

**SEAL ROCK WATER DISTRICT  
OREGON**

**AUDIT REPORT**

**JUNE 30, 2016**

Prepared By  
**SIGNE GRIMSTAD**  
Certified Public Accountants  
530 NW 3rd, Suite E  
PO Box 1930  
Newport, Oregon 97365

## SEAL ROCK WATER DISTRICT, OREGON

### COMMISSIONERS

Chairperson	John Garcia	253 SE 143 <sup>rd</sup> 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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**GRIMSTAD & ASSOCIATES**  
Certified Public Accountants

November 29, 2016

Newport Office:  
P.O. Box 1930  
530 N.W. 3rd St. Ste E  
Newport, OR 97365  
(541) 265-5411  
Fax (541) 265-9255  
info@grimstad-assoc.com

**INDEPENDENT AUDITOR'S REPORT**

Board of Commissioners  
Seal Rock Water District  
Seal Rock, Oregon

Lincoln City Office:  
1349 N.W. 15th Street  
Lincoln City, OR 97367  
(541) 994-5252  
Fax (541) 994-2105

**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, 2016, 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, 2016, 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 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 U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, 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 29, 2016, 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 29, 2016 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**  
Certified Public Accountant



PO Box 190 · 1037 NW Grebe Street · Seal Rock, Oregon 97376  
Phone: 541.563.3529 · FAX 541.563.4246 · Email: info@srwd.org

## Seal Rock Water District

### Management Discussion and Analysis (MD&A) Fiscal Year Ended June 30, 2016

The intent of the Management Discussion and Analysis is to provide highlights of the Seal Rock Water District's financial activities for fiscal year 2015-16, ending June 30, 2016. 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 \$21,360,392 with Capital Assets of \$17,323,693 net of accumulated depreciation. Current Assets are \$3,945,815 and other noncurrent assets are \$25,987. Deferred Outflows of Resources for Pension Contributions are \$64,897 at June 30, 2016.
- The assets of Seal Rock Water District exceeded its liabilities at the close of the fiscal year by \$5,999,108 (Net Position). Of this amount \$2,670,007 (unrestricted net position) may be used to meet the District's ongoing obligations.
- Net investment in capital assets, less related debt is \$2,909,103. Revenue Bonded debt is \$1,367,686 and General Obligation debt is \$7,639,484. Interim Loan is \$5,051,000.
- The District's net position increased by \$13,048 from June 30, 2015 and decreased by \$602,518 the previous year.
- Total Operating Revenues for fiscal year 2015-16 were \$1,724,195 which is a decrease of 1.8% over the prior year. This change reflects the required posting of Net Pension Income at the end of June 30, 2016.
- Total Operating Expenses for the fiscal year 2015-16 were \$2,058,380. This figure is 14.2% higher than the prior year, due primarily to increases in Payroll and Benefits, Maintenance and Repair and Water Purchase.
- Total Liabilities and Deferred Inflows of Resources are \$15,361,284 with long-term liabilities at \$13,927,240, current liabilities at \$1,346,622 and deferred inflows of resources for pension at \$87,422.

## **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 present 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 25 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 \$5,999,108 at the close of the fiscal year, an increase of \$13,048 from the prior year. This is primarily due to a significant decrease in the District's contributions to its share of the City of Toledo's Capital Improvements.



48% of the District's net positions (\$2,909,103) 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.

<b>Net Position</b>				
	<b>2016</b>	<b>2015</b>	<b>Difference</b>	<b>%</b>
<b>ASSETS</b>				
Current Assets	\$3,945,815	\$2,480,004	\$1,465,811	59.11%
Capital Assets	17,323,693	14,979,803	2,343,890	15.65%
Other noncurrent Assets	25,987	117,802	(91,815)	-77.94%
Total Assets	21,295,495	17,577,609	3,717,886	21.15%
Deferred Outflows-Pension Contributions	64,897	22,008	42,889	194.88%
Total Assets & Deferred Outflows	21,360,392	17,599,617	3,760,775	21.37%
<b>LIABILITIES</b>				
Current Liabilities	1,346,622	1,211,085	135,537	11.19%
Long Term Liabilities	13,927,240	10,218,457	3,708,783	36.29%
Total Liabilities	15,273,862	11,429,542	3,844,320	33.63%
Deferred Inflows-Pension	87,422	184,015	(96,593)	-52.49%
Total Liabilities & Deferred Inflows	15,361,284	11,613,557	3,747,727	32.27%
<b>NET POSITION</b>				
Net Invested in Capital Assets	2,909,103	4,334,475	(1,425,372)	-32.88%
Restricted	419,998	351,169	68,829	19.60%
Unrestricted	2,670,007	1,300,416	1,369,591	105.32%
Total Net Position	\$5,999,108	\$5,986,060	\$13,048	0.22%

A portion of the District's net position (7% or \$419,998) represents resources that are subject to external restrictions on how they may be used. Unrestricted net position (45% or \$2,670,007) 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 \$13,048, an increase of 102.1% over the previous year. The change in net position is comprised of operating and non-operating loss of \$55,491 and capital contributions of \$68,539 which represents system development charges. Operating loss decreased net position by \$334,185 primarily due to increase in Payroll and Benefits, Water Purchase, and Maintenance and Repair.

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, 2016 was .00454% or \$260,819.

At end of the FY 2015-16 the District's financial reports reflected deferred outflows of resources of \$64,897. This amount was derived by adding the differences between expected and actual experience which was \$14,065, changes in proportionate share which was \$10,484, and the contribution the District made subsequent to measurement date which was \$40,348. The District also reported deferred inflows of resources of \$87,422. This amount was derived by adding the net difference between projected and actual earnings on investments which was \$54,674 and \$32,748 which was the differences between employer contributions and employer's proportionate share of system contributions.

	<b>Change in Net Position</b>			
	<b>2016</b>	<b>2015</b>	<b>Difference</b>	<b>%</b>
<b>OPERATING REVENUES</b>				
Water Service	\$1,656,422	\$1,609,406	\$47,016	2.92%
Other Services	39,106	27,690	11,416	41.23%
Net Pension Income	0	106,128	(106,128)	-100.00%
Miscellaneous	28,667	12,298	16,369	100.00%
Total Operating Revenues	1,724,195	1,755,522	(31,327)	-1.78%
<b>OPERATING EXPENSES</b>				
Payroll and benefits	891,130	658,080	233,050	35.41%
Water purchase	458,420	387,905	70,515	18.18%
Maintenance & repairs	162,086	153,857	8,229	5.35%
General and admin	36,887	84,582	(47,695)	-56.39%
Professional services	38,219	45,944	(7,725)	-16.81%
Supplies	10,938	16,793	(5,855)	-34.87%
Depreciation	460,700	455,805	4,895	1.07%
Total Operating Expenses	2,058,380	1,802,966	255,414	14.17%
<b>OPERATING INCOME (LOSS)</b>	(334,185)	(47,444)	(286,741)	604.38%
<b>NON OPERATING REVENUES (EXPENSES)</b>				
Interest income	11,744	2,400	9,344	389.33%
Property taxes	609,709	622,319	(12,610)	-2.03%
Grants/Loan Proceeds	556,519	250,368	306,151	122.28%
Bond amortization	11,286	11,286	0	0.00%
Boundary Income	65,471	0	65,471	0.00%
Capital contributions-City of Toledo	(635,619)	(1,172,306)	536,687	-45.78%
Interest expense	(340,416)	(305,846)	(34,570)	11.30%
Total Nonoperating Revenues (Expenses)	278,694	(591,779)	870,473	-147.09%
Income (Loss) Before Contributions	(55,491)	(639,223)	583,732	-91.32%
<b>CAPITAL CONTRIBUTIONS</b>	68,539	36,705	31,834	86.73%
<b>CHANGES IN NET POSITION</b>	13,048	(602,518)	615,566	-102.17%
Net Position - Beginning of Year	5,986,060	6,588,578	(602,518)	-9.14%
Net Position - End of Year	\$5,999,108	\$5,986,060	\$13,048	0.22%

### 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 increased by \$1,369,591 over the previous year.

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 \$10 million remaining General Bond Authority which will be issued in the future to finance the remaining capital improvements as outlined in the 2010 Master Plan and Amendments to the Master Plan, and to pay for the District's share of the City of Toledo's Capital costs in providing water to the District.

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 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 District also received approval through Federal Emergency Management Agency (FEMA) Hazard Mitigation Grant Program to fund the construction of a new intertie with the City of Newport which was completed on August 30, 2015. The total project cost was \$938,460. FEMA funded 66.72% of the project cost which totaled \$626,083. The District received grant funding through Oregon State Infrastructure Finance Authority for approximately 16.75% of the project cost totaling \$157,221. The City of Newport contributed \$74,999 toward the project while the District contributed \$80,155 to make up the balance, and to meet the District's required matching obligation.

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 2015 – 16 consistent with increases in the purchase of wholesale water from the City of Toledo. 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, Professional Services, Supplies, and Depreciation. They combined for a net increase of \$255,414 over the prior year and Net Operating loss increase of 604% over the prior year. Net Position increased by \$13,048 due primarily to the decrease of the District's contribution of its share of City of Toledo's Capital Improvements.

## **Capital Assets and Debt Administration**

### Capital Assets

Seal Rock Water District's investment in capital assets as of June 30, 2016 is \$17.32 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 15.65% compared to the prior year. This figure includes the newly completed SRWD/Newport Intertie.

### **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.

The District received funding through USDA's Emergency Community Water Assistance Grant (ECWAG) program to complete the emergency waterline replacement on Oceania Drive in the Bayshore Community. The emergency improvements partially funded through the ECWAG program included replacing 2100 LF of main line, 2 Fire Hydrants, and 54 service laterals. The total project cost including engineering was \$197,986.00. The District received \$150,000.00 in grant proceeds through the ECWAG program.

In addition to completing the improvements on Oceania Drive, the District Board of Commissioners approved the emergency replacement of failing pipeline on 143<sup>rd</sup> Street. The emergency improvements included replacing 1500 LF of 8 inch mainline, 24 service laterals, and 2 new fire hydrants. The total project cost funded through capital reserves was \$151,424.

### Long Term Debt

At the end of the fiscal year, Seal Rock Water District had long-term debt outstanding of \$9,007,170. \$1,367,686 of this is secured by revenue bonds, and \$7,639,484 (includes bond premium of \$186,185) 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 \$391,749.

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 \$15,024,951 for fiscal year 2016-17. 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 2016-17 are 11.85% for Tier 1/Tier 2 and 7.07 % 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.
- The District will pay 50% of the City of Toledo's capital improvements of the system used for providing water to the District.
- 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 \$3,262,793.25. 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 have been working with the contractor to complete improvements within the terms and conditions of the contract.
- The District staff and engineers are in the process of preparing 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.
- Recently the District received grant/loan financing through Business Oregon's Infrastructure Finance Authority (IFA), Safe Drinking Water Revolving Loan Fund Program (SDWRLFP). Purpose of funding is to complete preliminary engineering and design of a source water intake for the District. The award consists of a loan of \$130,000.00 and a Grant of \$20,000.00, with an interest rate on the loan amount of 1% for a maximum term of 7 years. This project was completed by ch2m consultant engineers and the District staff is in the process of closing out this financing with IFA before April 2017.
- 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 in the amount of \$2 million to meet this obligation. \$400,000 remains available in this 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 4 Proposed Improvements consisting of

developing 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 4 improvements is \$12.5M.

- District staff has submitted an application for mitigation funding through the State Office of Emergency Management, Hazard Mitigation Grant Program to fund a portion of Phase 4 improvements. Funding request through OEM-HMGP-4258 includes the construction of the raw water supply line from the Proposed Beaver Creek intake to the Makai Tank site, at a total cost of \$2,275,000.00. The project includes seismic and tsunami resiliency, combined with facilitation of rapid recovery.

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 1V Conceptual Design Report for the SRWD Beaver Creek Water Supply*, also adopted by the Board in September 2016, the District will seek the best options for funding 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 2016-17.

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 11/30/2016
2016-17	787,299,983	619,210,470	663,436	0.1259	0.9487	-	88.71%
2015-16	663,486,573	597,760,160	623,764	0.1259	0.9225	97.48%	97.48%
2014-15	704,621,926	609,717,600	630,683	0.1259	0.9127	96.36%	98.33%
2013-14	696,506,325	574,993,497	727,905	0.1259	1.1000	95.78%	98.97%
2012-13	746,917,907	571,208,327	797,076	0.1259	1.2264	95.30%	99.63%
2011-12	818,312,397	556,310,453	414,647	0.1259	0.5990	94.87%	99.73%
2010-11	889,096,236	536,285,156	215,440	0.1259	0.2664	94.68%	99.75%

(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.

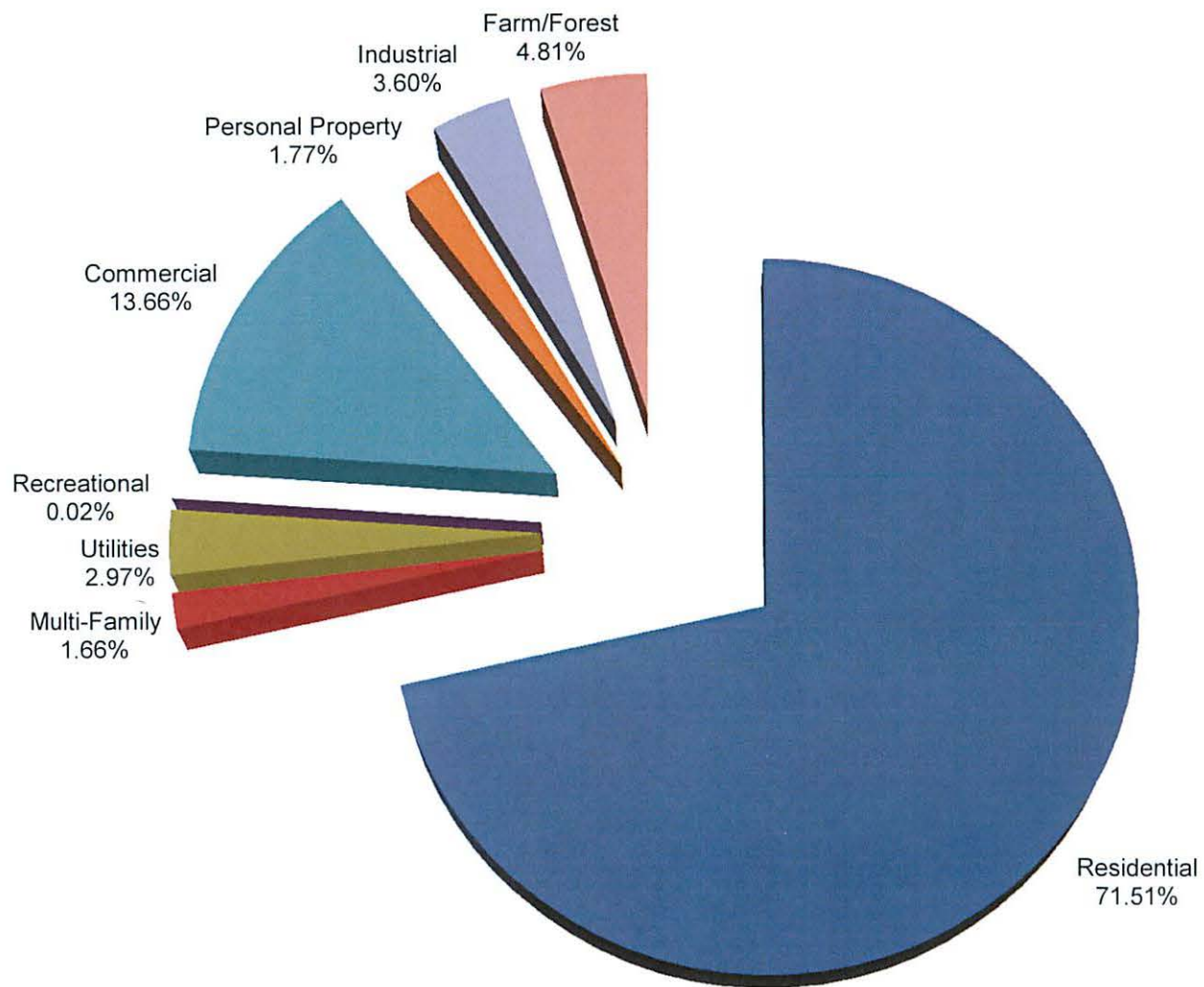
(3) Bond Levy Rate is the voter-approved levy rate for obligation bonds outside of the tax limitation measure.

(4) In process of collection.

Source: Lincoln County Treasurer and Assessor, November 30, 2016

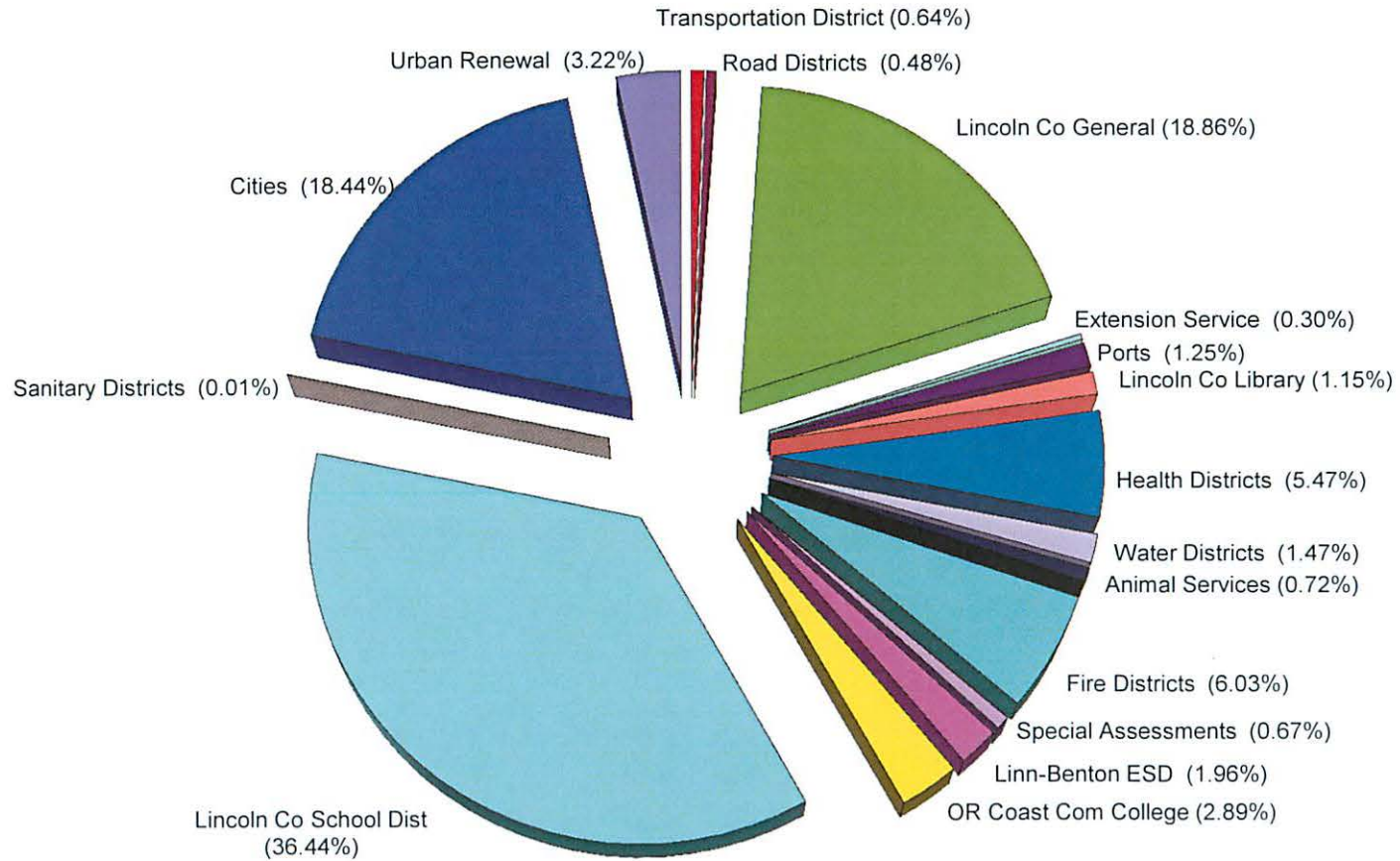


WHO PAYS LINCOLN COUNTY PROPERTY TAXES  
2016-2017



IX

# LINCOLN COUNTY 2016-2017 YOUR TAX DOLLAR DISTRIBUTION



IIX

**Supplemental  
Continuing Disclosure  
Information  
Seal Rock Water District November 30, 2016**

<b>General Obligation Debt</b>	<b>2015-16</b>	<b>2016-17</b>
Real Market Value	663,486,573	787,299,983
General Obligation Debt Capacity (10.0% of RMV)	66,348,657	78,729,998
Outstanding Obligations Subject to Limitation <sup>(1)</sup>	7,792,062	7,453,299
Remaining General Obligation Debt Capacity	58,556,595	71,276,699
Percent of Remaining Debt Capacity/Total Debt Capacity	88.26%	90.53%
Percent of Outstanding Obligation/Total Debt Capacity	11.74%	9.47%
Percent of Outstanding Obligation/Real Market Value	1.17%	0.95%

Source : the District

**Consolidated Tax Rates Per \$1,000  
TAX CODE AREA: 326 (AV \$146,738,480)  
REPRESENTS 23.70% OF DISTRICT'S ASSESSED VALUE ON ROLL**

Fiscal Year	Real Market Value <sup>(1)</sup>	Taxable Assessed		Billing Rate Per \$1,000 of Taxable	Bond Levy Rate Per \$1,000 of Assessed Value <sup>(3)</sup>	Consolidated Rate	Percent Collected as of	
		Value <sup>(2)</sup>	Net Tax Imposed				Year of Levy	11/30/2016
2016-17	787,299,983	619,210,470	663,436	0.1259	0.9487	1.0746	In process of collection	88.71%
2015-16	663,486,573	597,760,160	624,764	0.1259	0.9225	1.0484	97.48%	97.48%
2014-15	704,621,926	609,717,600	630,683	0.1259	0.9127	1.0386	96.36%	98.33%
2013-14	696,506,325	574,993,497	727,905	0.1259	1.1000	1.2259	95.78%	98.97%
2012-13	746,917,907	571,208,327	797,076	0.1259	1.2264	1.3523	95.30%	99.63%
2011-12	818,312,397	556,310,453	414,947	0.1259	0.5990	0.7249	94.87%	99.73%
2010-11	889,096,236	536,285,156	215,440	0.1259	0.2664	0.3923	94.68%	99.75%

(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, 2016**

Outstanding Debt	Date of Issue	Date of Maturity	Amount Issued	Outstanding Principal Amount
<b>Revenue Obligations</b>				
Water Revenue Installment Bonds (US Department of Agriculture)	6/1/2012	6/1/2042	1,505,000	1,367,686
<b>Total Revenue Obligations</b>			<b>1,505,000</b>	<b>1,367,686</b>
<b>General Obligation Bonds</b>				
General Obligation Bonds, Series 2011	10/27/2011	10/27/2041	1,626,200	1,498,299
General Obligation Bonds, Series 2012	6/13/2012	6/1/2032	5,000,000	4,065,000
General Obligation Bonds, Series 2013	2/27/2013	6/1/2036	2,075,000	1,890,000
<b>Total General Obligations</b>			<b>8,701,200</b>	<b>7,453,299</b>
<b>Total Outstanding Obligations</b>			<b>\$10,206,200</b>	<b>\$8,820,985</b>

Source: The District.

**LINCOLN COUNTY  
MAJOR TAXPAYERS  
2016-17 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	\$175,251,060	2.39%	\$2,759,114	2.56%
Central Lincoln PUD	74,919,500	1.02%	1,055,803	0.98%
Plum Creek Timberlands LP	53,549,370	0.73%	650,743	0.60%
Northwest Natural Gas Co.	41,158,200	0.56%	641,962	0.60%
WorldMark The Club	39,210,500	0.54%	496,199	0.46%
Devils Lake Road LLC	38,925,950	0.53%	608,618	0.56%
Nestucca Forests LLC	31,895,800	0.44%	390,130	0.36%
Charter Communications	29,056,700	0.40%	461,676	0.43%
Century Link	20,962,400	0.29%	298,059	0.28%
Pacificorp	20,814,000	0.28%	269,833	0.25%
<b>Total Tax Payers in the County</b>	<b>\$525,743,480</b>	<b>7.18%</b>	<b>\$7,632,137</b>	<b>7.08%</b>
<b>Remaining County Taxpayers</b>	<b>6,794,519,300</b>	<b>92.82%</b>	<b>100,156,129</b>	<b>92.92%</b>
<b>Total County</b>	<b>\$7,320,262,780</b>	<b>100.00%</b>	<b>\$107,788,266</b>	<b>100.00%</b>

**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.

**SEAL ROCK WATER DISTRICT. OREGON**

**STATEMENT OF NET POSITION - PROPRIETARY FUNDS**  
as of June 30, 2016

**ASSETS**

**Current assets**

Cash and cash equivalents	\$ 3,532,093
Accounts receivable	132,928
Property taxes receivable	60,374
Prepaid expense	47,045
Inventory	173,375
Total current assets	3,945,815

**Noncurrent assets**

Prepaid bond insurance	25,987
Capital assets	
Land	400,729
Construction in progress	3,010,770
Plant and equipment (net of depreciation)	13,912,194
Total capital assets	17,323,693
Total noncurrent assets	17,349,680
Total assets	21,295,495

**Deferred outflows of resources - pension contributions**

	64,897
Total assets and deferred outflows of resources	21,360,392

**LIABILITIES**

**Current liabilities**

Accounts payable	791,620
Compensated absences	44,662
Unearned revenue	22,990
Accrued interest payable from restricted	95,601
Current portion of long-term debt, payable from restricted	391,749
Total current liabilities	1,346,622

**Long-term liabilities**

Interim loan	5,051,000
Net pension liability	260,819
Revenue bond, net	1,330,965
General Obligation bonds, net	7,284,456
Total long-term liabilities	13,927,240
Total liabilities	15,273,862

**Deferred inflows of resources - pension**

	87,422
Total liabilities and deferred inflows of resources	15,361,284

**NET POSITION**

Net invested in capital assets	2,909,103
Restricted	
Debt service	314,664
Construction	105,334
Unrestricted	2,670,007
Total net position	\$ 5,999,108

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, 2016**

<b>OPERATING REVENUES</b>	
Water service	\$ 1,656,422
Hookups	39,106
Miscellaneous income	<u>28,667</u>
Total operating revenues	<u>1,724,195</u>
<b>OPERATING EXPENSES</b>	
Payroll and benefits	891,130
Water purchase	458,420
Materials and services	125,651
Maintenance and repairs	85,592
General and administrative	36,887
Depreciation	<u>460,700</u>
Total operating expenses	<u>2,058,380</u>
<b>OPERATING INCOME (LOSS)</b>	<u>(334,185)</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>	
Interest income	11,744
Property taxes	609,709
Boundary withdrawal income	65,471
Grants	556,519
Bond amortization	11,286
Capital contributions - City of Toledo	(635,619)
Interest expense	<u>(340,416)</u>
Total nonoperating revenues (expenses)	<u>278,694</u>
Income (loss) before contributions	(55,491)
<b>CAPITAL CONTRIBUTIONS</b>	<u>68,539</u>
Changes in net position	13,048
NET POSITION - Beginning of year	<u>5,986,060</u>
NET POSITION - End of year	<u>\$ 5,999,108</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, 2016

<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Cash receipts from customers	\$ 1,735,977
Cash payments for goods and services	(664,885)
Cash payments for employees and benefits	<u>(675,723)</u>
Net cash provided (used) by operating activities	<u>395,369</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>	
Property taxes	611,485
Grants	<u>556,519</u>
Net cash provided (used) by noncapital financing activities	<u>1,168,004</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	
Acquisition and construction of capital assets	(2,691,247)
Proceeds from loans	3,851,000
Principal paid on debt	(374,500)
Interest paid on debt	(342,373)
Capital contributed by customers	68,539
Contribution City of Toledo	<u>(635,619)</u>
Net cash provided (used) by capital and related financing activities	<u>(124,200)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Interest on investments	<u>11,744</u>
Net increase (decrease) in cash and cash equivalents	1,450,917
Cash and cash equivalents - Beginning of year (restricted \$327,739)	<u>2,081,176</u>
Cash and cash equivalents - End of year (restricted \$2,369,028)	<u>\$ 3,532,093</u>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>	
Operating income (loss)	\$ (334,185)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities	
Depreciation	460,700
(Increase) decrease in operating assets	
Pension related accounts	210,466
Accounts receivable	2,793
Inventory	(15,452)
Prepaid expense	(4,011)
Increase (decrease) in operating liabilities	
Accounts payable	61,128
Accrued payroll liabilities	4,941
Deferred revenue	<u>8,989</u>
Net cash provided (used) by operating activities	<u>\$ 395,369</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, 2016

### 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

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.



## SEAL ROCK WATER DISTRICT, OREGON

### NOTES TO FINANCIAL STATEMENTS as of June 30, 2016

#### 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, 2016

#### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

##### **Pensions**

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Oregon Public Employees' Retirement System (PERS) and additions to/deductions from PERS fiduciary net position have been determined on the same basis as they are reported by PERS. 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 pension. This amount is deferred and recognized as an outflow of resources in the period when the District recognizes pension expense/expenditures.

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. The District reports deferred amounts related to pension. This amount is deferred and recognized as an inflow of resources in the period when the District's recognizes pension income.

##### **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, 2016

**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.

The Board adopts the budget and by resolution makes appropriations by major functional categories for all funds for the next fiscal year. Appropriations lapse at the end of the fiscal year, June 30.

**Budget Law and Practice**

Major functional categories identify the legal level of budgetary control above which expenditures are not authorized. The major functional categories are personal 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.

**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	\$ 1,163,065
Cash and cash equivalents - restricted	<u>2,369,028</u>
Total cash, cash equivalents and investments	<u>\$ 3,532,093</u>

SEAL ROCK WATER DISTRICT, OREGON

NOTES TO FINANCIAL STATEMENTS  
as of June 30, 2016

**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	1,613,205
Investments - external investment pool	<u>1,918,088</u>
Total	<u>\$3,532,093</u>

Restricted cash represents funds for debt retirement of \$261,464 and construction of \$2,107,564.

**Deposits**

At the end of the fiscal year, the District's total deposits with financial institutions have a bank value of \$1,615,381.

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 \$1,918,088 (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, 2016

**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	\$ 60,374	\$ 7,174	\$ 53,200
Accounts receivable	<u>132,928</u>	<u>132,928</u>	<u>0</u>
Total receivables	<u>\$ 193,302</u>	<u>\$ 140,102</u>	<u>\$ 53,200</u>

**Accounts Receivable**

Uncollected accounts receivable are deemed to be substantially collectible or recoverable through liens; therefore, no allowance for uncollectible 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, 2016

**NOTE 5 - CAPITAL ASSETS**

Below is the major classes of capital assets:

	<u>7/1</u>			<u>6/30</u>
	<u>Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u>
<b>Non-depreciable</b>				
Land	\$ 400,729	\$ 0	\$ 0	\$ 400,729
Construction in progress	<u>1,095,702</u>	<u>2,742,453</u>	<u>827,385</u>	<u>3,010,770</u>
Total non-depreciable	<u>1,496,431</u>	<u>2,742,453</u>	<u>827,385</u>	<u>3,411,499</u>
<b>Depreciable</b>				
Building	1,955,647	0	0	1,955,647
Furn./equip./vehicles	1,083,370	57,277	503,549	637,098
Water system	<u>15,316,120</u>	<u>1,283,372</u>	<u>0</u>	<u>16,599,491</u>
Total depreciable	<u>18,355,137</u>	<u>1,340,649</u>	<u>503,549</u>	<u>19,192,236</u>
<b>Accumulated depreciation</b>				
Building	(147,735)	(42,324)	0	(190,059)
Furn./equip./vehicles	(546,754)	(43,878)	52,422	(538,211)
Water system	<u>(4,177,275)</u>	<u>(374,495)</u>	<u>0</u>	<u>(4,551,771)</u>
Total accum. depreciation	<u>(4,871,764)</u>	<u>(460,700)</u>	<u>52,422</u>	<u>(5,280,042)</u>
Total, net of depreciation	<u>13,483,373</u>	<u>(879,948)</u>	<u>451,127</u>	<u>13,912,194</u>
Capital assets, net	<u>\$14,979,804</u>	<u>\$ 3,622,401</u>	<u>\$ 1,278,512</u>	<u>\$17,323,693</u>

Depreciation expense for the year was \$460,700.

**NOTE 6 - TRANSFERS**

	<u>Transfers In</u>					
	<u>Total</u>	<u>Capital</u>	<u>Revenue</u>	<u>RD Req.</u>	<u>Water</u>	<u>Depreciation</u>
	<u>Transfers</u>	<u>Projects</u>	<u>Bond</u>	<u>Reserve</u>	<u>Source</u>	<u>Reserve</u>
<b>Transfer Out</b>	<u>Out</u>	<u>Fund</u>	<u>Res. Fund</u>	<u>Fund</u>	<u>Imp. Fund</u>	<u>Fund</u>
General Fund	<u>\$(313,800)</u>	<u>\$ 82,170</u>	<u>\$ 74,230</u>	<u>\$ 7,400</u>	<u>\$ 100,000</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, 2016

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 \$1,367,686.

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

Fiscal Year Ending	Principal	Interest	Total Future Requirements
6-30-17	\$ 36,721	\$ 37,611	\$ 74,332
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
2022-2026	222,167	149,496	371,663
2027-2031	254,441	117,221	371,662
2032-2036	291,404	80,257	371,661
2037-2041	333,738	37,924	371,662
2042	<u>71,950</u>	<u>1,978</u>	<u>73,928</u>
Totals	<u>\$ 1,367,686</u>	<u>\$ 564,552</u>	<u>\$ 1,932,238</u>

Note Payable

On April 17, 2015, the District signed an interim financing loan with Key Bank. The loan is 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. At year end, this rate was 1.48%. Current year draw down was \$400,000 for a balance of \$1,600,000.

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.

USDA-RUS loan funds are not to exceed \$3,451,000 and a grant amount not to exceed \$2,549,045. The Loan will be payable over 25 years, payable from property taxes. The annual payment will be \$174,207 with an interest rate of 1.875%.

Interim financing is being provided from Cashmere Valley Bank. In the current fiscal year, the loan funds were fully drawn down totaling \$3,451,000. Interest is accruing monthly at a variable rate of 1.51% due annually. Maturity is not to exceed three years.

**SEAL ROCK WATER DISTRICT, OREGON**

NOTES TO FINANCIAL STATEMENTS  
as of June 30, 2016

**NOTE 7 - LONG-TERM DEBT - Continued**

**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 \$1,498,299.

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 \$4,065,000.

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 \$1,890,000.

The annual requirements to amortize the general obligation bond is as follows:

Fiscal Year Ending	Principal	Interest	Total Future Requirements
6-30-17	\$ 355,028	\$ 251,845	\$ 606,873
6-30-18	361,341	242,881	604,222
6-30-19	372,704	232,344	605,048
6-30-20	384,118	219,040	603,158
6-30-21	395,585	203,763	599,148
2022-2026	2,166,928	790,212	2,957,140
2027-2031	1,837,790	456,561	2,294,351
2032-2036	1,097,920	197,441	1,295,361
2037-2041	394,193	61,877	456,070
2042	<u>87,692</u>	<u>3,287</u>	<u>90,979</u>
Totals	<u>\$7,453,299</u>	<u>\$2,659,251</u>	<u>\$ 10,112,550</u>

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

	7/1 Balance	Additions	Payments	6/30 Balance	Due in One Year	Interest Paid
Revenue Bond	\$ 1,403,424	\$ 0	\$ 35,738	\$ 1,367,686	\$ 36,721	\$ 38,594
GO Bonds	<u>7,792,061</u>	<u>0</u>	<u>338,762</u>	<u>7,453,299</u>	<u>355,028</u>	<u>260,386</u>
Total	<u>\$ 9,195,485</u>	<u>\$ 0</u>	<u>\$ 374,500</u>	8,820,985	<u>\$ 391,749</u>	<u>\$ 298,980</u>
			Bond premium	<u>186,185</u>		
			Total	<u>\$ 9,007,170</u>		

Total interest expense capitalization this year was \$39,217.



## SEAL ROCK WATER DISTRICT, OREGON

### NOTES TO FINANCIAL STATEMENTS as of June 30, 2016

#### 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/section/er\\_general\\_information/gasb-68.aspx](http://www.oregon.gov/PERS/EMP/Pages/section/er_general_information/gasb-68.aspx).

##### 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. 1.67% 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 (age 55 general service members). Participants are eligible for retirement after reaching age 55. 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.

##### Oregon Public Employees Retirement System (OPERS)

*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.

**SEAL ROCK WATER DISTRICT, OREGON**  
**Seal Rock, Oregon**

NOTES TO FINANCIAL STATEMENTS  
as of June 30, 2016

**NOTE 8 - RETIREMENT BENEFITS - Continued**

**A. PENSION PLAN - DEFINED BENEFIT**

**Oregon Public Employees Retirement System (OPERS)**

*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 age 58 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 (COLAs). The cap on the COLA in fiscal year 2016 and beyond will vary based on 1.25 percent on the first \$60,000 of annual benefit and 0.15 percent on annual benefits over \$60,000.

**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.

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.

**SEAL ROCK WATER DISTRICT, OREGON**  
**Seal Rock, Oregon**

**NOTES TO FINANCIAL STATEMENTS**  
as of June 30, 2016

**NOTE 8 - RETIREMENT BENEFITS - Continued**

**A. PENSION PLAN - DEFINED BENEFIT**

**Oregon Public Employees Retirement System (OPERS)**

**3. OPSRP Individual Account Program (238A)**

*Benefit Changes After Retirement* - Under ORS 238A.210, monthly benefits are adjusted annually through COLAs. The cap on the COLA in fiscal year 2016 and beyond will vary based on 1.25 percent on the first \$60,000 of annual benefit and 0.15 percent on annual benefits over \$60,000.

*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 fiscal year ending June 30, 2016 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 as subsequently modified by 2015 legislated changes in benefit provisions. The rates, expressed as a percentage of payroll, first became effective July 1, 2015. District contributions for the year ending June 30, 2016 were \$40,348, excluding amounts to fund employer specific liabilities. The rates in effect for the fiscal year ended June 30, 2016 were 11.85 percent for Tier One/Tier Two General Service Members, 7.07 percent of OPSRP General Service 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, 2016

**NOTE 8 - RETIREMENT BENEFITS - Continued**

**A. PENSION PLAN - DEFINED BENEFIT**

**Oregon Public Employees Retirement System (OPERS)**

***Net Pension Liability***

At June 30, 2016, the District reported a net pension liability of \$260,819 for its proportionate share of the system-wide pension liability. The net pension liability was measured as of June 30, 2015, and the system-wide pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2013 rolled forward to June 30, 2015. 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 0.00454273 and 0.003932090 for the fiscal years ending June 30, 2016 and 2015 respectively. For the year ended June 30, 2016, the District recognized pension expense (income) of \$210,465. At June 30, 2016, 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	\$ 14,065	\$ 0
Net difference between projected and actual earnings on investments	0	54,674
Changes in proportionate share	10,484	0
Contributions made subsequent to measurement date	40,348	0
Differences between employer contributions and employer's proportionate share of system contributions	<u>0</u>	<u>32,748</u>
Total	<u>\$ 64,897</u>	<u>\$ 87,422</u>

Deferred outflows of resources of \$40,348 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, 2017. 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, 2016

**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>
2017	\$ (28,426)
2018	(28,426)
2019	(28,426)
2020	22,295
2021	111
Thereafter	<u>0</u>
Total	<u>\$ (62,872)</u>

***Actuarial Valuations***

The employer contribution rates effective July 1, 2013, through June 30, 2015 and effective July 1, 2015, through June 30, 2017, 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, 2014 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, 2016

**NOTE 8 - RETIREMENT BENEFITS - Continued**

**A. PENSION PLAN - DEFINED BENEFIT**

**Oregon Public Employees Retirement System (OPERS)**

***Actuarial Valuations***

Valuation Date	December 31, 2013
Experience Study Report	2014, published September 2015
Actuarial Cost Method	Entry Age Normal
Amortization Method	Amortized as a level percentage of payroll as layered amortization bases over a closed period; Tier One/Tier Two UAL is amortized over 20 years and OPSRP pension UAL is amortized over 16 years
Asset Valuation Method	Market value of assets
Actuarial Assumptions: Inflation Rate	2.75%
Investment Rate of Return	7.75%
Projected Salary Increases	3.75% overall payroll growth; salaries for individuals are assumed to grow at 3.75% plus assumed rates of merit/longevity increases based on service
Mortality	Healthy retirees and beneficiaries: RP-2000 Sex-distinct, generational per Scale AA, with collar adjustments and set-backs as described in the valuation.  Active members: Mortality rates are a percentage of healthy retiree rates that vary by group, as described in the valuation.  Disabled retirees: Mortality rates are a percentage (65% for males, 90% for females) of the RP-2000 static combined disabled mortality sex-distinct 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 2014 experience study, which reviewed experience for the four-year period ending December 31, 2014.

**SEAL ROCK WATER DISTRICT, OREGON**  
**Seal Rock, Oregon**

NOTES TO FINANCIAL STATEMENTS  
as of June 30, 2016

**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 2013 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>Assumed Asset Allocation</u>		
<u>Asset Class/Strategy</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	16.0	24.0	20.0
Real estate	9.5	15.5	12.5
Alternative equity	0	10.0	10.0
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, 2016

**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	7.20%	4.5%
Short-Term Bonds	8.00%	3.70%
Intermediate-Term Bonds	3.00%	4.10%
High Yield Bonds	1.80%	6.66%
Large Cap US Equities	11.65%	7.20%
Mid Cap US Equities	3.88%	7.30%
Small Cap US Equities	2.27%	7.45%
Developed Foreign Equities	14.21%	6.90%
Emerging Foreign Equities	5.49%	7.40%
Private Equities	20.00%	8.26%
Opportunity Funds/Absolute Return	5.00%	6.01%
Real Estate (Property)	13.75%	6.51%
Real Estate (REITS)	2.50%	6.76%
Commodities	<u>1.25%</u>	6.07%
Total	<u><u>100.00%</u></u>	
Assumed Inflation - Mean		2.75%



**SEAL ROCK WATER DISTRICT, OREGON**  
**Seal Rock, Oregon**

NOTES TO FINANCIAL STATEMENTS  
as of June 30, 2016

**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 7.75 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 7.75 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 (6.75 percent) and one percentage point higher (8.75 percent) than the current rate:

	<u>1% Decrease (6.75)%</u>	<u>Current Disc. Rate (7.75)%</u>	<u>1% Increase (8.75)%</u>
Net Pension Liability (Asset) \$	\$ 629,477	\$ 260,819	(49,863)

***Changes in Plan Provisions from Prior Measurement Date***

The Oregon Supreme Court on April 30, 2015, ruled that the provisions of Senate Bill 861, signed into law in October 2013, that limited the post-retirement COLA on benefits accrued prior to the signing of the law was unconstitutional. Benefits could be modified prospectively, but not retrospectively. As a result, those who retired before the bills were passed will continue to receive a COLA tied to the Consumer Price Index that normally results in a 2% increase annually. OPERS will make restoration payments to those benefit recipients. OPERS members who have accrued benefits before and after the effective dates of the 2013 legislation will have a blended COLA rate when they retire. This change in benefit terms were reflected in the current valuation.

***Changes in Plan Provisions Subsequent to Measurement Date***

There were no changes subsequent to the June 30, 2015 measurement date.

**SEAL ROCK WATER DISTRICT, OREGON**  
**Seal Rock, Oregon**

**NOTES TO FINANCIAL STATEMENTS**  
as of June 30, 2016

**NOTE 8 - RETIREMENT BENEFITS - Continued**

**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.

*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 of 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, 2016, 2015, and 2014 were paid and equaled the required contributions for each year.

**SEAL ROCK WATER DISTRICT, OREGON**

**NOTES TO FINANCIAL STATEMENTS**  
as of June 30, 2016

**NOTE 9 - OTHER INFORMATION**

**Commitments**

Construction in progress at year end for Phase 3 of System Improvements includes a signed obligation to the contract with a balance remaining on the contract at year end of \$1,161,575.

**Economic Dependency**

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

**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**

The District has evaluated subsequent events through November 29, 2016, the date which the financial statements were available to be issued.

**SEAL ROCK WATER DISTRICT  
OREGON**

**REQUIRED SUPPLEMENTAL SECTION**

SEAL ROCK WATER DISTRICT, OREGON

SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET  
PENSION LIABILITY as of June 30, 2016

OREGON PUBLIC EMPLOYEE RETIREMENT SYSTEM

	<u>2016</u>	<u>2015</u>
District's proportion of the net pension liability (asset)	0.00454%	0.00393%
District's proportionate share of the net pension liability (asset)	260,819	(89,129)
District's covered employee payroll	423,759	425,633
District's proportionate share of the net pension liability (asset) as a percentage of its covered employee payroll	61.5%	(20.9)%
Plan's net fiduciary position as a percentage of the total pension liability	91.9%	103.6%

SEAL ROCK WATER DISTRICT, OREGON

SCHEDULE OF THE DISTRICT'S CONTRIBUTIONS  
as of June 30, 2016

OREGON PUBLIC EMPLOYEE RETIREMENT SYSTEM

	<u>2016</u>	<u>2015</u>
Contractually required contribution	\$ 22,392	\$ 22,008
Contributions in relation to the contractually required contribution	<u>40,656</u>	<u>40,348</u>
Contribution deficiency (excess)	<u><u>\$ (18,264)</u></u>	<u><u>\$ (18,340)</u></u>
District's covered-employee payroll	\$ 441,799	\$ 423,759
Contributions as a percentage of covered- employee payroll	9.20%	9.52%

## SEAL ROCK WATER DISTRICT, OREGON

### NOTES TO THE SCHEDULES OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY (ASSET) AND CONTRACTUALLY REQUIRED CONTRIBUTIONS for the Year Ended June 30, 2016

#### ***Changes in Benefit Terms***

The Oregon Supreme Court on April 30, 2015, ruled that the provisions of Senate Bill 861, signed into law in October 2013, that limited the post-retirement COLA on benefits accrued prior to the signing of the law was unconstitutional. Benefits could be modified prospectively, but not retrospectively. As a result, those who retired before the bills were passed will continue to receive a COLA tied to the Consumer Price Index that normally results in a 2% increase annually. OPERS will make restoration payments to those benefit recipient.

OPERS members who have accrued benefits before and after the effective dates of the 2013 legislation will have a blended COLA rate when they retire.

This is a change in benefit terms not included in the net pension liability (asset) proportionate shares provided by OPERS for the years ending June 30, 2015 and June 30, 2014.

#### ***Changes in Assumptions***

Details and a comprehensive list of changes and methods and assumptions can be found in the 2012 and 2014 Experience Studies for the System, which were published on September 18, 2013 and September 23, 2015. These reports can be found at: [http://www.oregon.gov/pers/Pages/section/financial\\_reports/mercer\\_reports.aspx](http://www.oregon.gov/pers/Pages/section/financial_reports/mercer_reports.aspx)

**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 interest. 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 and loans.

#### **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, 2016**

**GENERAL FUND**

	Original Budget	Final Budget	Actual	Variance
<b>REVENUES</b>				
Water sales	\$ 1,591,000	\$ 1,591,000	\$ 1,656,422	\$ 65,422
Service connections	12,000	12,000	39,106	27,106
Miscellaneous	39,500	39,500	27,149	(12,351)
Grants	3,000	3,000	0	(3,000)
Interest	200	200	105	(95)
Subdivision assessments	1,000	1,000	0	(1,000)
Property taxes	72,330	72,330	71,459	(871)
Total revenues	<u>1,719,030</u>	<u>1,719,030</u>	<u>1,794,241</u>	<u>75,212</u>
<b>EXPENDITURES</b>				
Administrative/Office				
Personnel services	528,410	528,410	474,090	54,320
Materials and services	146,000	146,000	121,475	24,525
Capital outlay	8,000	8,000	4,773	3,227
Total administrative/office	<u>682,410</u>	<u>682,410</u>	<u>600,338</u>	<u>82,072</u>
Operations/Services				
Personnel services	267,670	267,670	206,575	61,095
Materials and services	593,650	653,650	600,426	53,224
Capital outlay	51,500	51,500	2,961	48,539
Operating contingencies	100,000	40,000	0	40,000
Total operations/services	<u>1,012,820</u>	<u>1,012,820</u>	<u>809,962</u>	<u>202,858</u>
Total expenditures	<u>1,695,230</u>	<u>1,695,230</u>	<u>1,410,300</u>	<u>284,930</u>
Excess (def) of revenues over expenditures	23,800	23,800	383,941	360,141
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers to other funds	<u>(313,800)</u>	<u>(313,800)</u>	<u>(313,800)</u>	<u>0</u>
Excess (def) of revenues over expenditures	(290,000)	(290,000)	70,141	360,141
FUND BALANCE - Beginning of year (Budget basis)	<u>290,000</u>	<u>290,000</u>	<u>494,577</u>	<u>204,577</u>
FUND BALANCE - End of year (Budget basis)	<u>\$ 0</u>	<u>\$ 0</u>	564,718	<u>\$ 564,718</u>
GAAP ADJUSTMENTS - Reconciled to June 2015			12,404,583	
Capital asset activity				
Additions			1,340,649	
Disposals			(451,128)	
Depreciation			(460,700)	
Pension activity, net			(210,465)	
Interest accrued			3,216	
Long-term debt payment			<u>35,738</u>	
FUND BALANCE - End of Year (GAAP basis)			<u>\$13,226,611</u>	

**SEAL ROCK WATER DISTRICT. OREGON**

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND  
BALANCE - BUDGET AND ACTUAL for the Year Ended June 30, 2016**

**CAPITAL PROJECTS FUND**

	Original and Final Budget	Actual	Variance
<b>REVENUES</b>			
Interest	\$ 1,000	\$ 7,824	\$ 6,824
Grants	<u>75,000</u>	<u>556,519</u>	<u>481,519</u>
Total revenues	76,000	564,343	488,343
<b>EXPENDITURES</b>			
Capital outlay	<u>8,323,215</u>	<u>3,276,081</u>	<u>5,047,134</u>
Excess (def) of revenues over expenditures	<u>(8,247,215)</u>	<u>(2,711,738)</u>	<u>5,535,477</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Bond proceeds	7,900,045	3,851,000	4,049,045
Transfers from other funds	<u>82,170</u>	<u>82,170</u>	<u>0</u>
Total other financing sources (uses)	<u>7,982,215</u>	<u>3,933,170</u>	<u>(4,049,045)</u>
Excess (def) of revenues over expenditures	(265,000)	1,221,432	1,486,432
FUND BALANCE - Beginning of year (Budget basis)	<u>265,000</u>	<u>83,625</u>	<u>(181,375)</u>
FUND BALANCE - End of year (Budget basis)	<u>\$ 0</u>	1,305,057	<u>\$ 1,305,057</u>
GAAP ADJUSTMENTS - Reconciled to June 2015		(8,116,740)	
Capital asset activity, net		1,915,068	
Interim loan activity, net		(3,851,000)	
Bond activity, net		351,380	
Interest accrued		<u>(44,643)</u>	
FUND BALANCE - End of Year (GAAP basis)		<u>\$ (8,440,878)</u>	

**SEAL ROCK WATER DISTRICT, OREGON**

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND  
BALANCE - BUDGET AND ACTUAL for the Year Ended June 30, 2016**

**DEBT SERVICE FUND**

	Original and Final Budget	Actual	Variance
<b>REVENUES</b>			
Interest	\$ 300	\$ 695	\$ 395
Property taxes	530,855	538,250	7,395
Boundary withdrawal income	64,676	65,471	795
Miscellaneous income	<u>0</u>	<u>1,518</u>	<u>1,518</u>
 Total revenues	 595,831	 605,934	 10,103
<b>EXPENDITURES</b>			
Debt service	<u>599,148</u>	<u>599,147</u>	<u>1</u>
 Excess (def) of revenues over expenditures	 (3,317)	 6,787	 10,104
 Unappropriated ending fund balance	 (241,683)	 0	 241,683
<b>FUND BALANCE</b>			
Beginning of year (Budget/GAAP basis)	<u>245,000</u>	<u>275,861</u>	<u>30,861</u>
 End of year (Budget/GAAP basis)	 <u>\$ 0</u>	 <u>\$ 282,648</u>	 <u>\$ 282,648</u>

**SEAL ROCK WATER DISTRICT, OREGON**

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND  
BALANCE - BUDGET AND ACTUAL for the Year Ended June 30, 2016

**R.D. REQUIREMENT RESERVE FUND**

	<u>Original and Final Budget</u>	<u>Actual</u>	<u>Variance</u>
<b>REVENUES</b>			
Interest	\$ 50	\$ 51	\$ 1
<b>EXPENDITURES</b>			
Capital outlay	<u>31,750</u>	<u>0</u>	<u>31,750</u>
Excess (def) of revenues over expenditures	(31,700)	51	31,751
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfer from other funds	<u>7,400</u>	<u>7,400</u>	<u>0</u>
Excess (def) of revenues over expenditures	(24,300)	7,451	31,751
<b>FUND BALANCE</b>			
Beginning of year (Budget/GAAP basis)	<u>24,300</u>	<u>24,361</u>	<u>61</u>
End of year (Budget/GAAP basis)	<u>\$ 0</u>	<u>\$ 31,812</u>	<u>\$ 31,812</u>

**SEAL ROCK WATER DISTRICT, OREGON**

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND  
BALANCE - BUDGET AND ACTUAL for the Year Ended June 30, 2016**

**REVENUE BOND FUND**

	Original and Final Budget	Actual	Variance
<b>REVENUES</b>			
Interest	\$ 20	\$ 50	\$ 30
<b>EXPENDITURES</b>			
Debt service	<u>74,350</u>	<u>74,342</u>	<u>8</u>
Excess (def) of revenues over expenditures	(74,330)	(74,292)	38
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers from other funds	<u>74,230</u>	<u>74,230</u>	<u>0</u>
Excess (def) of revenues over expenditures	(100)	(62)	38
<b>FUND BALANCE</b>			
Beginning of year (Budget/GAAP basis)	<u>100</u>	<u>266</u>	<u>166</u>
End of year (Budget/GAAP basis)	<u>\$ 0</u>	<u>\$ 204</u>	<u>\$ 204</u>

**SEAL ROCK WATER DISTRICT, OREGON**

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND  
BALANCE - BUDGET AND ACTUAL for the Year Ended June 30, 2016**

**SYSTEM DEVELOPMENT CHARGES FUND**

	Original and Final Budget	Actual	Variance
<b>REVENUES</b>			
Interest	\$ 100	\$ 322	\$ 222
System development charges	<u>36,705</u>	<u>68,539</u>	<u>31,834</u>
Total revenues	36,805	68,861	32,057
<b>EXPENDITURES</b>			
Capital outlay	<u>97,705</u>	<u>0</u>	<u>97,705</u>
Excess (def) of revenues over expenditures	(60,900)	68,861	129,761
<b>FUND BALANCE</b>			
Beginning of year (Budget basis)	<u>60,900</u>	<u>79,591</u>	<u>18,691</u>
End of year (Budget basis)	<u>\$ 0</u>	148,452	<u>\$ 148,452</u>
GAAP ADJUSTMENTS - Reconciled to June 2015		<u>2,429</u>	
FUND BALANCE - End of Year (GAAP basis)		<u>\$ 150,881</u>	

**SEAL ROCK WATER DISTRICT, OREGON**

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND  
BALANCE - BUDGET AND ACTUAL for the Year Ended June 30, 2016

**WATER SOURCE IMPROVEMENT RESERVE FUND**

	<u>Original Final</u> <u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
<b>REVENUES</b>			
Interest	\$ 500	\$ 1,934	\$ 1,434
<b>EXPENDITURES</b>			
Capital outlay	<u>600,500</u>	<u>95,120</u>	<u>505,380</u>
Excess (def) of revenues over expenditures	(600,000)	(93,186)	506,814
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfer from other funds	<u>100,000</u>	<u>100,000</u>	<u>0</u>
Excess (def) of revenues over expenditures	(500,000)	6,814	506,814
<b>FUND BALANCE</b>			
Beginning of year (Budget/GAAP basis)	<u>500,000</u>	<u>500,562</u>	<u>562</u>
End of year (Budget/GAAP basis)	<u>\$ 0</u>	<u>\$ 507,376</u>	<u>\$ 507,376</u>



**SEAL ROCK WATER DISTRICT, OREGON**

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND  
BALANCE - BUDGET AND ACTUAL for the Year Ended June 30, 2016**

**DEPRECIATION RESERVE FUND**

	<u>Original and Final Budget</u>	<u>Actual</u>	<u>Variance</u>
<b>REVENUES</b>			
Interest	\$ 100	\$ 294	\$ 194
<b>EXPENDITURES</b>			
Capital outlay	<u>107,100</u>	<u>47,254</u>	<u>59,846</u>
Excess (def) of revenues over expenditures	(107,000)	(46,960)	60,040
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers from other funds	<u>50,000</u>	<u>50,000</u>	<u>0</u>
Excess (def) of revenues over expenditures	(57,000)	3,040	60,040
<b>FUND BALANCE</b>			
Beginning of year (Budget/GAAP basis)	<u>57,000</u>	<u>102,294</u>	<u>45,294</u>
End of year (Budget/GAAP basis)	<u>\$ 0</u>	<u>\$ 105,334</u>	<u>\$ 105,334</u>

SEAL ROCK WATER DISTRICT, OREGON

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND  
BALANCE - BUDGET AND ACTUAL for the Year Ended June 30, 2016

SRWD LAND & BUILDING RESERVE FUND

	Original and Final Budget	Actual	Variance
<b>REVENUES</b>			
Interest	\$ 200	\$ 469	\$ 269
<b>EXPENDITURES</b>			
Capital outlay	<u>134,200</u>	<u>0</u>	<u>134,200</u>
Excess (def) of revenues over expenditures	(134,000)	469	134,469
<b>FUND BALANCE</b>			
Beginning of year (Budget basis)	<u>134,000</u>	<u>134,651</u>	<u>651</u>
End of year (Budget/GAAP basis)	<u>\$ 0</u>	<u>\$ 135,120</u>	<u>\$ 135,120</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, 2016**

	<u>Total</u> <u>Revenues</u>	<u>Total</u> <u>Expenditures</u>	<u>Net</u>
<b>Budgetary Basis</b>			
General Fund	\$ 1,794,241	\$ 1,724,100	\$ 70,141
Capital Projects Fund	4,497,513	3,276,081	1,221,432
Debt Service Fund	605,934	599,147	6,787
R. D. Requirement Reserve Fund	7,451	0	7,451
Revenue Bond Fund	74,280	74,342	(62)
System Development Charges Fund	68,861	0	68,861
Water Source Improvement Reserve Fund	101,934	95,120	6,814
Depreciation Reserve Fund	50,294	47,254	3,040
SRWD Land & Building Reserve Fund	<u>469</u>	<u>0</u>	<u>469</u>
 Total budgetary basis	 <u>\$ 7,200,977</u>	 <u>\$ 5,816,044</u>	 1,384,933
<b>Add (Deduct) Items to Reconcile to Net Income on a Financial Reporting Basis</b>			
Payment of long-term debt			
Revenue bonds			35,738
General obligation bonds			338,763
Accrued interest			(40,096)
Pension income/expenses			(210,465)
Loan proceeds			(3,851,000)
Amortization			
Bond premiums			11,286
Assets acquired			3,255,717
Asset disposals			(451,128)
Depreciation			<u>(460,700)</u>
 Change in net position			 13,048
 NET POSITION - Beginning of year			 <u>5,986,060</u>
 NET POSITION - End of year			 <u>\$ 5,999,108</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, 2016**

<u>Federal Grant/Pass through Grantor Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-through Entity Identifying Number</u>	<u>Federal Expenditures</u>
<b>US Dept. of Agriculture</b> Water and Waste Disposal Systems for Rural Communities	10.760		\$ 2,638,070
<b>US Dept. Of Homeland Security</b> Hazard Mitigation Grant	97.039		<u>155,333</u>
Total Expenditures of Federal Awards			<u><u>\$ 2,793,403</u></u>

**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
for the Year Ended June 30, 2016**

**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 OMB Circular 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 assets, 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 \$2,638,070 of these loan funds was spent during the year ended June 30, 2016. 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>2016</u>	<u>2015</u>
US Dept of Agriculture Water and Waste Disposal Systems for Rural Comm.	10.760	10/27/15	10/27/40	<u>\$3,451,000</u>	<u>\$ 0</u>

**GRIMSTAD & ASSOCIATES**  
Certified Public Accountants

Newport Office:  
P.O. Box 1930  
530 N.W. 3rd St. Ste E  
Newport, OR 97365  
(541) 265-5411  
Fax (541) 265-9255  
info@grimstad-assoc.com

November 29, 2016

**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**

Lincoln City Office:  
1349 N.W. 15th Street  
Lincoln City, OR 97367  
(541) 994-5252  
Fax (541) 994-2105

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, 2016, 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 29, 2016.

**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.

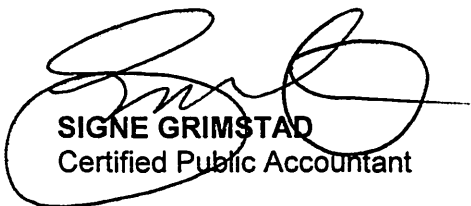
My consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in the internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during my audit I did not 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

**GRIMSTAD & ASSOCIATES**  
Certified Public Accountants

Newport Office:  
P.O. Box 1930  
530 N.W. 3rd St. Ste E  
Newport, OR 97365  
(541) 265-5411  
Fax (541) 265-9255  
info@grimstad-assoc.com

Lincoln City Office:  
1349 N.W. 15th Street  
Lincoln City, OR 97367  
(541) 994-5252  
Fax (541) 994-2105

November 29, 2016

**Independent Auditor's Report on Compliance for Each  
Major Program and on Internal Control Over Compliance  
Required by OMB Circular A-133**

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 Circular A-133 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, 2016. 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 the requirements of laws, regulations, contracts, and grants 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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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.

Members:  
AICPA OSCP & OAIA



## 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, 2016.

## 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 OMB Circular A-133, 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.

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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.



**SIGNE GRIMSTAD**  
Certified Public Accountant

**SEAL ROCK WATER DISTRICT, OREGON**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS/DISTRICT  
RESPONSE for the Year Ended June 30, 2016**

**SUMMARY OF AUDITOR'S RESULTS**

1. The auditor's report expresses an unqualified opinion on the financial statements of Seal Rock Water District.
2. No significant deficiencies disclosed during the audit of the financial statements are reported in the Schedule of Findings and Questioned Costs.
3. No instances of noncompliance material to the financial statements of Seal Rock Water District, which would be required to be reported in accordance with Government Auditing Standards, were disclosed during the audit.
4. No significant deficiencies in internal control over the major federal award program were disclosed during the audit. No material weaknesses are reported.
5. The auditor's report on compliance for the major federal award program for the Seal Rock Water District expresses an unqualified opinion on its major federal program.
6. No audit findings relative to the major federal award program for Seal Rock Water District is required to be reported in accordance with Section 510(a) of OMB Circular A-133.
7. Programs tested as a major program: Water and Waste Disposal Systems for Rural Communities CFDA 10.760.
8. The threshold used for distinguishing between Type A and B programs is \$750,000.
9. Seal Rock Water District did not qualify as a low-risk auditee.

**CURRENT YEAR AUDIT FINDINGS**

None

**PRIOR YEAR AUDIT FINDINGS**

No Single Audit required for the fiscal year ended June 30, 2015.

**SEAL ROCK WATER DISTRICT  
OREGON**

**COMPLIANCE SECTION**

**GRIMSTAD & ASSOCIATES**  
Certified Public Accountants

November 29, 2016

Newport Office:  
P.O. Box 1930  
530 N.W. 3rd St. Ste E  
Newport, OR 97365  
(541) 265-5411  
Fax (541) 265-9255  
info@grimstad-assoc.com

Lincoln City Office:  
1349 N.W. 15th Street  
Lincoln City, OR 97367  
(541) 994-5252  
Fax (541) 994-2105

**Independent Auditor's Report  
Required by Oregon State Regulations**

Board of Commissioners  
Seal Rock Water District  
Seal Rock, Oregon

I have audited the basic financial statements of the business-type activities of Seal Rock Water District as of and for the year ended June 30, 2016, and have issued my report thereon dated November 29, 2016. 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.

**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 grants, 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.

## 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