES TO FINANCIAL STATEMENTS
as of June 30, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Restricted Assets

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure (e.g. streets, roads, sidewalks and similar public domain items) are reported in the applicable governmental activities columns in the government-wide financial statements. Capital assets are defined in the District's capitalization policy as having a historic cost or fair value in excess of \$2,500 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated assets are valued at their estimated fair value at the date of the donation.

Additions, improvements and other capital outlays that significantly improve the useful life or increase the capacity of an asset are capitalized. Other costs incurred for maintenance and repairs are expensed. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Capital assets are depreciated using the straight-line method over the following estimated useful lives.

Buildings and structures	50 years
Equipment	5 - 25 years
Vehicles	5 years
Infrastructure	50 years

Compensated Absences

It is the District's policy to permit employees to accumulate earned but unused personal time off (PTO). All PTO pay is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignation and retirement.

Interfund Transactions

Transactions that constitute reimbursements to a fund for expenses initially made from it that are properly applicable to another fund are recorded as expenses in the reimbursing fund and as reductions of expenses in the fund that is reimbursed. All other interfund transactions are reported as transfers. Nonrecurring or nonroutine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as operating transfers.

Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "interfund receivables/payables" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds."

SEAL ROCK WATER DISTRICT, OREGON

NOTES TO FINANCIAL STATEMENTS as of June 30, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Pensions

In accordance with GASB Statement 68, *Accounting and Financial Reporting for Pensions - an Amendment of GASB Statement 27*, the District's net pension (asset)/liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the OPERS and additions to/deductions from OPERS's fiduciary net position have been determined on the same basis as they are reported by OPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to future period(s) and so will not be recognized as an outflow of resources (expenditure/expense) until then. The District has one item that qualifies for reporting in this category, it's deferred amounts relating to pensions. This amount is deferred and recognized as an outflow of resources in the period when the District recognizes pension expense. Deferred outflows are included in the proprietary funds Statement of Net Position.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The District has one item that qualifies for reporting in this category, it's deferred amounts relating to pensions. This amount is deferred and recognized as an inflow of resources in the period when the District's recognizes pension income. Deferred inflows are included in the proprietary funds Statement of Net Position.

Net Position

Net Position represents the difference between (a) assets and deferred outflows of resources and (b) liabilities and deferred inflows of resources in the District's financial statements.

Net position is divided into three components:

Net investment in capital assets - consists of the historical cost of capital assets less accumulated depreciation and less any debt that remains outstanding that was used to finance those assets plus deferred outflows of resources less deferred inflows of resources related to those assets.

Restricted net position - consists of assets that are restricted by the District's creditors, by enabling legislation, by grantors, and other contributors.

Unrestricted - all other net position is reported in this category.

SEAL ROCK WATER DISTRICT, OREGON

NOTES TO FINANCIAL STATEMENTS
as of June 30, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Operating Revenues, Non-Operating Revenues and Operating Expenses

The District has defined operating revenues to include all service charges and other applicable charges for services directly attributable to providing water. Operating expenses are defined as those expenses directly related to providing the services reflected within operating revenues including depreciation and amortization. Non-operating revenues are revenues not directly attributable to the services provided. This includes investment interest, capital contributions, and gain (loss) on sale of capital assets.

Use of Estimates

The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budget Law and Practice

Pursuant to Oregon Local Budget Law, Oregon Revised Statutes Chapter 294.305 through 294.770, the District manages its operations through fund accounting. An operating budget is adopted prior to each fiscal year for all funds. The budget is adopted on the modified accrual basis. Under the modified accrual basis of accounting, revenues are recognized when they become susceptible to accrual (measurable and available to finance expenditures of the current period). Expenses are generally recognized when the related liability has been incurred. The exception is interest on general long-term debt, which is recognized when due.

Major functional categories identify the legal level of budgetary control above which expenditures are not authorized. The major functional categories are personnel services, materials and services, capital outlay, debt service, interfund transfers, and operating contingency. The Board of Commissioners may select a lower level of appropriations than the budget committee in which case the legal level of appropriation is stated in the appropriation resolution. The expenditure budget for the year is adopted through the appropriation resolution and only the Board may adjust appropriations. Appropriations lapse at the end of the fiscal year, June 30.

NOTE 3 - DEPOSITS AND INVESTMENTS

Cash, cash equivalents and investments as of June 30 are classified in the accompanying Statement of Net Position as follows:

	<u>Balance</u>
Cash and cash equivalents	\$ 1,318,777
Cash and cash equivalents - restricted	<u>1,119,580</u>
Total cash, cash equivalents and investments	<u>\$ 2,438,357</u>

SEAL ROCK WATER DISTRICT, OREGON

NOTES TO FINANCIAL STATEMENTS
as of June 30, 2017

NOTE 3 - DEPOSITS AND INVESTMENTS - Continued

Cash, cash equivalents and investments as of June 30 consist of the following:

	<u>Balance</u>
Petty cash	\$ 800
Deposits with financial institutions	1,457,935
Investments - external investment pool	<u>979,622</u>
Total	<u>\$2,438,357</u>

Restricted cash represents funds for debt retirement of \$251,072 and construction of \$868,508.

Deposits

At the end of the fiscal year, the District's total deposits with financial institutions have a bank value of \$1,477,931.

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. For deposits in excess of federal depository insurance, the Oregon Legislature Assembly passed House Bill 2901 effective July 1, 2008 eliminates the requirement of certificates of participation and created a shared liability structure of qualified depositories. At year end, \$250,000 of the District's deposits were insured by the FDIC and the remaining balance was in a qualified depository bank, Umpqua Bank.

Investments

At year end, the District has total funds of \$979,622 (fair value) in the Local Government Investment Pool.

Interest rate risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

The Oregon State Treasurer maintains the Oregon Short Term Fund (OSTF), of which the Local Government Investment Pool (LGIP) is a part. Participation by local governments is voluntary. The State of Oregon investment policies are governed by statute and the Oregon Investment Council. In accordance with Oregon statutes, funds are invested as a prudent investor would do, exercising reasonable care, skill and caution. LGIP was created to offer a short-term investment alternative to Oregon local governments and it is not registered with the U.S. Securities and Exchange Commission. The investments are regulated by the OSTF and approved by the Oregon Investment Council. At the end of the fiscal year, the fair value of the District's deposits with the LGIP approximately equals the value of the pool shares. The OSTF financial statements are available at <http://ost.state.or.us>.

Investments in the LGIP are available upon demand (one day).

SEAL ROCK WATER DISTRICT, OREGON

NOTES TO FINANCIAL STATEMENTS
as of June 30, 2017

NOTE 3 - DEPOSITS AND INVESTMENTS - Continued

Credit risk

Oregon Statutes limit investments to general obligations of U.S. government and its agencies, certain bonded obligations of Oregon municipalities, bank repurchase agreements, high-grade commercial paper and the State Treasurer's Local Government Investment Pool. The District has no investment policy that would further limit its investment choices. The LGIP is not subject to credit rating.

Concentration of credit risk

The District places no limit on the amount the District may invest in any one issuer.

NOTE 4 - RECEIVABLES

Receivables at June 30, consist of the following:

	<u>Balance</u>	<u>Unrestricted</u>	<u>Restricted</u>
Property taxes	\$ 57,334	\$ 6,916	\$ 50,418
Accounts receivable	115,266	115,266	0
Total receivables	<u>\$ 172,600</u>	<u>\$ 122,182</u>	<u>\$ 50,418</u>

Accounts Receivable

Uncollected accounts receivable are deemed to be substantially collectible or recoverable through liens; therefore, no allowance for uncollectible accounts has been established.

Property Taxes

Property taxes are levied and become a lien on all taxable property as of July 1. Taxes are levied on November 15 with collection dates: November 15, February 15, and May 15. Discounts are allowed if the amount due is received by November 15. Taxes unpaid and outstanding on May 16 are considered delinquent, at which time the applicable property is subject to lien, and penalties and interest are assessed.

Uncollected property taxes are deemed to be substantially collectible or recoverable through liens; therefore, no allowance for uncollectible taxes has been established.

SEAL ROCK WATER DISTRICT, OREGON

NOTES TO FINANCIAL STATEMENTS
as of June 30, 2017

NOTE 5 - CAPITAL ASSETS

Below is the major classes of capital assets:

	<u>7/1</u> <u>Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>6/30</u> <u>Balance</u>
Non-depreciable				
Land	\$ 400,729	\$ 0	\$ 0	\$ 400,729
Construction in progress	<u>3,010,770</u>	<u>2,036,271</u>	<u>4,510,815</u>	<u>536,227</u>
Total non-depreciable	<u>3,411,499</u>	<u>2,036,271</u>	<u>4,510,815</u>	<u>936,956</u>
Depreciable				
Building	1,955,647	0	0	1,955,647
Furn./equip./vehicles	637,098	9,658	2,600	644,156
Water system	<u>16,599,491</u>	<u>4,516,223</u>	<u>430,808</u>	<u>20,684,906</u>
Total depreciable	<u>19,192,236</u>	<u>4,525,881</u>	<u>433,408</u>	<u>23,284,709</u>
Accumulated depreciation				
Building	(190,059)	(42,328)	0	(232,387)
Furn./equip./vehicles	(538,211)	(46,942)	2,600	(582,553)
Water system	<u>(4,551,771)</u>	<u>(428,237)</u>	<u>368,843</u>	<u>(4,611,165)</u>
Total accum. depreciation	<u>(5,280,041)</u>	<u>(517,507)</u>	<u>371,443</u>	<u>(5,426,105)</u>
Total, net of depreciation	<u>13,912,195</u>	<u>4,008,374</u>	<u>61,965</u>	<u>17,858,605</u>
Capital assets, net	<u>\$17,323,694</u>	<u>\$ 6,044,645</u>	<u>\$ 4,572,780</u>	<u>\$18,795,561</u>

Depreciation expense for the year was \$517,506.

NOTE 6 - TRANSFERS

	<u>Transfers In</u>					
	<u>Total</u> <u>Transfers</u> <u>Out</u>	<u>Capital</u> <u>Projects</u> <u>Fund</u>	<u>Revenue</u> <u>Bond</u> <u>Res. Fund</u>	<u>RD Req.</u> <u>Reserve</u> <u>Fund</u>	<u>Water</u> <u>Source</u> <u>Imp. Fund</u>	<u>Depreciation</u> <u>Reserve</u> <u>Fund</u>
Transfer Out						
General Fund	<u>\$(362,660)</u>	<u>\$ 134,000</u>	<u>\$ 74,330</u>	<u>\$ 7,430</u>	<u>\$ 96,900</u>	<u>\$ 50,000</u>

The purpose of inter-fund transfers are primarily for building reserves for future capital expenditures and projects, and for payment of debt as required from operating revenue.

SEAL ROCK WATER DISTRICT, OREGON

NOTES TO FINANCIAL STATEMENTS
as of June 30, 2017

NOTE 7 - LONG-TERM DEBT

Revenue Bond

A revenue bond in the amount of \$1,505,000, payable from water system net operating revenues, was issued June 1, 2012. The bond is payable in annual installments of \$74,332 with interest at 2.75%, maturity 2042. Current balance is \$1,330,965.

The annual requirements to amortize the revenue bond is as follows:

Fiscal Year Ending	Principal	Interest	Total Future Requirements
6-30-18	\$ 37,731	\$ 36,601	\$ 74,332
6-30-19	38,769	35,564	74,333
6-30-20	39,835	34,498	74,333
6-30-21	40,930	33,402	74,332
6-30-22	42,056	32,277	74,333
2023-2027	228,276	143,386	371,662
2028-2032	261,438	110,224	371,662
2033-2037	299,418	72,243	371,661
2038-2042	<u>342,512</u>	<u>28,746</u>	<u>371,258</u>
Totals	<u>\$ 1,330,965</u>	<u>\$ 526,941</u>	<u>\$ 1,857,906</u>

Notes Payable

On April 17, 2015, the District signed an interim financing loan with Key Bank. The loan was a tax-exempt, non-revolving credit facility with a maximum of \$2,000,000 and a maturity date of April 20, 2017. The loan has a variable interest rate which was 1.48% prior to pay-off, with outstanding principal of \$1,600,000. This note was paid in full in April 2017.

On April 19, 2017, the District established a line of credit with a maximum draw of \$2,000,000, with Cashmere Valley Bank. The note is a tax-exempt, non-revolving loan, with a maturity date of April 1, 2030. The current interest rate is 2.7% until April 1, 2020, when the rate will be calculated at 65.01% of the five year interest swap rate plus 1.45%. This rate will be used for five years and will be recalculated using the above formula for the final five years until maturity. Interest is payable on April 1 and October 1. Principal plus interest payments are due each April 1 and October 1, 2020 through 2030. The outstanding balance on the line of credit was \$1,616,500 at June 30, 2017.

On August 13, 2015, the Oregon Infrastructure Financing Authority approved a forgivable loan of \$20,000 and a long-term note with proceeds not to exceed \$130,000, at a rate of 1%, on a cost-reimbursement basis for Project S16002. The project was completed in December 2016 and funds received on January 26, 2017 totaled \$146,285. Requirements for the forgivable loan were met and \$20,000 was recorded as a grant. The loan portion totaled \$126,285 and is payable in annual payments of principal and interest beginning December 31, 2017 through 2023.

SEAL ROCK WATER DISTRICT, OREGON

NOTES TO FINANCIAL STATEMENTS
as of June 30, 2017

NOTE 7 - LONG-TERM DEBT - Continued

Notes Payable

The annual requirements to amortize the notes payable are as follows:

<u>Fiscal</u> <u>Year Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Future</u> <u>Requirements</u>
6-30-18	\$ 17,678	\$ 42,645	\$ 60,323
6-30-19	17,684	44,732	62,416
6-30-20	84,955	44,556	129,511
6-30-21	154,958	41,646	196,604
6-30-22	158,860	37,744	196,604
2023-2027	799,473	127,058	926,531
2028-2032	<u>509,177</u>	<u>24,327</u>	<u>533,504</u>
Totals	<u>\$1,742,785</u>	<u>\$ 362,708</u>	<u>\$ 2,105,493</u>

Bond Anticipation Note

In May of 2014, the District received a Letter of Condition (LOC) from the US Department of Agriculture Rural Development approving funding in the amount of \$6,000,045 for completion of the District's Phase 3 Capital Improvements consisting of loan funds of \$3,451,000 and grant funds of \$2,549,045. The loan was funded by a general obligation (GO) bond purchased by USDA in December 2016 was funded by a general obligation bond purchased by USDA in December 2016. The bond is payable over 25 years, and will be funded from property taxes. The annual payment is \$174,207 with an interest rate of 1.875%, with the first payment of principal and interest due on December 1, 2017. See the next section of this note entitled General Obligation Bonds.

Interim financing was provided from Cashmere Valley Bank. In the prior fiscal year, the loan funds were fully drawn down and totaled \$3,451,000. Interest accrued monthly at a variable rate of 1.51% due annually. This loan was paid in full during the fiscal year ended June 30, 2017 with the proceeds of the general obligation bond discussed in the preceding paragraph.

General Obligation Bonds

General Obligation Bonds are direct obligations and pledge the full faith and credit of the government.

On October 27, 2011 the District issued a GO Bond for \$1,626,000 with a rate of 3.75%, maturing 2042. The current balance is \$1,463,271.

On June 13, 2012 the District issued a GO Bond for \$5,000,000 with a rate of 2 - 4%, maturing 2032. The current balance is \$3,815,000.

On February 13, 2015 the District issued a GO Refunding Bond for \$2,075,000 with a rate of 2-4%, maturing 2036. The current balance is \$1,820,000.

On December 1, 2016 the District issued a GO Bond for \$3,451,000 with a rate of 1.875%, maturing on December 1, 2041. Annual payments of principal plus interest total \$174,207, with a final payment of \$170,118. The current balance is \$3,451,000.

SEAL ROCK WATER DISTRICT, OREGON

NOTES TO FINANCIAL STATEMENTS
as of June 30, 2017

NOTE 7 - LONG-TERM DEBT - Continued

General Obligation Bonds

The annual requirements to amortize the general obligation bonds are as follows:

<u>Fiscal Year Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Future Requirements</u>
6-30-18	\$ 470,842	\$ 307,587	\$ 778,429
6-30-19	484,258	294,997	779,255
6-30-20	497,763	279,602	777,365
6-30-21	511,361	262,194	773,555
6-30-22	530,054	244,301	774,355
2023-2027	2,804,188	966,237	3,770,425
2028-2032	2,447,480	583,170	3,030,650
2033-2037	1,571,298	278,650	1,849,948
2038-2042	<u>1,232,027</u>	<u>93,944</u>	<u>1,325,971</u>
Totals	<u>\$10,549,271</u>	<u>\$3,310,682</u>	<u>\$ 13,859,953</u>

During the current year, the following changes occurred in long term debt:

	<u>7/1</u>			<u>6/30</u>	<u>Due in</u>	<u>Interest</u>
	<u>Balance</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance</u>	<u>One Year</u>	<u>Paid</u>
Revenue Bond	\$ 1,367,686	\$ 0	\$ 36,721	\$ 1,330,965	\$ 37,731	\$ 37,611
Notes payable	5,051,000	1,742,785	5,051,000	1,742,785	17,678	54,997
GO Bonds	<u>7,453,299</u>	<u>3,451,000</u>	<u>355,028</u>	<u>10,549,271</u>	<u>470,842</u>	<u>304,430</u>
Total	<u>\$13,871,985</u>	<u>\$ 5,193,785</u>	<u>\$5,442,749</u>	13,623,021	<u>\$ 526,251</u>	<u>\$ 397,038</u>
			Bond premium	<u>174,900</u>		
			Total	<u>\$13,797,921</u>		

Total interest expense capitalization this year was \$95,190.

NOTE 8 - RETIREMENT BENEFITS

A. PENSION PLAN - Defined Benefit

Oregon Public Employees Retirement System (PERS)

Plan Description

Employees of the District are provided with pensions through the Oregon Public Employees Retirement System (OPERS) a cost-sharing multiple-employer defined benefit pension plan, the Oregon Legislature has delegated authority to the Public Employees Retirement Board to administer and manage the system. All benefits of the System are established by the legislature pursuant to ORS Chapters 238 and 238A. Tier One/Tier Two Retirement Benefit plan, established by ORS Chapter 238, is closed to new members hired on or after August 29, 2003. The pension Program, established by ORS Chapter 238A, provides benefits to members hired on or after August 29, 2003. OPERS issues a publicly available Comprehensive Annual Financial Report (CAFR) and Actuarial Valuation that can be obtained by writing to: Oregon PERS, PO Box 23700, Tigard OR 97281-3700 or at: <http://www.oregon.gov/pers/EMP/Pages/Actuarial-Financial-Information.aspx> .

SEAL ROCK WATER DISTRICT, OREGON

NOTES TO FINANCIAL STATEMENTS as of June 30, 2017

NOTE 8 - RETIREMENT BENEFITS - continued

A. PENSION PLAN - Defined Benefit

Oregon Public Employees Retirement System (OPERS)

1. PERS Tier One/Tier Two Pension (Chapter 238)

Pension Benefits - The OPERS retirement allowance is payable monthly for life. It may be selected from 13 retirement benefit options including survivorship benefits and lump-sum refunds. The basic benefit is based on years of service and final average salary. A percentage (2.0 and 1.67 percent for police/fire members and general service members respectively) is multiplied by the number of years of service and the final average salary. Benefits may also be calculated under either a formula plus annuity (for members who were contribution before August 21, 1981), or a money match computation if a greater benefit results.

A member is considered vested and will be eligible at minimum retirement age for a service retirement allowance if he or she has had a contribution in each of five calendar years or had reached at least 50 years of age before ceasing employment with a participating employer (ages 45 and 55 for police/fire members and general service members respectively). Participants are eligible for retirement after reaching ages 50 and 55 for police/fire members and general service members respectively. Tier One general service member benefits are reduced if retirement occurs prior to age 58 with fewer than 25 years of service, Tier Two members are eligible for full benefits at age 60. The ORS Chapter 238 Defined Benefit Pension Plan is closed to new members hired on or after August 29, 2003.

Death Benefits - Upon the death of a non-retired member, the beneficiary receives a lump-sum refund of the member's account balance (accumulated contributions and interest). In addition, the beneficiary will receive a lump-sum payment from employer funds equal to the account balance, provided that one or more of the following conditions is met:

1. The member was employed by a OPERS employer at the time of death,
2. The member died within 120 days of after termination of OPERS-covered employment,
3. The member died as a result of injury sustained while employed in a OPERS-covered job, or
4. The member was on an official leave of absence from an OPERS-covered job at the time of death.

Disability Benefits - A member with 10 or more years of creditable service who becomes disabled from other than duty-connected causes may receive a non-duty disability benefit. A disability resulting from a job related injury or illness qualifies a member (including PERS judge members) for disability benefits regardless of the length of PERS-covered service. Upon qualifying for either a non-duty or duty-related disability, service time is computed to ages 55 and 58 for fire members and general service members respectively when determining the monthly benefit.

Benefit Changes After Retirement - Members may choose to continue participation in a variable equities investment account after retiring and may experience annual benefit fluctuations due to changes in the market value of equity investments. Under ORS 238.360, monthly benefits are adjusted annually through cost-of-living adjustments (COLA). The COLA is capped at 2.0 percent.

SEAL ROCK WATER DISTRICT, OREGON
Seal Rock, Oregon

NOTES TO FINANCIAL STATEMENTS
as of June 30, 2017

NOTE 8 - RETIREMENT BENEFITS - Continued

A. PENSION PLAN - DEFINED BENEFIT

Oregon Public Employees Retirement System (OPERS)

2. OPSRP Defined Benefit Pension Program (238A)

Pension Benefits - The ORS 238A Defined Benefit Pension Program provides benefits to members hired on or after August 29, 2003. This portion of OPSRP provides a life pension funded by employer contributions. Benefits are calculated with the following formula for members who attain normal retirement age.

Fire: 1.8 percent is multiplied by the number of years of service and the final average salary. To be classified as a fire member the individual must be continuously employed as a fire member for at least five years immediately preceding retirement.

General Service: 1.5 percent is multiplied by the number of years of service and the final average salary. Normal retirement age for general service members is age 65 or age 58 with 30 years of retirement credit.

A member of the pension program becomes vested on the earliest of the following dates: the date the member completes at least 600 hours of service in each of five calendar years, the date the member reaches normal retirement age, and, if the pension program is terminated, the date on which termination becomes effective.

Death Benefits - Upon the death of a non-retired member, the spouse or other person who is constitutionally required to be treated in the same manner as the spouse, receives for life 50 percent of the pension that would otherwise have been paid to the deceased member.

Disability Benefits - A member who has accrued 10 or more years of retirement credit before the member becomes disabled or a member who becomes disabled due to job-related injury shall receive a disability benefit of 45 percent of the member's salary determined as of the last full month of employment before the disability occurred.

Benefit Changes After Retirement - Under ORS 238A.210, monthly benefits are adjusted annually through COLAs. The COLA is capped at 2.0 percent.

SEAL ROCK WATER DISTRICT, OREGON
Seal Rock, Oregon

NOTES TO FINANCIAL STATEMENTS
as of June 30, 2017

NOTE 8 - RETIREMENT BENEFITS - Continued

A. PENSION PLAN - DEFINED BENEFIT

Oregon Public Employees Retirement System (OPERS)

3. OPSRP Individual Account Program (238A)

Pension Benefits - An OPSRP Individual Account Program (IAP) member becomes vested on the date the employee account is established or on the date the rollover account was established. If the employer makes optional employer contributions for a member the member becomes vested on the earliest of the following dates: the date the member completes 600 hours of service in each of five calendar years, the date the member reaches normal retirement age, the date the IAP is terminated, the date the active member becomes disabled, or the date the active member dies. Upon retirement a member of the OPSRP IAP may receive amounts in his or her employee, rollover, and vested employer accounts as a lump-sum payment or in equal installments over a 5-, 10-, 15-, 20- year period or an anticipated lifespan option. Each distribution option has a \$200 minimum distribution limit.

Death Benefits - Upon the death of a non-retired member, the beneficiary receives in a lump sum the member's account, rollover account, and vested employer optional contribution account balances. If a retired member dies before the instalment payments are completed, the beneficiary may receive the remaining installment payments or choose a lump sum payment.

Recordkeeping - PERS contracts with Voya Financial to maintain IAP participant records.

Contributions:

The contribution requirements for plan members are established by ORS Chapter 238 and may be amended by an act of the Oregon Legislature. OPERS funding policy provides for monthly employer contributions at actuarially determined rates. These contributions, expressed as a percentage of covered payroll, are intended to accumulate sufficient assets to pay benefits when due. The funding policy applies to the OPERS defined benefit plan and the other Post-Employment Benefit Plans. In some circumstances, payments are made by the employer to satisfy contribution requirements that are identified by the pension plan terms as plan member contribution requirements. This was not the case for the District for the year ending June 30, 2017 or for any other periods reflected in these Financial Statements, the Notes to the Financial Statements, or the Supplementary Information section. Employer contribution rates during the period were based on the December 31, 2013 actuarial valuation. The rates, expressed as a percentage of payroll, first became effective July 1, 2015. District contributions for the year ending June 30, 2017 were \$42,432, excluding amounts to fund employer specific liabilities. The rates in effect for the year ended June 30, 2017 were 17.21 percent for Tier One/Tier Two General Service and Fire Members, 10.71 percent of OPSRP General Service Members, 15.48 percent for OPSRP Fire Members, and 6 percent for OPSRP Individual Account Members.

SEAL ROCK WATER DISTRICT, OREGON
Seal Rock, Oregon

NOTES TO FINANCIAL STATEMENTS
as of June 30, 2017

NOTE 8 - RETIREMENT BENEFITS - Continued

A. PENSION PLAN - DEFINED BENEFIT

Oregon Public Employees Retirement System (OPERS)

Net Pension Liability

At June 30, 2017, the District reported a net pension liability of \$698,307 for its proportionate share of the system-wide pension liability. The net pension liability was measured as of June 30, 2016, and the system-wide pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2014 rolled forward to June 30, 2016. The District's proportionate share of the system-wide net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected long-term contributions of all participating employers, actuarially determined. These proportion percentages for the District were 0.00465156 and 0.00454273 for the years ending June 30, 2016 and 2015 respectively. For the year ended June 30, 2017, the District recognized pension expense (income) of \$77,112. At June 30, 2017, the District reported deferred outflows and inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 23,103	\$ 0
Changes of assumptions	148,932	0
Net difference between projected and actual earnings on investments	137,956	0
Changes in proportionate share	13,960	0
Contributions made subsequent to measurement date	42,432	0
Differences between employer contributions and employer's proportionate share of system contributions	<u>0</u>	<u>28,532</u>
Total	<u>\$ 366,383</u>	<u>\$ 28,532</u>

Deferred outflows of resources of \$42,432 relates to pensions resulting from District contributions subsequent to the measurement date to be recognized as a reduction of the net pension liability in the year ended June 30, 2018. Other pension amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in pension expenses as follows:

SEAL ROCK WATER DISTRICT, OREGON
Seal Rock, Oregon

NOTES TO FINANCIAL STATEMENTS
as of June 30, 2017

NOTE 8 - RETIREMENT BENEFITS - Continued

A. PENSION PLAN - DEFINED BENEFIT

Oregon Public Employees Retirement System (OPERS)

Year Ended <u>June 30</u>	Deferred Outflow/(Inflow) of resources (prior to post- <u>measurement date contributions)</u>
2018	\$ 50,754
2019	50,754
2020	102,665
2021	79,869
2022	11,378
Thereafter	<u>0</u>
Total	<u>\$ 295,420</u>

Actuarial Valuations

The employer contribution rates effective July 1, 2015, through June 30, 2017 and July 1, 2017, through June 30, 2019, were set using the projected unit credit actuarial cost method. For the Tier One/Tier Two component of the PERS defined Benefit Plan, this method produced an employer contribution rate consisting of (1) an amount for normal cost (the estimated amount necessary to finance benefits earned by employees during the current service year) and (2), an amount for the amortization of unfunded accrued actuarial liabilities, which are being amortized over a fixed period with new unfunded accrued actuarial liabilities being amortized over 20 years. For the OPSRP Pension Program component of the OPERS Defined Benefit Plan, this method produced an employer contribution rate consisting of (a) an amount for normal cost (the estimated amount necessary to finance benefits earned by employees during the current service year) and (b) an amount for the amortization of unfunded accrued actuarial liabilities, which are being amortized over a fixed period with new unfunded accrued actuarial liabilities being amortized over 16 years. The total pension liability in the December 31, 2015 actuarial valuation was determined using the following actuarial assumptions:

SEAL ROCK WATER DISTRICT, OREGON
Seal Rock, Oregon

NOTES TO FINANCIAL STATEMENTS
as of June 30, 2017

NOTE 8 - RETIREMENT BENEFITS - Continued

A. PENSION PLAN - DEFINED BENEFIT

Oregon Public Employees Retirement System (OPERS)

Actuarial Valuations

Valuation Date	December 31, 2014
Measurement date	June 30, 2016
Experience Study	2014, published September 2015
Actuarial Assumptions:	
Inflation rate	2.50% (reduced from 2.75%)
Long-term expected rate of return	7.50% (reduced from 7.75%)
Discount rate	7.50% (reduced from 7.75%)
Projected salary increases	3.50% (reduced from 3.75%)
Cost of living adjustments (COLA)	Blend of 2.00% COLA and graded COLA (1.25%/0.15%) in accordance with <i>Moro</i> decision; blend based on service.
Mortality	<i>Healthy retirees and beneficiaries:</i> RP-2000 Sex-distinct, generational per Scale BB, with collar adjustments and set-backs as described in the valuation. <i>Active members:</i> Mortality rates are a percentage of healthy retiree rates that vary by group, as described in the valuation. <i>Disabled retirees:</i> Mortality rates are a percentage (70% for males, 95% for females) of the RP-2000, Sex-distinct, generational per Scale BB, disabled mortality table.

Actuarial valuations of an ongoing plan involve estimates of the value of projected benefits and assumptions about the probabilities of events far into the future. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about future results. Experience studies were performed as of December 31 on even numbered years. The methods and assumptions shown above are based on the 2015 experience study, which reviewed experience for the four-year period ending December 31, 2015.

SEAL ROCK WATER DISTRICT, OREGON
Seal Rock, Oregon

NOTES TO FINANCIAL STATEMENTS
as of June 30, 2017

NOTE 8 - RETIREMENT BENEFITS - Continued

A. PENSION PLAN - DEFINED BENEFIT

Oregon Public Employees Retirement System (OPERS)

Long-Term Expected Rate of Return

To develop an analytical basis for the selection of the long-term expected rate of return assumption, in July 2015 the PERS Board reviewed long-term assumptions developed by both Milliman's capital market assumptions team and the Oregon Investment Council's (OIC) investment advisors. The table below shows Milliman's assumptions for each of the asset classes in which the plan was invested at that time based on the OIC long-term target asset allocation. The OIC's description of each asset class was used to map the target allocation to the asset classes shown below. Each asset class assumption is based on a consistent set of underlying assumptions, and includes adjustment for the inflation assumption. These assumptions are not based on historical returns, but instead are based on a forward-looking capital market economic model.

<u>Asset Class/Strategy</u>	<u>Assumed Asset Allocation</u>		
	<u>Low Range</u>	<u>High Range</u>	<u>OIC Target</u>
Cash	0.0%	3.0%	0.0%
Debt securities	15.0	25.0	20.0
Public equity	32.5	42.5	37.5
Private equity	13.5	21.5	17.5
Real estate	9.5	15.5	12.5
Alternative equity	0	12.5	12.5
Opportunity portfolio	0	3.0	0
Total			100.0%

SEAL ROCK WATER DISTRICT, OREGON
Seal Rock, Oregon

NOTES TO FINANCIAL STATEMENTS
as of June 30, 2017

NOTE 8 - RETIREMENT BENEFITS - Continued

A. PENSION PLAN - DEFINED BENEFIT

Oregon Public Employees Retirement System (OPERS)

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Compounded Annual Return (Geometric)</u>
Core Fixed Income	8.00%	4.00%
Short-Term Bonds	8.00%	3.61%
Bank/Leveraged Loans	3.00%	5.42%
High Yield Bonds	1.00%	6.20%
Large/Mid Cap US Equities	15.75%	6.70%
Small Cap US Equities	1.31%	6.99%
Micro Cap US Equities	1.31%	7.01%
Developed Foreign Equities	13.13%	6.73%
Emerging Market Equities	4.12%	7.25%
Non-US Small Cap Equities	1.88%	7.22%
Private Equity	17.50%	7.97%
Real Estate (Property)	10.00%	5.84%
Real Estate (REITS)	2.50%	6.69%
Hedge Fund of Funds - Diversified	2.50%	4.64%
Hedge Fund - Event-driven	0.63%	6.72%
Timber	1.88%	5.85%
Farmland	1.88%	6.37%
Infrastructure	3.75%	7.13%
Commodities	<u>1.88%</u>	4.58%
Total	<u><u>100.02%</u></u>	
Assumed Inflation - Mean		2.50%

SEAL ROCK WATER DISTRICT, OREGON
Seal Rock, Oregon

NOTES TO FINANCIAL STATEMENTS
as of June 30, 2017

NOTE 8 - RETIREMENT BENEFITS - Continued

A. PENSION PLAN - DEFINED BENEFIT

Oregon Public Employees Retirement System (OPERS)

Discount Rate

The discount rate used to measure the total pension liability was 7.50 percent for the Defined Benefit Pension Plan. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers are made at the contractually required rates, as actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity to Discount Rate

The following presents the District's net pension liability calculated using the discount rate of 7.50 percent, as well as what the District's net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.50 percent) and one percentage point higher (8.50 percent) than the current rate:

	1% Decrease (6.50)%	Current Disc. Rate (7.50)%	1% Increase (8.50)%
Net Pension Liability (Asset)	\$ 1,127,533	\$ 698,307	\$ 339,549

Changes in Plan Provisions from Prior Measurement Date

We are aware of no changes in plan provisions from the June 30, 2015 measurement date.

Changes in Plan Provisions Subsequent to Measurement Date

We are aware of no changes in plan provisions subsequent to the June 30, 2016 measurement date.

B. RETIREMENT HEALTH INSURANCE ACCOUNT (RHIA)

Plan Description

As a member of OPERS, the District contributes to the Retirement Health Insurance Account (RHIA) for each of its eligible employees. RHIA is a cost-sharing, multiple-employer defined benefit other post-employment benefit plan (OPEB) administered by OPERS. RHIA pays a monthly contribution toward the cost of Medicare companion health insurance premiums of eligible retirees. Oregon Revised Statute (ORS) 238.420 established this trust fund. Authority to establish and amend the benefit provisions of RHIA reside with the Oregon Legislature. OPERS issues a publicly available financial report that may be obtained by writing to Oregon Public Employees Retirement System, PO Box 23700, Tigard, Oregon 97281-3700.

SEAL ROCK WATER DISTRICT, OREGON
Seal Rock, Oregon

NOTES TO FINANCIAL STATEMENTS
as of June 30, 2017

NOTE 8 - RETIREMENT BENEFITS - Continued

B. RETIREMENT HEALTH INSURANCE ACCOUNT (RHIA) (continued)

Funding Policy

Because RHIA was created by enabling legislation (ORS 238.420), contribution requirements of the plan members and the participating employers were established and may be amended only by the Oregon Legislature. ORS require that an amount equal to \$60 or the total monthly cost of Medicare companion health insurance premiums coverage, whichever is less, shall be paid from the RHIA established by the employer, and any monthly cost in excess of \$60 shall be paid by the eligible retired member in the manner provided in ORS 238.410. To be eligible to receive this monthly payment toward the premium cost the member must: (1) have eight years or more of qualifying service in OPERS at the time of retirement or receive a disability allowance as if the member had eight years or more of creditable service in OPERS, (2) receive both Medicare Parts A and B coverage, and (3) enroll in a OPERS-sponsored health plan. A surviving spouse or dependent of a deceased OPERS retiree who was eligible to receive the subsidy is eligible to receive the subsidy if he or she (1) is receiving a retirement benefit or allowance from OPERS or (2) was insured at the time the member died and the member retired before May 1, 1991.

Participating municipal corporations are contractually required to contribute to RHIA at a rate assessed each year by OPERS, currently 0.53 and 0.45 percent of annual covered payroll for OPERS members and OPSRP respectively. The OPERS Board sets the employer contribution rate based on the annual required contribution of the employers (ARC), an amount actuarially determined in accordance with the 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 actuarial liabilities (or funding excess) of the plan over a period not to exceed thirty years. The District's contributions to RHIA for the years ended June 30, 2017, 2016, and 2015 were paid and equaled the required contributions for each year.

NOTE 9 - OTHER INFORMATION

Commitments

Phase 3 of System Improvements for the Advanced Metering Infrastructure System (AMI) includes a signed contract that was awarded on June 22, 2017 for \$1,479,489. Construction on this contract has not yet begun. Permits for the AMI project have been applied for and construction is anticipated to begin in December 2017. The remaining contract obligation to the engineering firm for the AMI project is \$74,448 at June 30, 2017.

Phase 4 of System Improvements is also in the engineering and planning portion of the project. A construction contract has not yet been awarded. The remaining obligation to the engineering firm is \$31,725 at year end. The total of these contract obligations remaining at June 30, 2017 is \$1,553,937.

Economic Dependency

Seal Rock Water District purchases 100% of its water from the City of Toledo.

SEAL ROCK WATER DISTRICT, OREGON

NOTES TO FINANCIAL STATEMENTS as of June 30, 2017

NOTE 9 - OTHER INFORMATION (continued)

Risk Management

The District is exposed to various risks of loss related to theft of, damage to and destruction of assets, torts, errors and omissions, injuries to employees, and natural disasters. The District purchases commercial insurance for such risks. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Evaluation of Subsequent Events

Currently the District is in the process of applying for loans and grants to fund the Phase 4 Project which is estimated to cost \$12.5 million. The following loan and grant applications are in process:

- USDA-RUS GO Bond loan of \$6,549,000 for 25 years at 2.75% interest.
- USDA-RUS grant of \$2,500,000.
- IFA revenue bond loan of \$2,421,000 for 30 years at 1% interest.
- IFA grant of \$1,030,000.

The District has evaluated subsequent events through November 30, 2017, the date which the financial statements were available to be issued.

**SEAL ROCK WATER DISTRICT
OREGON**

REQUIRED SUPPLEMENTAL SECTION

SEAL ROCK WATER DISTRICT, OREGON
Seal Rock, Oregon

NOTES TO THE SCHEDULES OF THE DISTRICT'S PROPORTIONATE SHARE
OF THE NET PENSION LIABILITY (ASSET) AND SCHEDULE OF
CONTRIBUTIONS for the Year Ended June 30, 2017

Changes in Plan Provisions

We are aware of no changes in plan provisions from the June 30, 2015 measurement date.

Changes in Assumptions

Details and a comprehensive list of changes and methods and assumptions can be found in the 2012, 2014, and 2016 Experience Studies for the System, which were published on September 18, 2013, September 23, 2015, and July 26, 2017 respectively. These reports can be found at:

<http://www.oregon.gov/pers/Pages/Financials/Actuarial-Financial-Information.aspx>

SEAL ROCK WATER DISTRICT, OREGON

**SCHEDULE OF THE DISTRICT'S CONTRIBUTIONS
as of June 30, 2017**

**OREGON PUBLIC EMPLOYEE RETIREMENT SYSTEM
Last Four Fiscal Years**

Fiscal Year Ended	Contractually Required Contributions	Contributions in Relation to the Contractually Required Contributions	Contribution Defecency /(Excess)	District's Covered Employee Payroll	Contributions as a Percentage of Covered Employee Payroll
2014	\$ 21,527	\$ 21,654	\$ (127)	\$ 425,633	5.06%
2015	22,008	22,392	(384)	423,759	5.19
2016	40,348	40,897	(549)	441,799	9.13
2017	42,432	42,432	0	464,754	9.13

The amounts presented for each fiscal year were actuarial determined at December 31 and rolled forward to the measurement date for each year presented.

This schedule is presented to illustrate the requirements to show information for 10 years. However, until a full 10-year trend has been compiled, information is presented only for the years for which the required supplementary information is available.

SEAL ROCK WATER DISTRICT, OREGON

**SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET
PENSION LIABILITY (ASSET) as of June 30, 2017**

**OREGON PUBLIC EMPLOYEE RETIREMENT SYSTEM
Last Four Fiscal Years**

Fiscal Year Ended	District's Proportion of the Net Pension (Asset)/Liability	District's Proportionate Share of the Net Pension (Asset)/Liability	District's Covered Employee Payroll	District's Proportionate Share of the Net Pension (Asset)/Liability as a Percentage of its Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension (Asset)/Liability
2014	0.393%	\$ 200,660	\$ 413,981	48.5%	92.0%
2015	0.393%	(89,129)	425,633	-20.9%	103.6%
2016	0.454%	260,819	423,759	61.5%	91.9%
2017	0.465%	698,307	441,799	158.1%	80.5%

The amounts presented for each fiscal year were actuarial determined at December 31 and rolled forward to the measurement date for each year presented.

This schedule is presented to illustrate the requirements to show information for 10 years. However, until a full 10-year trend has been compiled, information is presented only for the years for which the required supplementary information is available.

**SEAL ROCK WATER DISTRICT
OREGON**

SUPPLEMENTAL SECTION

SEAL ROCK WATER DISTRICT, OREGON

DESCRIPTION OF BUDGETARY FUNDS

Pursuant to the provisions of Oregon Revised Statute, an individual schedule of revenues, expenditures, and changes in fund balances requires budget and actual be displayed for each fund where legally adopted budgets are required.

Budgetary comparison schedules include the following funds:

General Fund

The fund is used to account for the financial resources of the District that are not accounted for in any other fund. Principal sources of revenue are water sales, service fees and property taxes. Primary expenditures are for system maintenance and general administration.

Capital Projects Fund

The fund is used to account for expenditures for major construction and improvement. Principal sources of revenue are grants, loans and bond proceeds.

Debt Service Fund

The fund is used to account for the accumulation of resources for, and the payment of debt principal and interest for general obligation bond. The principal sources of revenue are from property taxes.

R.D. Requirement Reserve Fund

The fund is used to account for the accumulation of resources reserved for the payment of debt principal as required by the USDA Rural Development. The primary revenue is in investment interest.

Revenue Bond Fund

The fund is used to account for the accumulation of resources for, and the payment of debt principal and interest for revenue bonds. The principal source of revenue is transfers from the General Fund.

System Development Charges Fund

The fund is used to account for financial resources to be used for major system improvement. The primary revenue source is system development charges and investment income.

Water Source Improvement Reserve Fund

The fund is used to account for financial resources to be used for a portion of major capital repair, improvement expenditures incurred by the City of Toledo, and to develop another source of water. The primary revenue sources are transfers from the General Fund.

Depreciation Reserve Fund

The fund is used to account for financial resources for the replacement of vehicles and equipment. The primary source of revenues are transfers from the General Fund.

SRWD Land & Building Reserve Fund

The fund is used to account for financial resources to be used for the maintenance of the administrative office and shop. The primary revenue source is investment income.

SEAL ROCK WATER DISTRICT. OREGON

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND
BALANCE - BUDGET AND ACTUAL for the Year Ended June 30, 2017**

GENERAL FUND

	Original and Final Budget	Actual	Variance
REVENUES			
Water sales	\$ 1,646,400	\$ 1,686,796	\$ 40,396
Service connections	22,500	47,975	25,475
Miscellaneous	46,500	24,143	(22,357)
Grants	3,000	0	(3,000)
Interest	200	188	(12)
Subdivision assessments	1,000	0	(1,000)
Property taxes	<u>73,100</u>	<u>74,279</u>	<u>1,179</u>
Total revenues	<u>1,792,700</u>	<u>1,833,381</u>	<u>40,682</u>
EXPENDITURES			
Administrative/Office			
Personnel services	524,790	496,242	28,548
Materials and services	161,900	130,788	31,112
Capital outlay	<u>7,700</u>	<u>1,272</u>	<u>6,428</u>
Total administrative/office	<u>694,390</u>	<u>628,302</u>	<u>66,088</u>
Operations/Services			
Personnel services	278,500	212,905	65,595
Materials and services	707,150	508,691	198,459
Capital outlay	50,000	10,019	39,981
Operating contingencies	<u>100,000</u>	<u>0</u>	<u>100,000</u>
Total operations/services	<u>1,135,650</u>	<u>731,615</u>	<u>404,035</u>
Total expenditures	<u>1,830,040</u>	<u>1,359,917</u>	<u>470,123</u>
Excess (def) of revenues over expenditures	(37,340)	473,464	510,804
OTHER FINANCING SOURCES (USES)			
Transfers to other funds	<u>(362,660)</u>	<u>(362,660)</u>	<u>0</u>
Excess (def) of revenues over expenditures after transfer	(400,000)	110,804	510,804
FUND BALANCE - Beginning of year (Budget basis)	<u>400,000</u>	<u>564,718</u>	<u>164,718</u>
FUND BALANCE - End of year (Budget basis)	<u>\$ 0</u>	675,522	<u>\$ 675,522</u>
GAAP ADJUSTMENTS - Reconciled to June 2016		12,661,893	
Capital asset activity			
Additions		9,658	
Disposals		(61,965)	
Asset transfers		4,510,815	
Depreciation		(517,506)	
Long-term debt activity			
Principal payments		36,721	
Debt issuance		(126,285)	
Interest accrued		(9,261)	
Pension activity, net		<u>(77,112)</u>	
FUND BALANCE - End of Year (GAAP basis)		<u>\$17,102,480</u>	

SEAL ROCK WATER DISTRICT, OREGON

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND
BALANCE - BUDGET AND ACTUAL for the Year Ended June 30, 2017**

CAPITAL PROJECTS FUND

	Original and Final Budget	Actual	Variance
REVENUES			
Interest	\$ 5,000	\$ 4,217	\$ (783)
Grants	<u>2,974,045</u>	<u>1,059,869</u>	<u>(1,914,176)</u>
Total revenues	2,979,045	1,064,086	(1,914,959)
EXPENDITURES			
Capital outlay	<u>10,744,045</u>	<u>7,089,363</u>	<u>3,654,682</u>
Excess (def) of revenues over expenditures	<u>(7,765,000)</u>	<u>(6,025,277)</u>	<u>1,739,723</u>
OTHER FINANCING SOURCES (USES)			
Bond proceeds	5,851,000	5,193,785	657,215
Transfers from other funds	<u>134,000</u>	<u>134,000</u>	<u>0</u>
Total other financing sources (uses)	<u>5,985,000</u>	<u>5,327,785</u>	<u>(657,215)</u>
Excess (def) of revenues over expenditures after other sources (uses)	(1,780,000)	(697,492)	1,082,508
FUND BALANCE - Beginning of year (Budget basis)	<u>1,780,000</u>	<u>1,305,057</u>	<u>(474,943)</u>
FUND BALANCE - End of year (Budget basis)	<u>\$ 0</u>	607,565	<u>\$ 607,565</u>
GAAP ADJUSTMENTS - Reconciled to June 2016		(9,745,935)	
Capital asset activity			
Additions		2,036,272	
Asset transfers		(4,510,815)	
Long-term debt activity			
Principal payments		355,027	
Debt issuance		(3,451,000)	
Interim loan draw down		(1,616,500)	
Interim loan payoff		5,051,000	
Bond premium amortization		11,286	
Interest accrued		<u>(1,450)</u>	
FUND BALANCE - End of Year (GAAP basis)		<u>\$ (11,264,550)</u>	

SEAL ROCK WATER DISTRICT, OREGON

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND
BALANCE - BUDGET AND ACTUAL for the Year Ended June 30, 2017**

DEBT SERVICE FUND

	<u>Original and Final Budget</u>	<u>Actual</u>	<u>Variance</u>
REVENUES			
Interest	\$ 500	\$ 766	\$ 266
Property taxes	566,368	575,046	8,678
Boundary withdrawal income	12,198	9,535	(2,663)
Miscellaneous income	<u>0</u>	<u>866</u>	<u>866</u>
 Total revenues	 579,066	 586,213	 7,147
EXPENDITURES			
Debt service	<u>606,874</u>	<u>606,871</u>	<u>3</u>
 Excess (def) of revenues over expenditures	 (27,808)	 (20,658)	 7,150
 Unappropriated ending fund balance	 (237,192)	 0	 237,192
FUND BALANCE			
Beginning of year (Budget basis)	<u>265,000</u>	<u>282,648</u>	<u>17,648</u>
 End of year (Budget basis)	 <u>\$ 0</u>	 <u>\$ 261,990</u>	 <u>\$ 261,990</u>

SEAL ROCK WATER DISTRICT, OREGON

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND
BALANCE - BUDGET AND ACTUAL for the Year Ended June 30, 2017**

R.D. REQUIREMENT RESERVE FUND

	<u>Original and Final Budget</u>	<u>Actual</u>	<u>Variance</u>
REVENUES			
Interest	\$ 50	\$ 50	\$ 0
EXPENDITURES			
Capital outlay	<u>39,280</u>	<u>0</u>	<u>39,280</u>
Excess (def) of revenues over expenditures	(39,230)	50	39,280
OTHER FINANCING SOURCES (USES)			
Transfer from other funds	<u>7,430</u>	<u>7,430</u>	<u>0</u>
Excess (def) of revenues over expenditures after transfers	(31,800)	7,480	39,280
FUND BALANCE			
Beginning of year (Budget basis)	<u>31,800</u>	<u>31,812</u>	<u>12</u>
End of year (Budget basis)	<u>\$ 0</u>	<u>\$ 39,292</u>	<u>\$ 39,292</u>

SEAL ROCK WATER DISTRICT, OREGON

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND
BALANCE - BUDGET AND ACTUAL for the Year Ended June 30, 2017**

REVENUE BOND FUND

	<u>Original and Final Budget</u>	<u>Actual</u>	<u>Variance</u>
REVENUES			
Interest	\$ 22	\$ 44	\$ 22
EXPENDITURES			
Debt service	<u>74,532</u>	<u>74,362</u>	<u>170</u>
Excess (def) of revenues over expenditures	(74,510)	(74,318)	192
OTHER FINANCING SOURCES (USES)			
Transfers from other funds	<u>74,330</u>	<u>74,330</u>	<u>0</u>
Excess (def) of revenues over expenditures after transfers	(180)	12	192
FUND BALANCE			
Beginning of year (Budget basis)	<u>180</u>	<u>204</u>	<u>24</u>
End of year (Budget basis)	<u>\$ 0</u>	<u>\$ 216</u>	<u>\$ 216</u>

SEAL ROCK WATER DISTRICT, OREGON

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND
BALANCE - BUDGET AND ACTUAL for the Year Ended June 30, 2017**

SYSTEM DEVELOPMENT CHARGES FUND

	<u>Original and Final Budget</u>	<u>Actual</u>	<u>Variance</u>
REVENUES			
Interest	\$ 100	\$ 766	\$ 666
System development charges	<u>58,728</u>	<u>84,422</u>	<u>25,694</u>
Total revenues	58,828	85,188	26,361
EXPENDITURES			
Capital outlay	<u>187,828</u>	<u>12</u>	<u>187,816</u>
Excess (def) of revenues over expenditures	(129,000)	85,176	214,176
FUND BALANCE			
Beginning of year (Budget basis)	<u>129,000</u>	<u>148,452</u>	<u>19,452</u>
End of year (Budget basis)	<u>\$ 0</u>	233,628	<u>\$ 233,628</u>
GAAP ADJUSTMENTS - Reconciled to June 2016		<u>2,429</u>	
FUND BALANCE - End of Year (GAAP basis)		<u>\$ 236,057</u>	

SEAL ROCK WATER DISTRICT, OREGON

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND
BALANCE - BUDGET AND ACTUAL for the Year Ended June 30, 2017**

WATER SOURCE IMPROVEMENT RESERVE FUND

	<u>Original and Final Budget</u>	<u>Actual</u>	<u>Variance</u>
REVENUES			
Interest	\$ 700	\$ 5,283	\$ 4,583
EXPENDITURES			
Capital outlay	<u>657,600</u>	<u>511</u>	<u>657,089</u>
Excess (def) of revenues over expenditures	(656,900)	4,772	661,672
OTHER FINANCING SOURCES (USES)			
Transfer from other funds	<u>96,900</u>	<u>96,900</u>	<u>0</u>
Excess (def) of revenues over expenditures after transfers	(560,000)	101,672	661,672
FUND BALANCE			
Beginning of year (Budget basis)	<u>560,000</u>	<u>507,376</u>	<u>(52,624)</u>
End of year (Budget basis)	<u>\$ 0</u>	<u>\$ 609,048</u>	<u>\$ 609,048</u>

SEAL ROCK WATER DISTRICT, OREGON

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND
BALANCE - BUDGET AND ACTUAL for the Year Ended June 30, 2017**

DEPRECIATION RESERVE FUND

	<u>Original and Final Budget</u>	<u>Actual</u>	<u>Variance</u>
REVENUES			
Interest	\$ 200	\$ 676	\$ 476
EXPENDITURES			
Capital outlay	<u>150,200</u>	<u>10,033</u>	<u>140,167</u>
Excess (def) of revenues over expenditures	(150,000)	(9,357)	140,643
OTHER FINANCING SOURCES (USES)			
Transfers from other funds	<u>50,000</u>	<u>50,000</u>	<u>0</u>
Excess (def) of revenues over expenditures after transfers	(100,000)	40,643	140,643
FUND BALANCE			
Beginning of year (Budget basis)	<u>100,000</u>	<u>105,334</u>	<u>5,334</u>
End of year (Budget basis)	<u>\$ 0</u>	<u>\$ 145,977</u>	<u>\$ 145,977</u>

SEAL ROCK WATER DISTRICT, OREGON

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND
BALANCE - BUDGET AND ACTUAL for the Year Ended June 30, 2017**

SRWD LAND & BUILDING RESERVE FUND

	<u>Original and Final Budget</u>	<u>Actual</u>	<u>Variance</u>
REVENUES			
Interest	\$ 200	\$ 1,191	\$ 991
EXPENDITURES			
Capital outlay	<u>134,700</u>	<u>0</u>	<u>134,700</u>
Excess (def) of revenues over expenditures	(134,500)	1,191	135,691
FUND BALANCE			
Beginning of year (Budget basis)	<u>134,500</u>	<u>135,120</u>	<u>620</u>
End of year (Budget basis)	<u>\$ 0</u>	<u>\$ 136,311</u>	<u>\$ 136,311</u>

SEAL ROCK WATER DISTRICT, OREGON

RECONCILIATION OF REVENUES AND EXPENDITURES (BUDGETARY BASIS) TO THE STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION for the Year Ended June 30, 2017

	<u>Total</u> <u>Revenues</u>	<u>Total</u> <u>Expenditures</u>	<u>Net</u>
Budgetary Basis			
General Fund	\$ 1,833,381	\$ 1,722,577	\$ 110,804
Capital Projects Fund	6,391,871	7,089,363	(697,492)
Debt Service Fund	586,213	606,871	(20,658)
R. D. Requirement Reserve Fund	7,480	0	7,480
Revenue Bond Fund	74,374	74,362	12
System Development Charges Fund	85,188	12	85,176
Water Source Improvement Reserve Fund	102,183	511	101,672
Depreciation Reserve Fund	50,676	10,033	40,643
SRWD Land & Building Reserve Fund	<u>1,191</u>	<u>0</u>	<u>1,191</u>
 Total budgetary basis	 <u><u>\$ 9,132,557</u></u>	 <u><u>\$ 9,503,729</u></u>	 (371,172)
 Add (Deduct) Items to Reconcile to Net Income on a Financial Reporting Basis			
Capital asset activity			
Additions			2,045,930
Disposals			(61,965)
Depreciation			(517,506)
Long-term debt activity			
Principal payments			391,748
Debt issuance			(3,577,285)
Interim loan draw down			(1,616,500)
Interim loan payoff			5,051,000
Bond premium amortization			11,286
Interest accrued			(10,711)
Pension activity, net			<u>(77,112)</u>
 Change in net position			 1,267,713
 NET POSITION - Beginning of year			 <u>5,999,108</u>
 NET POSITION - End of year			 <u><u>\$ 7,266,821</u></u>

**SEAL ROCK WATER DISTRICT
OREGON**

SINGLE AUDIT SECTION

SEAL ROCK WATER DISTRICT, OREGON

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
for the Year Ended June 30, 2017**

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Total Federal Expenditures
Department of Agriculture			
<i>Program:</i>			
Water and Waste Disposal Systems for Rural Communities (loan funds)	10.760	-	\$ 889,869
Water and Waste Disposal Systems for Rural Communities (grant funds)	10.760	-	<u>754,240</u>
<i>Subtotal CFDA 10.760</i>			1,644,109
Emergency Community Water Assistance Grant	10.763	-	<u>150,000</u>
<i>Total Department of Agriculture</i>			<u>1,794,109</u>
 Environmental Protection Agency			
<i>Passed through:</i>			
Oregon Infrastructure Financing Authority			
<i>Program:</i>			
Capitalization Grants for Drinking Water State Revolving Funds (loan funds)	66.468	-	126,285
Capitalization Grants for Drinking Water State Revolving Funds (forgivable loan funds)	66.468		<u>20,000</u>
<i>Subtotal CFDA 66.468</i>			<u>146,285</u>
<i>Total Environmental Protection Agency</i>			<u>146,285</u>
<i>Total Federal Expenditures</i>			<u><u>\$ 1,940,394</u></u>

SEAL ROCK WATER DISTRICT, OREGON

**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
for the Year Ended June 30, 2017**

NOTE A - BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards (SEFA) includes the federal award activity of Seal Rock Water District and is presented on the accrual basis of accounting. The information in the SEFA is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Costs Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). For existing awards prior to December 26, 2014, the expenditures follow the cost principles contained in OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the SEFA presents only a selected portion of the operations of Seal Rock Water District, it is not intended to and does not present the financial position, changes in net position, or cash flows of Seal Rock Water District.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the SEFA are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

NOTE C - FEDERAL LOAN

The U.S. Department of Agriculture (USDA), Rural Development, Rural Utilities Service (RUS) provided a loan of \$3,451,000 to assist in funding the water system improvement project. The entire amount of the loan was received on October 27, 2015, and \$889,869 of these loan funds was spent during the year ended June 30, 2017. The loan is due in 25 years, and requires annual payments of \$174,207.

<u>Grantor/Program</u>	<u>CFDA</u>	<u>Dated</u>	<u>Matures</u>	<u>2017</u>	<u>2016</u>
US Department of Agriculture Water and Waste Disposal Systems for Rural Comm.	10.760	10/27/15	10/27/40	<u>\$3,451,000</u>	<u>\$3,451,000</u>

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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

Board of Commissioners
Seal Rock Water District
Seal Rock, Oregon 97376

I have audited, in accordance with the 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 the business-type activities of Seal Rock Water District, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Seal Rock Water District's basic financial statements, and have issued my report thereon dated November 30, 2017.

Internal Control Over Financial Reporting

In planning and performing my audit of the financial statements, I considered Seal Rock Water 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 my opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Seal Rock Water District's internal control. Accordingly, I do not express an opinion on the effectiveness of the Seal Rock Water 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 entity'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.


My 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 the internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during my audit I did not identify any deficiencies in internal control that I 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 Seal Rock Water District's financial statements are free from material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grants 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 my audit, and accordingly, I do not express such an opinion. The results of my 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 my testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



SIGNE GRIMSTAD
Certified Public Accountant
Newport, Oregon
November 30, 2017

GRIMSTAD & ASSOCIATES

Certified Public Accountants

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Independent Auditor's Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by The Uniform Guidance

Board of Commissioners
Seal Rock Water District
Seal Rock, Oregon 97376

Report on Compliance for Each Major Federal Program

I have audited Seal Rock Water District's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on Seal Rock Water District's major federal program for the year ended June 30, 2017. Seal Rock Water District's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

My responsibility is to express an opinion on compliance for Seal Rock Water District's major federal program based on my audit of the types of compliance requirements referred to above. I conducted my audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that I plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Seal Rock Water District's compliance with those requirements and performing such other procedures as I considered necessary in the circumstances.

I believe that my audit provides a reasonable basis for my opinion on compliance for its major federal program. However, my audit does not provide a legal determination of Seal Rock Water District's compliance.

Opinion on the Major Federal Program

In my opinion, Seal Rock Water District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2017.


Report Internal Control Over Compliance

Management of Seal Rock Water District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing my audit of compliance, I considered Seal Rock Water District's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, I do not express an opinion on the effectiveness of Seal Rock Water District's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

My consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. I did not identify any deficiencies in internal control over compliance that I consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of my testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



SIGNE GRIMSTAD
Certified Public Accountant
Newport, Oregon
November 30, 2017

SEAL ROCK WATER DISTRICT, OREGON
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
for the Year Ended June 30, 2017

Section 1 - Summary of Auditors' Results

Financial Statements

Type of auditors' report issued?	Unqualified
Internal control over financial reporting:	
Material weaknesses identified?	No
Significant deficiencies identified that are not considered to be material weaknesses?	No
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over major programs:	
Material weaknesses identified?	No
Significant deficiencies identified that are not considered to be material weaknesses?	No
Type of auditors' report issued on compliance for major programs?	Unmodified
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)?	No
Identification of major programs:	CFDA No.
Water and Waste Disposal Systems for Rural Communities	10.760
Dollar threshold used to distinguish between Type A and Type B programs?	\$ 750,000
Auditee qualified as low-risk auditee?	No

SEAL ROCK WATER DISTRICT, OREGON
SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
for the Year Ended June 30, 2016

Section 1 - Summary of Auditors' Results

Financial Statements

Type of auditors' report issued?	Unqualified
Internal control over financial reporting:	
Material weaknesses identified?	No
Significant deficiencies identified that are not considered to be material weaknesses?	No
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over major programs:	
Material weaknesses identified?	No
Significant deficiencies identified that are not considered to be material weaknesses?	No
Type of auditors' report issued on compliance for major programs?	Unmodified
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)?	No
Identification of major programs:	CFDA No.
Water and Waste Disposal Systems for Rural Communities	10.760
Dollar threshold used to distinguish between Type A and Type B programs?	\$ 750,000
Auditee qualified as low-risk auditee?	No

**SEAL ROCK WATER DISTRICT
OREGON**

COMPLIANCE SECTION

GRIMSTAD & ASSOCIATES

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Independent Auditor's Report Required by Oregon State Regulations

Board of Commissioners
Seal Rock Water District
Seal Rock, Oregon

I have audited, in accordance with the 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 the governmental activities, the business-type activities fund of the Seal Rock Water District, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Seal Rock Water District's basic financial statements, and have issued my report thereon dated November 30, 2017.

Compliance

As part of obtaining reasonable assurance about whether the Seal Rock Water District financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, including the provisions of Oregon Revised Statutes as specified in Oregon Administrative Rules 162-10-000 through 162-10-330 of the Minimum Standards for Audits of Oregon Municipal Corporations, 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 my audit, and accordingly, I do not express such an opinion.

I performed procedures to the extent I considered necessary to address the required comments and disclosures which included, but were not limited to the following:

- Accounting records and related internal control structure.
- Deposit of public funds with financial institutions (ORS Chapter 295).
- Indebtedness limitations, restrictions and repayment.
- Budgets legally required (ORS Chapter 294).
- Insurance and fidelity bonds in force or required by law.
- Authorized investment of surplus funds (ORS Chapter 294).
- Public contracts and purchasing (ORS Chapters 279A, 279B, 279C).
- Programs funded from outside sources.

In connection with my testing nothing came to my attention that caused me to believe the Seal Rock Water District was not in substantial compliance with certain provisions of laws, regulations, contracts, and grants, including the provisions of Oregon Revised Statutes as specified in Oregon Administrative Rules 162-10-000 through 162-10-320 of the Minimum Standards for Audits of Oregon Municipal Corporations.

Members:
AICPA OSCPA & OAI

Internal Control Over Financial Reporting


In planning and performing my audit of the financial statements, I considered Seal Rock Water 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 my opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Seal Rock Water District's internal control. Accordingly, I do not express an opinion on the effectiveness of Seal Rock Water 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 entity'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.

My 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 my audit I did not identify any deficiencies in internal control that I consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Purpose of This Report

This report is intended solely for the information and use of management, the audit committee, Board of Commissioners, and Oregon Secretary of State Audits Division and is not intended to be and should not be used by anyone other than these parties.



SIGNE GRIMSTAD
Certified Public Accountant
Newport, Oregon
November 30, 2017