Washington State Auditor's Office

Independence • Respect • Integrity

Financial Statements Audit Report

North City Water District

King County

For the period January 1, 2014 through December 31, 2014

Published November 12, 2015

Report No. 1015489

Washington State Auditor's Office

November 12, 2015

Board of Commissioners
North City Water District
Shoreline, Washington

Report on Financial Statements

Please find attached our report on the North City Water District's financial statements.

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

Sincerely,

JAN M. JUTTE, CPA, CGFM

ACTING STATE AUDITOR

OLYMPIA, WA

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STATUS OF PRIOR AUDIT FINDINGS

North City Water District
King County
January 1, 2014 through December 31, 2014

This schedule presents the status of findings reported in prior audit periods. The status listed below is the representation of the North City Water District. The State Auditor's Office has reviewed the status as presented by the District.

<table>
<tr><td>Audit Period:
January 1, 2013 – December 31, 2013</td><td>Report Ref. No:
1013249</td><td colspan="2">Finding Ref. No:
1</td></tr>
<tr><td colspan="4">Finding Caption:
The District's internal controls were inadequate to ensure the District met federal single audit reporting requirements.</td></tr>
<tr><td colspan="4">Background:
The District spent more than $500,000 in federal money in 2013 and was required to obtain and submit a federal single audit report to the Federal Clearinghouse by September 30, 2014, which did not occur.

The District's process for understanding single audit requirements was inadequate. District management believed expenditures should be reported in the year the reimbursement was submitted to the federal granting agency.</td></tr>
<tr><td colspan="4">Status of Corrective Action: (check one)</td></tr>
<tr><td>X Fully Corrected</td><td>☐ Partially Corrected</td><td>☐ No Corrective Action Taken</td><td>☐ Finding is considered no longer valid</td></tr>
<tr><td colspan="4">Corrective Action Taken:
A procedure was added to the year-end procedures requiring a review of the charges posted or accrued to the projects being funded with Federal monies to make certain that if they totaled above the $500,000 limit that requiring a Federal single audit that one would be called for.</td></tr>
</table>

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*

North City Water District
King County
January 1, 2014 through December 31, 2014

Board of Commissioners
North City Water District
Seattle, Washington

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the North City Water District, King County, Washington, as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated October 23, 2015.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

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

COMPLIANCE AND OTHER MATTERS

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

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

PURPOSE OF THIS REPORT

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

Jan M Jutte

JAN M. JUTTE, CPA, CGFM

ACTING STATE AUDITOR

OLYMPIA, WA

October 23, 2015

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

North City Water District
King County
January 1, 2014 through December 31, 2014

Board of Commissioners
North City Water District
Seattle, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the North City Water District, King County, Washington, as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed on page 10.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our 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 we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the North City Water District, as of December 31, 2014, and the 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 discussion and analysis on pages 11 through 13 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards,* we have also issued our report dated October 23, 2015 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

JAN M. JUTTE, CPA, CGFM

ACTING STATE AUDITOR

OLYMPIA, WA

October 23, 2015

FINANCIAL SECTION

North City Water District
King County
January 1, 2014 through December 31, 2014

REQUIRED SUPPLEMENTARY INFORMATION

BASIC FINANCIAL STATEMENTS

Overview of the Financial Statements

The management discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements are comprised of District-wide financial statements and notes to the financial statements. The District began implementing the Governmental Accounting Standards Board (GASB) Statement 34 model of financial reporting in 2003. This statement establishes standards for external financial reporting for all state and local government entities.

The District's financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private sector business.

The *Statement of Net Position* presents information on the District's assets and liabilities, with the difference between the two reported as net position per GASB 34. Increases or decreases in net position may serve as an indicator of whether the financial position of the District is improving or deteriorating. Assets are designated as either Unrestricted or Restricted based upon their purpose. Assets whose use is subject to constraints that are externally imposed, such as those imposed by creditors through debt covenants, are defined as Restricted Assets. Funds without a designated purpose are called Unrestricted.

The *Statement of Revenues, Expenses, and Changes in Net Position* presents information showing how the District's position changed during the most recent fiscal year. All changes are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g. depreciation as well as earned but unused vacation leave).

The *Statement of Cash Flows* accounts for the net change in cash and cash equivalents by summarizing cash receipts and cash disbursements resulting from operating activities, capital and related financing activities and investment activities. This statement assists the user in determining the source of cash coming into the District, the items for which cash was expended, and the beginning and ending cash balance.

The notes provide additional information that is essential to the full understanding of the data provided in the District's financial statements.

Financial Analysis

The overall financial condition of the District remains strong with an increase in net position of $2,102,787 in 2014. The increase is almost entirely due to an increase of $2,805,042 in Total Assets. The increase in Total Assets is due to an excess of cash operating revenues over cash operating expenses. This excess was used to fund the capital costs related to purchasing or constructing District assets and for reducing debt principal. Total Liabilities increased by $702,255 from an increase in the Drinking Water State Revolving Fund indebtedness, which was offset by a decrease in accounts payable for construction projects, and by a decrease in long-term bond debt from the payment of principal (see Note 6).

The amount invested (or equity) in capital assets of $23,774,332 is the net book value of all District assets of $34,036,003 less the amount funded with outstanding debt of $10,261,672. Please refer to Note 3 for more information regarding the composition of fixed assets and Note 6 for more information about the District's debt. The restricted position of $772,147 is the District's bond fund reserve. The unrestricted balance of $4,497,307 represents the assets available for the future use in providing utility service.

Condensed Comparative Statement of Net Position

	2014	2013	2012	2014-2013 Change
Current and Other Assets	$ 6,273,441	$ 8,939,323	$ 14,578,020	$ (2,665,882)
Capital Assets	34,036,003	28,565,079	21,766,549	5,470,924
Total Assets	40,309,444	37,504,402	36,344,570	2,805,042
Long-term Liabilities	10,013,171	9,454,141	9,614,247	559,030
Other Liabilities	1,252,487	1,109,263	1,760,970	143,225
Total Liabilities	11,265,658	10,563,404	11,375,217	702,255
Invested in Capital Assets	23,774,332	19,171,063	17,466,656	4,603,269
Restricted	772,147	3,968,172	3,795,857	(3,196,025)
Unrestricted	4,497,307	3,801,764	3,706,392	695,544
Total Net Position	$ 29,043,786	$ 26,940,999	$ 24,968,905	$ 2,102,787

The majority of the District's revenues are derived from water service charges received from its ratepayers. The District also derives cash flow from connection charges, antenna rents, and interest. The decrease in Water Service Revenue of $12,731 in 2014 over 2013 is primarily due to a decrease in water usage in 2014. Other Operating Revenue increased by $116,997 due to higher rental rates for water tower antennas, for the sale of scrap metal, and the reclassification of hookup revenues from contributed capital. Other Non-operating Revenue decreased by $61,393 due to lower interest earned on cash balances in the capital fund, which were temporarily higher in 2013 from debt proceeds.

The increase of $256,252 in Operating Expenses is the result of less labor costs being capitalized in 2014 than in 2013 as well as step increases for several employees, higher professional service costs related to the conversion of the District's financial software, and an increase in depreciation expense due to the capitalization of Capital Improvement Projects (CIP) in 2013 (depreciation expense is delayed until the year after capitalization). Capital contributions vary from year to year and were $355,843 higher in 2014 due to contributions from water tower users, and from the developers related to the two joint District/Developer funded capital projects.

Condensed Comparative Statement of Revenues and Expenses and Changes in Net Position

	2014	2013	2012	2014-2013 Change
Water Service	$ 6,165,955	$ 6,178,686	$ 5,855,780	$ (12,731)
Other Operating Revenue	305,677	188,679	181,876	116,997
Other Non-Operating Revenue	27,685	89,078	98,078	(61,393)
Total Revenues	6,499,317	6,456,444	6,135,734	42,873
Operating Expenses	5,608,167	5,351,915	5,089,904	256,252
Non-Operating Expenses	89,597	77,826	262,015	11,771
Total Expenses	5,697,764	5,429,741	5,351,918	268,023
Excess before Contributions	801,553	1,026,703	783,816	(225,150)
Capital Contributions	1,301,234	945,391	68,924	355,843
Change in Net Position	2,102,787	1,972,094	852,740	130,693
Beginning Net Position	26,940,999	24,968,905	24,116,165	1,972,094
Ending Net Position	$ 29,043,786	$ 26,940,999	$ 24,968,905	$ 2,102,787

Capital Assets and Debt Administration

The majority of the District's net assets are invested in capital assets (e.g. buildings, land, lines, and equipment). The District uses these capital assets to provide water service to residential and commercial customers in the District.

As of December 31, 2014, the District's investment in capital assets shown on the Statement of Net Position as Capital Assets is $34,036,003 net of depreciation. This is an increase of $5,470,924 since December 31, 2013. Capital assets include land, improvements to land, easements, buildings, building improvements, vehicles, machinery, equipment, infrastructure, and all other tangible or intangible assets that are used in operations and that have initial useful lives extending beyond a single reporting period. Please refer to Note 3.

Long-Term Debt

The District uses long-term debt to help fund its capital projects in the form of revenue bonds and, for qualifying projects, low interest loans from the Washington State Department of Commerce.

Bond covenants require the District to fund reserves in its Bond Redemption Fund at a level at least equal to the average amount required in any calendar year to pay the principal of and interest on the outstanding bonds. The District issued revenue bonds in December 2011 – see Note 6.

In 2012, the District was approved to receive Drinking Water State Revolving Fund loan monies for two capital projects totaling approximately $4.4 million. The District completed one project in 2013 and expects to complete the second project in 2015 or early 2016. Due to the amount of the loans, the District is subject to a Federal audit under the Single Audit Act guidelines.

Significant Events

Effective January 1, 2014, the District changed its name to North City Water District to help clarify the distinction between the District and the City of Shoreline. Please see a more lengthy discussion of this under 'About the District'.

In February 2014, the District purchased property located at 15555 15th Ave NE, Shoreline, WA 98155, from Northwest Church for $3.3 million. It will be used for the site of a new maintenance facility expected to be constructed in 2016-2017.

North City Water District

STATEMENT OF NET POSITION

As of December 31, 2014

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	
Current Assets:	
Cash and Cash Equivalents:	
Maintenance/Operating Account	$ 1,133,194
Capital Account	2,620,954
Vehicle Replacement Account	120,000
Customer Deposits	14,602
Accounts Receivable (Net)	1,225,144
Inventories	296,182
Prepayments	91,218
TOTAL CURRENT ASSETS	5,501,294
Non-Current Assets:	
Restricted Funds - (NOTE 1)	
Revenue Bond Fund	772,147
Capital Assets Not Being Depreciated or Amortized:	
Land - (NOTE 3)	3,496,535
Construction in Progress - (NOTE 4)	2,820,711
Capital Assets Being Amortized: (NOTE 3)	
Intangibles Plant (*Net of Amortization*)	412,042
Capital Assets Being Depreciated: (NOTE 3)	
Buildings	5,054,307
Equipment	1,578,166
Infrastructure	31,612,492
Vehicles	779,984
Less Accumulated Depreciation	(11,718,235)
Total Capital Assets (Net)	34,036,003
TOTAL NONCURRENT ASSETS	34,808,150
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	40,309,444
LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	
Current Liabilities:	
Accounts Payable	466,578
Accounts Payable - Capital	123,219
Accrued Employee Benefits	62,467
Other Liabilities	139,480
Accrued Interest Payable	58,962
Current Portion of Long-Term Debt - (NOTE 6)	525,000
TOTAL CURRENT LIABILITIES	1,375,706
Non-Current Liabilities:	
Compensated Absences	60,708
Drinking Water State Revolving Fund Loans - (NOTE 6)	1,906,672
Long-Term Debt - Net of Current Portion - (NOTE 6)	7,830,000
Bond Premium	92,572
TOTAL NONCURRENT LIABILITIES	9,889,952
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	11,265,658
NET POSITION	
Net Investment in Capital Assets	23,774,332
Restricted for Debt Service and Capital Construction	772,147
Unrestricted	4,497,307
TOTAL NET POSITION	**$ 29,043,786**

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

North City Water District

STATEMENT OF REVENUES, EXPENSES & CHANGES IN NET POSITION

As of December 31, 2014

OPERATING REVENUE		
Utility Sales and Service Fees	$	6,165,955
Other Operating Revenue		305,677
Total Operating Income		6,471,632
OPERATING EXPENSES		
Operations:		
Water Purchased for Resale		1,547,687
General Operations		827,554
Maintenance		233,861
Customer Service and Billing		227,432
Administration:		
General Administration		361,270
Planning & Development		80,020
Public & Regional Involvement		232,082
Office & Records Management		439,162
Depreciation and Amortization		986,271
Francise Fees		342,437
Property, Excise, and B&O Taxes		330,391
Total Operating Expenses		5,608,167
OPERATING INCOME		**863,465**
NON-OPERATING REVENUES (EXPENSES)		
Investment Interest Income		27,685
Bond and Loan Interest Expense (Net of Capitalization)		(90,463)
Other Non-Operating Revenue		866
Total Non-Operating Revenues (Expenses)		(61,911)
Capital Contributions		1,301,234
CHANGE IN NET POSITION		2,102,787
TOTAL NET POSITION, January 1		26,940,999
TOTAL NET POSITION, July 31	**$**	**29,043,786**

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

North City Water District
STATEMENT OF CASH FLOWS
As of December 31, 2014

CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash Received from Customers	$	6,459,218
Cash Payments to Suppliers for Goods & Services		(951,807)
Cash Payments for Payroll and Related Costs		(3,591,815)
NET CASH PROVIDED BY OPERATING ACTIVITIES		**1,915,596**
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Capital Contributions		1,301,234
Change in Non-Operating Expense/Income		866
Developer Costs (Net of Deposits)		32,319
Cash Payments for Capital Construction & Acquisition		(6,666,778)
DWSRF Loan Proceeds		1,437,193
Principal Paid on Revenue Bonds		(520,000)
Interest Paid on Revenue Bonds		(246,248)
Principal Paid on Public Works Trust Fund Loan		(49,537)
Interest Paid on Public Works Trust Fund Loan		(495)
TOTAL CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		**(4,711,446)**
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest Received on Investments (Net of Fees)		27,685
CASH FLOWS FROM INVESTING ACTIVITIES		**27,685**
NET INCREASE (DECREASE IN CASH AND CASH EQUIVALENTS		**(2,768,164)**
CASH AND CASH EQUIVALENTS - BEGINNING OF PERIOD		7,429,062
CASH AND CASH EQUIVALENTS - END OF PERIOD		**4,660,898**

RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES

OPERATING INCOME (LOSS)	**$**	**863,465**
ADJUSTMENTS TO RECONCILE NET OPERAING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATIONS:		
Depreciation & Amortization Expense	$	986,271
Decrease (Increase) in Inventory		(68,721)
Decrease (Increase) in Accounts Receivable		(12,414)
Decrease (Increase) in Prepaid Expense		(21,147)
Increase (Decrease) in Other Payables		24,394
Increase (Decrease) in Maintenance Accounts Payable		143,748
NET CASH PROVIDED BY OPERATING ACTIVITIES	**$**	**1,915,596**

The accompanying notes are an integral part of these statements.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the District conform to generally accepted accounting principles (GAAP) as applicable to proprietary funds of governments. GASB is the accepted standard setting body for establishing governmental accounting and financial reporting principles. In June 1999, GASB approved Statement 34, *Basic Financial Statements – and Management Discussion and Analysis – for State and Local Governments.* This and consecutive statements are reflected in the accompanying financial statements (including notes to the financial statements). The following is a summary for the most significant policies (including identification of those policies, which result in material departures from GAAP:

a. Reporting Entity

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

b. Basis of Accounting and Presentation

The accounting records of the District are maintained in accordance with methods prescribed by the State Auditor under the authority of Chapter 43.09 RCW.

The District uses the full-accrual basis of accounting where revenues are recognized when earned and expenses are recognized when incurred. An exception to full accrual is that interest on assessments is recorded when received. Capital asset purchases are capitalized and long-term liabilities are accounted for in the appropriate funds. Unbilled utility service receivables are recorded at year-end. Operating income includes gains and losses from the disposal of utility plant.

c. Cash and Cash Equivalents

For purposes of the statement of cash flows, the District considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents. All District deposits are covered by Federal Depository Insurance Corporation (FDIC) and are selected through the contracting of treasurer services through King County.

d. Capital Assets – See Note 3

e. Restricted Funds

In accordance with bond resolutions (and certain related agreements) separate restricted funds are required to be established. The assets held in these funds are restricted for specific uses, including debt service and other special reserve requirements. Restricted funds as of December 31, 2014 are comprised solely of the funds in the Revenue Bond Fund in the amount of $772,147.

Assets and liabilities shown as current in the accompanying statement of net position (or balance sheet) exclude current maturities on revenue bonds and accrued interest thereon because debt service funds are provided for their payment.

f. Receivables

The District records receivables when billing takes place. The District takes advantage of its authority to lien properties with delinquent utility balances. Such liens are recorded with King County and are maintained until the balances are paid in full. Interest is assessed on these liens until paid. For this reason, there is not an allowance for bad debts.

g. Inventories

Inventory is valued at the average acquisition cost, which approximates the market value. All items are physically counted at year-end.

h. Investments

District funds not required for immediate expenditure are invested via King County, the District's ex-officio treasurer, in the King County Investment Pool (Pool). Investments are stated at cost. For various risks related to the investments, see Deposits and Investments Note No. 2

i. Compensated Absences

Compensated absences are absences for which employees will be paid, such as vacation and sick leave. The District records unpaid leave for compensated absences as an expense and liability when incurred. Vacation pay, which may be accumulated up to 360 hours, is payable upon resignation, retirement or death. Sick leave may accumulate up to 520 hours as of December 31 of each calendar year.

j. Revenues and Expenses

OPERATING REVENUE is defined as those revenues generated from the sale of utility services and all associated administrative charges directly connected to those services. Non-operating revenues are defined as those revenues not meeting the definition of operating revenue.

OPERATING EXPENSES are those direct costs necessary for providing water services. Non-operating expenses are all other expenses not meeting the definition of an operating expense.

k. Construction Financing

The District has issued revenue bonds for long-term financing of capital improvements. The District also takes advantage of Public Works Trust Fund Loans made available through the Washington State Department of Commerce for public works projects. See Note No. 6 for additional information. Developers also build regular system extensions. Upon the completion of the project, the developer donates those main lines to the District.

l. Other Current Assets – Pre-paid items

Prepaid expenses are those costs which are paid up front for short term future use. One such prepaid item is insurance. As noted in Note 9, the District carries insurance through the Washington Governmental Entities Pool and pays for this coverage bi-annually. Since the monies are paid in advance of the coverage, the amount allocated to future periods is noted as a pre-paid expense. The District also includes applies funds toward its postage meter and postage permit.

m. Intangible Assets

The District defers costs for intangible assets for a period of time equal to its estimated useful life. As of December 31, 2014, the District's intangible assets $412,042. See Note 3.

NOTE 2 – DEPOSITS AND INVESTMENTS

a. Deposits

The District's deposits are covered by federal depository insurance (FDIC). The Public Deposit Protection Commission of the State of Washington (PDPC) also provides limited coverage of the Districts funds held by King County. The PDPC is a statutory authority which constitutes a multiple financial institution collateral pool that can make pro rata assessments to all public depositories within the state of up to ten percent (10%) of all their public deposits. For more information, please refer to Note 2 of these financial statements.

b. Investments

In accordance with state investment laws, the District's governing body has entered into a formal interlocal agreement with King County, its *ex officio* treasurer, to have all funds not required for immediate expenditure invested in the King County Investment Pool (Pool). As of December 31, 2014, the District had the following investments:

Investment Type	Fair Value	Effective Duration
King County Investment Pool	$4,605,623	1.26 Years

Impaired Investments: As of December 31, 2014, all impaired commercial paper investments have completed enforcement events. The King county impaired investment pool (Impaired Pool) held one commercial paper asset where the Impaired Pool accepted an exchange offer and is receiving the cash flows from the investment's underlying securities. The Impaired Pool also held the residual investments in four commercial paper assets that were part of completed enforcement events, where the Impaired Pool accepted the cash out option. The District's share of the impaired investment pool principal is $34,160 and the District's fair value of these investments is $20,675.

Interest Rate Risk. As of December 31, 2014, the Pool's average duration was 1.23 years. As a means of limiting its exposure to rising interest rates, securities purchased in the Pool must have a final maturity or weighted average life, no longer than five years. While the Pool's market value is calculated on a monthly basis, unrealized gains and losses are not distributed to participants. The Pool distributes earnings monthly using an amortized cost methodology.

Credit risk. As of December 2014, the District's investment in the Pool was not rated by a nationally recognized statistical rating organization (NRSRO). In compliance with state statutes, Pool policies authorize investments in U.S. Treasury securities, U.S. agency securities and mortgage-backed securities, municipal securities (rated at least "A" by two NRSROs), commercial paper (rated at least the equivalent of "A-1" by two NRSROs), Certificates of deposits issued by qualified public depositories, repurchase agreements, and the Local Government Investment Pool managed by the Washington State Treasurer's office.

NOTE 3 – CAPITAL ASSETS

Capital assets are defined by the District as assets with initial individual cost of more than $5,000 and an estimated useful life in excess of one year.

Major expenses for capital assets such as major repairs that increase useful lives are capitalized. Maintenance, repairs, and minor renewals are accounted for as expenses when incurred.

Utility plants in service and other capital assets are recorded at cost. Capital assets for the year ended December 31, 2014 were as shown in the following table:

	2014 Beg Bal	2014 Activity Increase	2014 Activity Decrease / Adjustment	2014 End Bal
UTILITY PLANT NOT BEING DEPRECIATED OR AMORTIZED				
Land	$ 1,138,464	$ 2,358,072	$ -	3,496,535
Construction-in-Progress	9,612,113	3,336,147	(10,127,548)	2,820,711
TOTAL UTILITY PLANT NOT BEING DEPRECIATED	**$ 10,750,576**	**$ 5,694,219**	**$ (10,127,548)**	**$ 6,317,247**
UTILITY PLANT BEING AMORTIZED - NET OF AMORTIZATION				
Intangible Plant	$ 518,356	$ -	$ (106,314)	$ 412,042
TOTAL UTILITY PLANT BEING AMORTIZED	**$ 518,356**	**$ -**	**$ (106,314)**	**$ 412,042**
UTILITY PLANT BEING DEPRECIATED				
Building & Structures	$ 512,669	$ 4,541,638	$ -	$ 5,054,307
Machinery & Equipment	1,569,736	8,430	-	1,578,166
Vehicles	779,984	-	-	779,984
Infrastructure	26,037,896	6,340,458	(765,861)	31,612,492
TOTAL UTILITY PLANT BEING DEPRECIATED	**$ 28,900,285**	**$ 10,890,525**	**$ (765,861)**	**$ 39,024,949**
LESS ACCUMULATED DEPRECIATION FOR:				
Building & Structures	$ (304,407)	$ (15,726)	$ -	$ (320,133)
Machinery & Equipment	(1,006,517)	(93,006)	-	(1,099,523)
Vehicles	(373,211)	(63,223)	-	(436,434)
Infrastructure	(9,920,004)	(708,002)	765,861	(9,862,145)
TOTAL ACCUMULATED DEPRECIATION	**$ (11,604,138)**	**$ (879,957)**	**$ 765,861**	**$ (11,718,235)**
UTILITY PLANT BEING DEPRECIATED (NET)	**$ 17,296,146**	**$ 10,010,568**	**$ -**	**$ 27,306,715**
TOTAL UTILITY PLANT, NET	**$ 28,565,079**	**$ 15,704,787**	**$ (10,233,862)**	**$ 34,036,003**

The original cost of operating property retired or otherwise disposed of and the cost of installation, less salvage, is charged to accumulated depreciation. However, in the case of the sale of a significant operating unit or system, the original cost is removed from the utility plant accounts, accumulated depreciation related to the property sold is charged, and the net gain or loss on disposition is credited or charged to income.

Capital assets are depreciated using straight-line method of depreciation over the following estimated useful lives:

Buildings	20 to 30 years
Equipment	3 to 10 years
Infrastructure	10 to 50 years
Vehicles	3 to 10 years

Preliminary costs incurred for proposed projects are deferred pending construction of the facility. Costs relating to projects ultimately constructed are transferred to utility plant; charges that relate to abandoned projects are expensed.

NOTE 4 – CONSTRUCTION IN PROGRESS

Construction in progress represents expenses to date on capital projects. The construction in progress as of December 31, 2014 was as follows:

CONSTRUCTION IN PROGRESS
As of December 31, 2014

PRV Replacements for Ridgecrest Project	$	15,589
McAleer Creek Culvert - 178th LFP		24,690
NCPS (Pump Station) Design and Construction		1,389,263
Main Replacement at 15th and 24th (CIP #4)		254,559
Maintenance Building/Property		1,136,610
TOTAL	**$**	**2,820,711**

NOTE 5 – LEASE COMMITMENTS

In February 2012 the District entered into a lease, at $5,500 a month, for temporary office space during the construction of a new administration building. The lease was terminated in August 2013 and in 2014 the District had no lease commitments.

NOTE 6 - LONG-TERM DEBT

a. Revenue Bonds

The District issued Water Revenue Bonds in December 31, 2011 in the amount of $9,865,000. These bonds bear interest rates ranging from 2.0% to 4.0% and are payable semi-annually each April 1 and October 1. A portion of the bond principle matures each October 1 beginning in the year 2012 through 2031.	$ 8,355,000
Total Bond Restricted Debt	$ 8,355,000

b. Junior Lien Loans

Public Works Trust Fund (PWTF) Loan

The District's junior lien loan with the Washington Public Works Trust Fund was paid in full in 2014. The balance due as of December 31, 2014 is:

1994	PWTF Loan	$ 0

Drinking Water State Revolving Fund (DWSRF) Loan

Shoreline Water District entered into two loan agreements with the Department of Commerce in 2012. Both loans are for 24 years including 4 years from the contract execution date to the project completion date with a 1.5% interest rate. The first project will allow the District to accelerate the replacement of cast iron water mains. The second project will install upgrades to the North City pump station make it more efficient.

The District expects to finalize the water main project and withdraw all the remaining funds in 2015. The funds drawn in 2014 were $1,437,193. The pump station project is expected to start construction in May 2015 and will be completed in 2016. See Schedule 16.

The District is required to have Federal Audits for both loans in 2015 and a single federal audit in 2016 for the pump station loan.

c. Short-term Debt

The District has not obtained short-term debt in the past. It does not anticipate obtaining short-term debt in the future.

Combined Long Term Debt Service Schedule

	2011 Revenue Bond Principal	2011 Revenue Bond Interest	DWSRF Loan Principal & Int (1)	COMBINED ANNUAL DEBT SERVICE
2015	525,000	235,848		760,848
2016	540,000	225,348		765,348
2017	555,000	214,548		769,548
2018	565,000	203,448		768,448
2019	580,000	192,148		772,148
2020-2025	2,540,000	911,474		3,451,474
2026-2031	3,050,000	400,665		3,450,665
	$ 8,355,000	**$ 2,383,479**	**$ -**	**$ 10,738,479**

(1) Debt Service paymrent are not determined until the end of the construction period in 2017.

Changes in Long-Term Liabilities

During the year ended December 31, 2014, the following changes occurred in long-term liabilities: The District's compensated absence liability represents the amount owed to District employees upon separation from District employment. See Note 1h for more information regarding compensated absences. This liability decreased from $92,987 at year end 2012 to $51,104 at December 31, 2014.

	Beginning Balance 1/1/2014	Additions	Reductions	Ending Balance 12/31/2014	Due Within One Year
Revenue Bonds Payable	$ 8,875,000.00	$ -	$ (520,000.00)	$ 8,355,000.00	$ 525,000.00
Compensated Absenses	$ 51,103.66	$ 9,604.75		$ 60,708.41	n/a
PWTF Loans	$ 49,536.40	$ -	$ (49,536.40)	$ -	$ -
DWSRF Loans	$ 469,478.80	$ 1,437,192.70		$ 1,906,671.50	$ -
Total LT Liabilities	**$ 9,445,118.86**	**$ 1,446,797.45**	**$ (569,536.40)**	**$ 10,322,379.91**	**$ 525,000.00**

<u>NOTE 7– PENSION PLAN</u>

Substantially all District's full-time and qualifying part-time employees participate in one of the following statewide retirement systems administered by the Washington State Department of Retirement Systems, under cost-sharing multiple-employer public employee defined benefit retirement plans. The Department of Retirement Systems (DRS), a department within the primary government of the State of Washington, issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for each plan. The DRS CAFR may be obtained by writing to: Department of Retirement Systems, Communications Unit, P.O. Box 48380, Olympia, WA 98504-8380; or it may be downloaded from the DRS website at www.drs.wa.gov. The following disclosures are made pursuant to the GASB Statement 27, *Accounting for Pensions by State and Local Government Employers* and the GASB Statement 50*, Pension Disclosures, an Amendment of GASB Statements No. 25 and No. 27*.

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

Plan Description

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

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

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

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

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

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

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

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

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

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

PERS Plan 1 provides duty and non-duty disability benefits. Duty disability retirement benefits for disablement prior to the age of 60 consist of a temporary life annuity. The benefit amount is $350 a month, or two-thirds of the monthly AFC, whichever is less. The benefit is reduced by any workers' compensation benefit and is payable as long as the member remains disabled or until the member attains the age of 60, at which time the benefit is converted to the member's service retirement amount.

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

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

PERS Plan 2 members who have at least 20 years of service credit, and are 55 years of age or older, are eligible for early retirement with a reduced benefit. The benefit is reduced by an early retirement factor (ERF) that varies according to age, for each year before age 65.

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

- With a benefit that is reduced by 3 percent for each year before age 65; or

- With a benefit that has a smaller (or no) reduction (depending on age) that imposes stricter return-to-work rules.

PERS Plan 2 members hired on or after May 1, 2013 have the option to retire early by accepting a reduction of 5 percent for each year of retirement before age 65. This option is available only to those who are age 55 or older and have at least 30 years of service.

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

PERS Plan 3 has a dual benefit structure. Employer contributions finance a defined benefit component and member contributions finance a defined contribution component. As established by Chapter 41.34 RCW, employee contribution rates to the defined contribution component range from 5 percent to 15 percent of salaries, based on member choice. Members who do not choose a contribution rate default to a 5 percent rate. There are currently no requirements for employer contributions to the defined contribution component of PERS Plan 3.

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

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

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

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

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

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

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

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

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

From January 1, 2007 through December 31, 2007, judicial members of PERS were given the choice to elect participation in the Judicial Benefit Multiplier (JBM) Program enacted in 2006. Justices and judges in PERS Plan 1 and Plan 2 were able to make an irrevocable election to pay increased contributions that would fund a retirement benefit with a 3.5 percent multiplier. The benefit would be capped at 75 percent of AFC. Judges in PERS Plan 3 could elect a 1.6 percent of pay per year of service benefit, capped at 37.5 percent of AFC.

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

There are 1,176 participating employers in PERS. Membership in PERS consisted of the following as of the latest actuarial valuation date for the plans of June 30, 2013.

Retirees and Beneficiaries Receiving Benefits	85,328
Terminated Plan Members Entitled to But Not Yet Receiving Benefits	31,047
Active Plan Members Vested	150,706
Terminated Plan Members Nonvested	101,191
Total	**368,272**

Funding Policy

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

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

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

The required contribution rates expressed as a percentage of current-year covered payroll, as of December 31, 2014, are as follows:

Members Not Participating in JBM:

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

* The employer rates include the employer administrative expense fee currently set at 0.18%.
** The employer rate for state elected officials is 13.73% for Plan 1 and 9.21% for Plan 2 and Plan 3.
*** Plan 3 defined benefit portion only.
**** The employee rate for state elected officials is 7.50% for Plan 1 and 4.92% for Plan 2.
***** Variable from 5.0% minimum to 15.0% maximum based on rate selected by the PERS 3 member.

Members Participating in JBM:

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

*   The employer rates include the employer administrative expense fee currently set at 0.18%.
**   Plan 3 defined benefit portion only.
*** Minimum rate.

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

	PERS Plan 1	PERS Plan 2	PERS Plan 3
2014	0	$ 73,730	$ 24,810
2013	0	$ 61,391	$ 21,004
2012	0	$ 50,012	$ 17,546

NOTE 8 – JOINT VENTURES

The District has a long-term supply agreement with Seattle Public Utilities (SPU). SPU provides the District with all of its water. The supply quantity in the agreement is sufficient to supply the District for at least three decades. The District made direct water purchases from SPU in 2014 of $1,547,687.

During 2012 the District entered into two public-private partnerships with local developers - Development Services of America for a project adjacent to I-5, and the Inland Group for rebuilding the old YMCA into a new apartment complex in the North City area. In both cases additional fire flow was needed to support the development activity. Since the District had identified capital projects designed to increase the fire flow to these two areas within the next eight to ten years, they agreed to complete the projects early if the developers contributed approximately one-half of the project costs. Both developers agreed to these terms. The total savings to the District will be nearly $500,000. The District contributed 49% [$77,910] of the total expected cost for the YMCA apartment renovation project to an escrow account. The developer contributed 51% [$81,090] to the same escrow account. When the project is complete in 2014, the costs contributed by both the District and the developer will be reclassified as capital assets. Similarly, the District contributed 49% [$338,100] and the developer contributed 51% [$351,900] to an escrow account for the project adjacent to I-5. Both projects were completed in 2014.

NOTE 9 – RISK MANAGEMENT

The District is exposed to the risk of loss from torts, theft of or damage to assets, natural disasters, workers compensation, errors and omissions, and other general liabilities.

North City Water District is a member of Enduris. Chapter 48.62 RCW authorizes the governing body of any one or more governmental entity to form together into or join a pool or organization for the joint purchasing of insurance, and/or joint self-insuring, and/or joint hiring or contracting for risk management services to the same extent that they may individually purchase insurance, self-insure, or hire or contract *for risk management* services. An agreement to form a pooling arrangement was made pursuant to the provisions of Chapter 39.34 RCW, the Interlocal Cooperation Act. Enduris was formed July 10, 1987, when two (2) counties and two (2) cities in the State of Washington joined together by signing an interlocal Governmental Agreement to pool their self-insured losses and jointly purchase insurance and administrative services. As of August 31, 2014, there are 491 Enduris members representing a broad range of special purpose districts.

Enduris allows members to jointly purchase excess insurance coverage, share in the self-insured retention, establish a plan for total self-insurance, and provide excellent risk management services and other related services. Enduris provides "occurrence" policies for all lines of liability coverage including Public Official's Liability. The Property coverage is written on an "all risk" basis blanket form using current Statement of Values. The Property coverage includes mobile equipment, electronic data processing equipment, valuable papers, building ordinance coverage, property in transit, extra expense, consequential loss, accounts receivable, fine arts, inventory or appraisal cost, automobile physical damage to insured vehicles. Boiler and machinery coverage is included on a blanket limit of $100 million for all members. Enduris offers employee dishonesty coverage up to a liability limit of $1,000,000.

Members make an annual contribution to fund Enduris. Enduris acquires insurance from unrelated insurance companies that is subject to a "per occurrence":

- $1,000,000 deductible on liability loss - the member is responsible for the first $1,000 of the deductible amount of each claim, while Enduris is responsible for the remaining $999,000 on liability loss;

- $250,000 deductible on property loss - the member is responsible for the first $1,000 of the deductible amount of each claim, while Enduris is responsible for the remaining $249,000 on property loss.

- Enduris is responsible for the $4,000 deductible on boiler and machinery loss.

Insurance carriers cover all losses over the deductibles as shown to the policy maximum limits. Since Enduris is a cooperative program, there is a joint liability among the participating members.

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

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

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

ABOUT THE STATE AUDITOR'S OFFICE

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

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

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

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

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

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

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

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