



Washington State Auditor's Office

Troy Kelley

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Financial Statements Audit Report

North City Water District

King County

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

Published December 22, 2014

Report No. 1013249





Washington State Auditor
Troy Kelley

December 22, 2014

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,

TROY KELLEY
STATE AUDITOR
OLYMPIA, WA

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SCHEDULE OF AUDIT FINDINGS AND RESPONSES

North City Water District King County January 1, 2013 through December 31, 2013

2013-001 The District's internal controls were inadequate to ensure the District met federal single audit reporting requirements.

Background

District management, the state Legislature, state and federal agencies and bondholders rely on the information included in financial statements and supplemental schedules to make decisions. It is the responsibility of District management to design and follow internal controls that provide reasonable assurance regarding the reliability of financial reporting. Our audit identified deficiencies in internal controls over financial reporting that affected the District's ability to meet federal reporting requirements.

Government Auditing Standards, prescribed by the Comptroller General of the United States, require the auditor to communicate material weaknesses as defined below in the Applicable Laws and Regulations section, as a finding.

Description of Condition

The District spent more than \$500,000 in federal money during 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.

Cause of Condition

The District does not regularly receive federal funds; therefore, District staff was not familiar with the federal audit requirements.

Effect of Condition

The District did not request a federal single audit when it was required and did not meet its federal reporting deadline. This could cause the District to lose future funding and the District will be considered high risk for future audits.

Recommendation

We recommend the District staff review federal reporting requirements to ensure they comply with the requirements. We further recommend the District establish controls to ensure a single audit is requested when required.

District's Response

As described in the State Auditor's Findings, this was the first time that our District had applied for and received federal funding for capital improvement projects. We felt extremely fortunate to have this opportunity to save our ratepayers a significant amount of money—both in terms of the loan financing as well as the timing of the resulting three projects during a depressed construction economy.

Although we made every effort to correctly interpret and comply with the funding requirements, we misinterpreted a key timing issue regarding the annual \$500,000 spending limit, which if exceeded triggers an audit. We erroneously interpreted the limit to apply to the draws from the loan funds—rather than when we had actually spent District monies in advance of taking the draws.

We are grateful to Assistant Washington State Auditor Scott Hylton, CPA, for his astute observations and recommendations, and for immediately initiating the Single Audit process required by the federal loan program, which will enable us to correct the deficiency within three month of its occurrence.

We feel confident that this swift action will demonstrate the District's commitment to adhering to the loan requirements and thereby ensure our ability to receive future federal funding when the need should arise.

Auditor's Remarks

We appreciate the steps the District is taking to resolve this issue. We will review the condition during the next audit.

Applicable Laws and Regulations

OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, states in part:

Section 200, Audit requirements,

- (a) Audit required. Non-Federal entities that expend \$300,000 (\$500,000 for fiscal years ending after December 31, 2003) or more in a year in Federal awards shall have a

single or program-specific audit conducted for that year in accordance with the provisions of this part. Guidance on determining Federal awards expended is provided in § ____.205.

(b) Single audit. Non-Federal entities that expend \$300,000 (\$500,000 for fiscal years ending after December 31, 2003) or more in a year in Federal awards shall have a single audit conducted in accordance with § ____.500 except when they elect to have a program-specific audit conducted in accordance with paragraph (c) of this section.

Section 205, Basis for determining Federal awards expended, states in part:

(a) Determining Federal awards expended. The determination of when an award is expended should be based on when the activity related to the award occurs. Generally, the activity pertains to events that require the non-Federal entity to comply with laws, regulations, and the provisions of contracts or grant agreements, such as: expenditure/expense transactions associated with grants, cost-reimbursement contracts, cooperative agreements, and direct appropriations; the disbursement of funds passed through to subrecipients; the use of loan proceeds under loan and loan guarantee programs . . .

(b) Loan and loan guarantees (loans). Since the Federal Government is at risk for loans until the debt is repaid, the following guidelines shall be used to calculate the value of Federal awards expended under loan programs, except as noted in paragraphs (c) and (d) of this section:

(1) Value of new loans made or received during the fiscal year; plus

(2) Balance of loans from previous years for which the Federal Government imposes continuing compliance requirements; plus any interest subsidy, cash, or administrative cost allowance received.

Section 300, Auditee responsibilities, states in part:

The auditee shall:

(e) Ensure that the audits required by this part are properly performed and submitted when due.

Section 320, Report Submission, states in part:

(a) General. The audit shall be completed and the data collection form described in paragraph (b) of this section and reporting package described in paragraph (c) of this section shall be submitted within the earlier of 30 days after receipt of the auditor's report(s), or nine months after the end of the audit period, unless a longer period is agreed to in advance by the cognizant or oversight agency for audit

**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, 2013 through December 31, 2013**

Board of Commissioners
North City Water District
Shoreline, 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, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated December 19, 2014.

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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Audit Findings and Responses, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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. We consider the deficiencies described in the accompanying Schedule of Audit Findings and Responses as Finding 2013-001 to be material weaknesses.

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*.

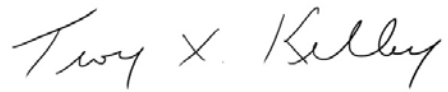
DISTRICT'S REPOSENSE TO FINDINGS

The District's response to the findings identified in our audit is described in the accompanying Schedule of Audit Findings and Responses. The District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

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.

A handwritten signature in black ink that reads "Troy X. Kelley". The signature is written in a cursive style with a large "X" between the first and last names.

TROY KELLEY
STATE AUDITOR
OLYMPIA, WA

December 19, 2014

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

North City Water District King County January 1, 2013 through December 31, 2013

Board of Commissioners
North City Water District
Shoreline, 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, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed on page 14.

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, 2013, 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

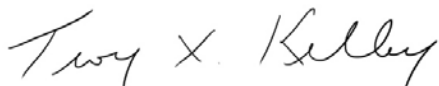
Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 15 through 17 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the 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.

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The accompanying 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*. This schedule is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of 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 by us and other auditors. In our opinion, based on our audit, the procedures performed as described above, the information is fairly stated in all material respects, in relation to the basic financial statements taken as a whole.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated December 19, 2014 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.



TROY KELLEY
STATE AUDITOR
OLYMPIA, WA

December 19, 2014

FINANCIAL SECTION

**North City Water District
King County
January 1, 2013 through December 31, 2013**

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2013

BASIC FINANCIAL STATEMENTS

Statement of Net Position – 2013

Statement of Revenues, Expenses and Changes in Net Position – 2013

Statement of Cash Flows – 2013

Notes to Financial Statements – 2013

SUPPLEMENTAL INFORMATION

Schedule of Expenditures of Federal Awards – 2013

Notes to the Schedule of Expenditures of Federal Awards – 2013

North City Water District
MANAGEMENT DISCUSSION AND ANALYSIS
For the Year Ended December 31, 2013

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 \$1,972,094 in 2013. The increase is almost entirely due to an increase of \$1,159,833 in Total Assets. The increase in Total Assets is due to an excess of cash operating revenues (from higher water usage in 2013) 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. Long-term liabilities decreased by \$811,813 from the payment of principal on long-term bond debt, a decrease in compensated absences, and a decrease in customer deposits. It was offset by an increase in Drinking Water State Revolving Fund (DWSRF) indebtedness (see Note 6).

The amount invested (or equity) in capital assets of \$19,171,063 is the net book value of all District assets of \$28,565,079 less the amount funded with outstanding debt of \$9,394,016. 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 \$3,968,172 is comprised of the District's sinking fund reserves, bond fund reserves, and funds held in escrow for the construction of assets in a joint venture with developers (see Note 8). The unrestricted balance of \$3,801,764 represents the assets available for the future use in providing utility service.

Condensed Comparative Statement of Net Position

	2013	2012	2011	2013-2012 Change
Current and Other Assets	\$ 8,939,323	\$ 14,578,020	\$ 15,669,688	\$ (5,638,697)
Capital Assets	<u>28,565,079</u>	<u>21,766,549</u>	<u>19,804,217</u>	<u>6,798,530</u>
Total Assets	37,504,402	36,344,570	35,473,904	1,159,833
Long-term Liabilities	9,454,141	9,614,247	10,072,461	(160,106)
Other Liabilities	<u>1,109,263</u>	<u>1,760,970</u>	<u>1,284,830</u>	<u>(651,707)</u>
Total Liabilities	10,563,404	11,375,217	11,357,291	(811,813)
Invested in Capital Assets	19,171,063	17,466,656	17,964,590	1,704,407
Restricted	3,968,172	3,795,857	4,098,582	172,316
Unrestricted	<u>3,801,764</u>	<u>3,706,392</u>	<u>2,052,992</u>	<u>95,371</u>
Total Net Position	<u>\$ 26,940,999</u>	<u>\$ 24,968,905</u>	<u>\$ 24,116,165</u>	<u>\$ 1,972,094</u>

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 increase in water service revenues of \$328,002 in 2013 over 2012 is due to an increase in water usage from hotter and dryer summer in this region during 2013. Other Operating income increased by \$6,804 due to higher rental rates for water tower antennas. The increase of \$267,108 in operating expenses is driven by the following items: Water purchases increased by eighteen percent due to higher water usage; Utility taxes increased due to higher revenues; Depreciation expense increased due to the capitalization of a number of Capital Improvement Projects (CIP) in 2012 (depreciation expense is delayed until the year after capitalization). Increases in operating costs were offset by more management labor costs being allocated to capital projects in 2013 than in 2012.

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

	2013	2012	2011	2013-2012 Change
Water Service	6,183,782	5,855,780	5,116,371	328,002
Other Operating Revenue	188,679	181,876	142,336	6,804
Other Non-Operating Revenue	<u>89,078</u>	<u>98,078</u>	<u>98,804</u>	<u>(9,000)</u>
Total Revenues	6,461,540	6,135,734	5,357,511	325,806
Operating Expenses	5,357,011	5,089,904	4,495,645	267,108
Non-Operating Expenses	<u>77,826</u>	<u>262,015</u>	<u>114,697</u>	<u>(184,189)</u>
Total Expenses	<u>5,434,837</u>	<u>5,351,918</u>	<u>4,610,341</u>	<u>82,919</u>
Excess before Contributions	1,026,703	783,816	747,170	242,887
Capital Contributions	<u>945,391</u>	<u>68,924</u>	<u>60,238</u>	<u>876,467</u>
Change in Net Position	1,972,094	852,740	807,408	1,119,354
Beginning Net Position	24,968,905	24,116,165	24,635,464	852,740
Prior Period Adjustments	<u>-</u>	<u>-</u>	<u>(1,326,707)</u>	<u>-</u>
Ending Net Position	<u>\$ 26,940,999</u>	<u>\$ 24,968,905</u>	<u>\$ 24,116,165</u>	<u>\$ 1,972,094</u>

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, 2013, the District's investment in capital assets shown on the Statement of Net Position as Capital Assets is \$28,565,079 net of depreciation. This is an increase of \$6,798,530 since December 31, 2012. 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 expects to expend all available funds in 2013 and 2014. Due to the amount of the loans, the District will be subject to a Federal audit under the Single Audit Act guidelines.

Subsequent 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 \$3.2 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, 2013

ASSETS

Current Assets:

Cash and Cash Equivalents	\$ 732,829
Accounts Receivable (Net)	1,212,730
Inventories	227,461
Prepayments	70,071
TOTAL CURRENT ASSETS	2,243,090

Non-Current Assets:

Restricted Assets (<i>Cash & Cash Equivalents</i>) - (NOTE 1))	
Escrowed Funds (NOTE 8)	139,872
Public Works Trust Fund	50,528
Revenue Bond Fund	772,148
Sinking Fund	3,005,624
Construction Fund	2,713,466
Customer Deposits	14,595
Capital Assets Not Being Depreciated:	
Land - (NOTE 3)	1,138,464
Construction in Progress - (NOTE 4)	9,612,113
Capital Assets Being Depreciated: (NOTE 3)	
Buildings	512,669
Equipment	1,569,736
Infrastructure	26,037,896
Vehicles	779,984
Intangibles (<i>Amortized</i>)	518,356
Less Accumulated Depreciation	(11,604,139)
Total Capital Assets (Net)	28,565,079
TOTAL NONCURRENT ASSETS	35,261,312
TOTAL ASSETS	37,504,402

LIABILITIES

Current Liabilities:

Accounts Payable - Maint	322,830
Accrued Employee Benefits	60,398
Other Liabilities	94,440
Accrued Interest Payable	62,057
Current Portion of Public Works Trust Fund Loans - (NOTE 6)	49,537
Current Portion of Long-Term Debt - (NOTE 6)	520,000
TOTAL CURRENT LIABILITIES	1,109,263

Non-Current Liabilities:

Accounts Payable - Construction	480,540
Compensated Absences	51,104
Drinking Water State Revolving Fund Loans - (NOTE 6)	469,479
Public Works Trust Fund Loans - Net of Current Portion - (NOTE 6)	-
Long-Term Debt - Net of Current Portion - (NOTE 6)	8,355,000
Bond Premium	98,018
TOTAL NONCURRENT LIABILITIES	9,454,141
TOTAL LIABILITIES	10,563,404

NET POSITION

Net Investment in Capital Assets	19,171,063
Restricted for Debt Service and Capital Construction	3,968,172
Unrestricted	3,801,764
TOTAL NET POSITION	\$ 26,940,999

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, 2013

OPERATING REVENUE	
Utility Sales and Service Fees	\$ 6,183,782
Other Operating Revenue	188,679
Total Operating Income	6,372,462
OPERATING EXPENSES	
Operations:	
Water Purchased for Resale	1,565,905
Adjustment on Utility Sales	5,096
General Operations	666,474
Maintenance	175,057
Customer Service	184,582
Administration:	
General Administration	873,979
Planning, Conservation, Public & Regional Outreach	286,731
Depreciation and Amortization	930,742
Franchise Fees	337,822
Property, Excise, and B&O Taxes	330,623
Total Operating Expenses	5,357,011
OPERATING INCOME	1,015,450
NON-OPERATING REVENUES (EXPENSES)	
Investment Interest Income	89,078
Bond and Loan Interest Expense	(80,770)
Other Non-Operating Expense	2,945
Total Non-Operating Revenues (Expenses)	11,253
Capital Contributions	945,391
CHANGE IN NET POSITION	1,972,094
TOTAL NET POSITION, January 1	24,968,905
TOTAL NET POSITION, December 31	\$ 26,940,999

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, 2013

CASH FLOWS FROM OPERATING ACTIVITIES:	
Cash Received from Customers	\$ 6,262,938
Cash Payments to Suppliers for Goods & Services	(3,426,813)
Cash Payments for Payroll and Related Costs	(1,252,961)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>1,583,164</u>
 CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Capital Contributions	945,391
Change in Non-Operating Expense/Income	2,945
Developer Deposits (Net of Costs)	(350,430)
WSEA Escrow Accounts Reclassified as Restricted Cash	416,010
Cash Payments for Capital Construction & Acquisition	(7,741,990)
DWSRF Loan Proceeds	469,479
Principal Paid on Revenue Bonds	(510,000)
Interest Paid on Revenue Bonds (net of capitalization)	(88,271)
Principal Paid on Public Works Trust Fund Loan	(82,545)
Interest Paid on Public Works Trust Fund Loan	(1,321)
TOTAL CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(6,940,731)</u>
 CASH FLOWS FROM INVESTING ACTIVITIES	
Interest Received on Investments (Net of Fees)	89,078
CASH FLOWS FROM INVESTING ACTIVITIES	<u>89,078</u>
 NET INCREASE (DECREASE IN CASH AND CASH EQUIVALENTS)	
	(5,268,489)
 CASH AND CASH EQUIVALENTS - BEGINNING OF PERIOD	
	12,697,551
 CASH AND CASH EQUIVALENTS - END OF PERIOD	
	7,429,062
 RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
OPERATING INCOME (LOSS)	\$ 1,015,450
 ADJUSTMENTS TO RECONCILE NET OPERAING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATIONS:	
Depreciation & Amortization Expense	\$ 930,742
Decrease (Increase) in Inventory	53,704
Decrease (Increase) in Accounts Receivable	(109,524)
Decrease (Increase) in Prepaid Expense	9,570
Increase (Decrease) in Other Payables	(28,969)
Increase (Decrease) in Maintenance Accounts Payable	86,121
Accrued Non-Metered Water Costs - (NOTE 8)	(373,930)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 1,583,164</u>

The accompanying notes are an integral part of these statements.

North City Water District
NOTES TO FINANCIAL 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.

New Accounting Standards - For the year ended December 31, 2013, the District implemented GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which establishes guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position.

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 construction, debt service and other special reserve requirements.

Restricted funds as of December 31, 2013 include the following:

Escrowed Funds	\$ 139,872
PWTF Debt Fund	50,528
Bond Fund	772,148
Sinking Fund	3,005,624
Construction Fund	2,713,466
Deposits	14,595

Assets and liabilities shown as current in the accompanying statement of net assets 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.

i. 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 11, 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, 2013, the District's intangible assets \$518,356. 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, 2013, the District had the following investments:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Effective Duration</u>
King County Investment Pool	\$7,229,527	1.23 Years

Impaired Investments: As of December 31, 2013, 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 \$41,720 and the District's fair value of these investments is \$24,697.20.

Interest Rate Risk. As of December 31, 2013, 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 2013, 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, 2013 were as shown in the following table:

	2013	2013 Activity		2013
	Beg Bal	Increase	Decrease / Adjustment	End Bal
UTILITY PLANT NOT BEING DEPRECIATED				
Land	\$ 936,244	\$ 202,219	\$ -	1,138,464
Construction-in-Progress	2,703,194	7,159,053	(250,134)	9,612,113
TOTAL UTILITY PLANT NOT BEING DEPRECIATED	\$ 3,639,438	\$ 7,361,273	\$ (250,134)	\$ 10,750,576
UTILITY PLANT BEING DEPRECIATED/AMORTIZED				
Building & Structures	\$ 512,669	\$ -	\$ -	\$ 512,669
Machinery & Equipment	1,547,182	22,554	-	1,569,736
Vehicles	682,614	119,146	(21,776)	779,984
Infrastructure	25,895,269	196,219	(53,593)	26,037,896
Intangibles (<i>Amortized</i>)	298,819	279,301	(59,764)	518,356
TOTAL UTILITY PLANT BEING DEPRECIATED	\$ 28,936,554	\$ 617,219	\$ (135,133)	\$ 29,418,641
LESS ACCUMULATED DEPRECIATION FOR:				
Building & Structures	\$ (288,681)	\$ (15,726)	\$ -	\$ (304,407)
Machinery & Equipment	(903,932)	(102,585)	-	(1,006,517)
Vehicles	(345,887)	(50,013)	22,690	(373,211)
Infrastructure	(9,270,943)	(702,654)	53,593	(9,920,004)
TOTAL ACCUMULATED DEPRECIATION	\$ (10,809,443)	\$ (870,978)	\$ 76,283	\$ (11,604,138)
UTILITY PLANT BEING DEPRECIATED (NET)	\$ 18,127,111	\$ (253,759)	\$ (58,850)	\$ 17,814,503
TOTAL UTILITY PLANT, NET	\$ 21,766,549	\$ 7,107,514	\$ (308,984)	\$ 28,565,079

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, 2013 was as follows:

CONSTRUCTION IN PROGRESS	
Services - New	\$ 11,708
DSA WESA	224,712
YMCA WESA	95,005
Telemetry Upgrades	285,910
NE 185th/187th (#30)	520,567
Meter Replacement Project	1,519,388
Tank Improvements and Wireless Building	860,076
Pump Station Pre-Design and Construction	1,131,476
15th and 24th DWSRF - CIP #4	241,956
Administrative Facility	4,583,144
Maintenance Facility	138,172
TOTAL	\$ 9,612,113

NOTE 5 – LEASE COMMITMENTS

In February 2012 the District entered into a one-year lease, at \$5,500 a month, for temporary office space during the construction of a new administration building. The lease has a provision to extend the lease month-to-month after January of 2013, if needed. The District terminated the lease in August 2013.

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.

\$ 8,875,000

Total Bond Restricted Debt

\$ 8,875,000

b. Junior Lien Loans

Public Works Trust Fund (PWTF) Loan

The District had junior lien loans of \$49,537 December 31, 2013 from the Washington Public Works Trust Fund. The balance due as of December 31, 2013 is:

1994	PWTF Loan	\$ 49,537
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The proceeds from these low interest 20-year loans are used for water main replacement programs. The principal will be repaid in equal annual installments. As of December 31, 2013, the District has drawn all available proceeds of all approved loans. At year-end 2013, \$49,537 of the \$49,537 in loans outstanding was reclassified as a current liability.

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 2014. The funds drawn in 2013 were \$469,479. The pump station project is expected to start construction in September 2014 and will be completed in 2015. 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	PWTF Loan Principal	PWTF Loan Interest	DWSRF Loan Principal & Int ⁽¹⁾	COMBINED ANNUAL DEBT SERVICE
2014	\$ 520,000	\$ 246,248	\$ 49,536	\$ 495		\$ 816,279
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
	\$ 8,875,000	\$ 2,629,727	\$ 49,536	\$ 495	\$ -	\$ 11,554,758

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

Changes in Long-Term Liabilities

During the year ended December 31, 2013, 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, 2013.

	Beginning Balance 1/1/2013	Additions	Reductions	Ending Balance 12/31/2013	Due Within One Year
Revenue Bonds Payable	\$ 9,385,000	\$ -	\$ (510,000)	\$ 8,875,000	\$ 520,000
Compensated Absences	92,987		(41,883)	51,104	n/a
PWTF Loans	132,082	-	(82,545)	49,537	49,537
DWSRF Loans	-	469,479	-	469,479	-
Total LT Liabilities	\$ 9,610,069	\$ 469,479	\$ (634,428)	\$ 9,445,120	\$ 569,537

NOTE 7– PENSION PLAN

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

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 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 exercise 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 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 into PERS Plan 3. PERS is comprised of and reported as three separate plans for accounting purposes. PERS Plan 1 and Plan 2 retirement benefits are financed from a combination of investment earnings and employer and employee contributions. PERS Plan 3 defined contribution retirement benefits are dependent upon the results of investment activities. Plan 3 members may elect to self-direct the investments of their contributions. Absent a member's self-direction, PERS Plan 3 contributions are invested in the Retirement Strategy Fund that assumes the members will retire at age 65.

PERS Plan 1 retirement benefits are vested after an employee completes five years of eligible service. Plan 1 members are eligible for retirement from active status at any age with at least 30 years of service or at age 55 with 25 years of service, or at age 60 with at least 5 years of service. The monthly benefit is two percent of the average final compensation per year of service capped at 60 percent. The average final compensation is based on the greatest compensation during any 24 eligible consecutive compensation months. If qualified, after reaching the age of 66, a cost-of-living allowance is granted based on years of service credit and is capped at three percent annually. Plan 1 members may also elect to receive an optional cost of living allowance amount that provides an automatic annual adjustment based on the Consumer Price Index. The adjustment is capped at three percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

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. 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 reduced benefit. The benefit is reduced by an early retirement factor (ERF) that varies according to age, for each year before age 65. Plan 2 member who have 30 years or more of service credit and are at least 55 years old can retire under one of two provisions, if hired prior to May 1, 2013. 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.

Plan 3 has a dual benefit structure. Employer contributions finance a defined benefit component, and member contributions finance a defined contribution component. The defined benefit portion provides a benefit calculated at 1 percent of the average final compensation per year of service. The average final compensation is based on the greatest compensation during any eligible consecutive 60-month period. Plan 3 members become eligible for retirement if they have: at least ten years of service; or five years including twelve months that were earned after age 54; or five service credit years earned in PERS Plan 2 prior to June 1, 2003. Plan 3 retirees prior to the age of 65 receive reduced benefits. If retirement is at age 55 or older with at least 30 years of service, a three percent per year reduction applies; otherwise an actuarial reduction will apply. There is no cap on years of service credit; and Plan 3 provides the same cost-of-living allowance as Plan 2. The defined contribution portion can be distributed in accordance with an option selected by the member, either as a lump sum or pursuant to other options authorized by the Employee Retirement Benefits Board.

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

Retirees and Beneficiaries Receiving Benefits	82,242
Terminated Plan Members Entitled to But Not Yet Receiving Benefits	30,515
Active Plan Members	106,317
Active Plan Members Non-Vested	44,273

Funding Policy

Each biennium, the state Pension Funding Council adopts Plan 1 and Plan 3 employer contributions rates, and Plan 2 employer and employee contribution rates. Employee contribution rates for Plan 1 are established by statute at six percent for state agencies and local government unit employees, and seven and a half percent for state government elected officers. 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. All employers are required to contribute at the level established by the Legislature. PERS Plan 3 defined contribution is a non-contributing plan for employers. Employees who participate in the defined contribution portion of PERS Plan 3 do not contribute to the defined benefit portion of PERS Plan 3. The Employee Retirement Benefits Board sets Plan 3 employee contribution rates. Six rate options are available ranging from five to fifteen percent; two of the options are graduated rates dependent on the employee's age. 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 payrolls, as of December 31, 2013, were as follows:

	Plan I	Plan II	Plan III
	Actual	Actual	Actual
Employer	9.21%	9.21%	9.21%
Employee	6.00%	4.92%	5% to 15%
Total	15.21%	14.13%	Up to 24.21%

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

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

	PERS Plan 1	PERS Plan 2	PERS Plan 3
2013	0	\$ 61,391	\$ 21,004
2012	0	\$ 50,012	\$ 17,546
2011	0	\$ 52,259	\$ 8,457

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 2013 of \$1,565,905. It is a long-standing policy of SPU to back-bill for unmetered water resulting from under-functioning meters. Additionally in 2013, the District settled a liability for unmetered water costs in the amount of \$373,930.

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. This project will also be complete in 2014.

As of December 31, 2013, \$276,137.63 of the District's contribution has been spent towards the completion of the capital projects, with \$139,872.37 remaining in escrowed reserves.

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, 2013, there are 468 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.

NOTE 10 – SUBSEQUENT 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 \$3.2 million. It will be used for the site of a new maintenance facility expected to be constructed in 2016-2017.

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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