

**North Beach Water District  
Notes to the Financial Statement  
For Year End December 31, 2015**

**REPORTING**

**Note 1 - Summary of Significant Accounting Policies**

The North Beach Water District was incorporated on January 1, 2009 and operated under the laws of the state of Washington applicable to a water district. The district is a special purpose local government and provides waters service.

The district reports financial activity in accordance with the *Cash Basis Budgeting, Accounting and Reporting System* (BARS) Manual prescribed by the State Auditor's Office under the authority of Washington State law, Chapter 43.09 RCW. This manual prescribes a financial reporting framework that differs from generally accepted accounting principles (GAAP) in the following manner:

- Financial transactions are recognized on a cash basis of accounting as prescribed below.
- Component units are required to be disclosed, but are not included in the financial statements.
- Government-wide statements, as defines by GAAP, are not presented.
- All funds are presented, rather than a focus on major funds.
- The *Schedule of Liabilities* is required to be presented with the financial statements as supplementary information.
- Supplementary information required by GAAP is not presented.
- Ending balances are not presented using the classification defined in GAAP.

A. Fund Accounting

The accounts of the district are organized on the basis of funds, each of which is considered a separate accounting entity. Each fund is accounted for with a separate set of single-entry district's resources are allocated to and accounted for in individual funds depending on their intended purpose. The following are the fund types used by the district:

**PROPRIETARY FUND TYPES:**

Enterprise Funds

These funds account for operations that provide goods or services to the general public and are supported primarily through user charges.

**FIDUCIARY FUND TYPES:**

Fiduciary funds account for assets held by the government in a trustee capacity or as an agent on behalf of others.

Agency Funds

These funds are used to account assets that the government holds on behalf of others in a custodial capacity.

B. Basis of Accounting

Financial statements are prepared using the cash basis of accounting and measurement focus. Revenues are recognized when cash is received and expenditures are recognized when paid.

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C. Budgets

The district adopts annual appropriated budgets for three funds. These budgets are appropriated at the fund level. The budget constitutes the legal authority for expenditures at that level. Annual appropriations for these funds lapse at the fiscal year end.

Annual appropriated budgets are adopted on the same basis of accounting as used for financial reporting.

The appropriated and actual expenditures for the legally adopted budgets were as follows:

<b>Fund/Department</b>	<b>Final Appropriated Amounts</b>	<b>Actual Expenses</b>	<b>Variance</b>
401 - Operations			
Operations	1,833,176.00	1,926,864.36	-93,688.36
2013 Bond Fund	1,002,872.03	410,583.19	592,288.84
DWSRF Loan Fund	2,008,592.06	194,436.47	1,814,155.59
<b>Total 401 - Operations</b>	<b>4,844,640.09</b>	<b>2,531,884.02</b>	<b>2,312,756.07</b>

Budgeted amounts are authorized to be transferred between departments within any fund; however, any revisions that alter the total expenditures of a fund, or that affect the number of authorized employee positions, salary ranges, hours, or other conditions of employment must be approved by the district's legislative body.

D. Cash and Investments

It is the district's policy to invest all temporary cash surpluses. The amount is included in the cash and investments shown on the statements of fund resources and uses arising from cash transactions. The interest on these investments is prorated to the various funds.

E. Capital Assets

Capital assets are long lived assets of the district and are recorded as expenditures when purchased. The district has no formal capital asset policy.

F. Compensated Absences

Vacation leave may be accumulated up to one year's vacation entitlement (ranging from five (5) to twenty (20) days) and is payable upon separation or retirement. Employees will be paid for any vacation accrued in excess of one (1) year's entitlement as of November 30<sup>th</sup> of each year.

Sick leave may be accumulated at the rate of eighty (80) hours per year without limit. Upon termination by the district the employee does not receive payment for unused sick pay. Any Employee who retires with either service or disability retirement, or resigns with at least two weeks written notice will be paid for unused sick leave up to four hundred (400) hours at one half (1/2) the employee rate of pay. On December 1<sup>st</sup> of each year any employee with at least four hundred (400) hours may elect to be paid for one half (1/2) of the unused sick leave that accrued during the past 12 months, provided that if payment is made, the remaining balance will not be less than four hundred (400) hours. If the employee elects to receive payment as herein provided, the balance of unused annual sick leave will remain in the employee's account.

Comp time must be used in the week it was accrued or paid out on the next pay period.

G. Long-Term Debt

See Note 3 *Debt Service Requirements*.

H. Other Financing Sources or Uses

The district's *Other Financing Sources* consist of agency revenues and loan proceeds. The districts

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other financing uses consist of agency expenditures, payroll clearing, inter-fund transfers and loan proceeds.

**I. Risk Management**

North Beach Water District is a member of Enduris. Chapter 48.62 RCW provides the exclusive source of local government entity authority to individually or jointly self-insure risks, jointly purchase insurance or reinsurance, and to contract for risk management, claims, and administrative services. Enduris was formed July 10, 1987 pursuant to the provisions of Chapter North Beach Water District is a member of Enduris. Chapter 48.62 RCW provides the exclusive source of local government entity authority to individually or jointly self-insure risks, jointly purchase insurance or reinsurance, and to contract for risk management, claims, and administrative services. Enduris was formed July 10, 1987 pursuant to the provisions of Chapter 48.62 RCW, Chapter 200-100 WAC, and Chapter 39.34 RCW. Two (2) counties and two (2) cities in the State of Washington joined together by signing an inter-local governmental agreement to fund their self-insured losses and jointly purchase insurance and administrative services. As of August 31, 2015, there are 507 Enduris members representing a broad array of special purpose districts throughout the state. Enduris provides property and liability coverage as well as risk management services and other related administrative services.

Members make an annual contribution to fund Enduris and share in the self-insured retention of the jointly purchased excess and/or reinsurance coverage. The self-insured retention is:

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

Enduris acquires reinsurance from unrelated insurance companies on a “per occurrence” basis to cover all losses over the deductibles as shown on the policy maximum limits. Liability coverage is

for all lines of liability coverage including Public Official’s Liability. The Property coverage is written on an “all risk”, blanket basis using current Statement of Values. The Property coverage includes but is not limited to mobile equipment, boiler and machinery, electronic data processing equipment, business interruption, course of construction and additions, property in transit, fine arts, and automobile physical damage to insured vehicles. Liability coverage limit is \$10 million per occurrence and property coverage limit is \$1 billion per occurrence. Enduris offers crime coverage up to a limit of \$1 million per occurrence.

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.

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.

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**J. Reserved Portion of Ending Cash and Investments**

Beginning and ending cash and investments is reported as reserved when it is subject to restrictions on use imposed by external parties or due to internal commitments established by the districts commissioners. When expenditures that meet restrictions are incurred, the district intends to use reserved resources first before using unreserved amounts.

The district maintains a reserve fund for debt payment.

Fund	Amount of Reserve	Description
401	\$275,965	Per Bond Directive One Year Payment Set Aside
402	\$592,289	Bond Construction Project Funds
602	\$14,054	Retainage Withheld for DWSRF Loan & Bond Projects

**Note 2 – Deposits and Investments**

It is the district's policy to invest all temporary cash surpluses. The interest on these investments is prorated to the various funds.

All deposits and certificates of deposit are covered by the Federal Deposit Insurance Corporation and/or the Washington Public Deposit Protection Commission. All investments are insured, registered or held by the district or its agent in the government's name.

Investments are reported at original cost or fair value. Investments by type at December 31, 2015 are as follows:

L.G.I.P	\$1,092,001
2014 Investment Bond	\$500,000

**Note 3 – Debt Service Requirements**

The accompanying Schedule of Liabilities (09) provides more details of the outstanding debt and liabilities of the district and summarizes the district's debt transactions for year ended December 31, 2015.

The debt service requirements for revenue bonds and loans, including both principle and interest, are as follows:

Year	Revenue Debt	Interest	Total Debt
2016	\$255,263	\$129,328	\$384,591
2017	\$356,287	\$163,670	\$519,957
2018	\$356,287	\$161,344	\$517,631
2019	\$361,287	\$158,493	\$519,779
2020	\$366,287	\$154,091	\$520,378
2021 - 2025	\$2,017,457	\$621,809	\$2,639,266

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2026 - 2030	\$1,686,141	\$467,977	\$2,053,095
2031 - 2035	\$1,015,118	\$74,868	\$1,089,986
2036 - 2040	\$121,228	\$1,818	\$123,047
Totals	\$6,535,354	\$1,933,400	\$8,468,754

**Note 4 - Pension Plans**

A. State Sponsored Pension Plan

Substantially all district's full-time and qualifying part-time employees participate in the following statewide retirement systems administered by the Washington State Department of Retirement Systems (DRS), under cost-sharing, multiple-employer public employee defined benefit and defined contribution retirement plans PERS 2/3.

The State Legislature establishes, and amends, laws pertaining to the creation and administration of all public retirement systems.

The Department of Retirement Systems, 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 98540-8380

Also, the DRS CAFR may be downloaded from the DRS website at [www.drs.wa.gov](http://www.drs.wa.gov).

At June 30, 2015 (the measurement date of the plans), the district's proportionate share of the collective net pension liabilities, as reported on the Schedule 09, was as follows:

	Allocation %	Liability (Asset)
PERS 1 UAAL	0.003030%	\$158,497
PERS 2/3	0.003915%	\$139,885

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**Note 5 - Other Disclosures**

**Legal and Financial Compliance**

- In the budget section, the Operations Fund was over budget by \$93,688.36 because of a 2014 Capital Improvement project that carried over into 2015 as well as several other unbudgeted and unforeseen projects such as water main breaks.

**Construction Projects**

- In 2014 North Beach Water District drew down funds on Drinking Water State Revolving Fund Loan number DM12-952-129. These funds were used for the capital improvement project(s) of upgrading/improving current water supply and treatment processes/facilities. The loan agreement authorized the district to draw up to \$2,190,631 and 30% is forgivable. After the project is completed, the loan will be repaid over 24 years at 1.50% interest. As of December 31, 2014, \$614,457.03 was drawn down and the project was not complete.
- In 2014 North Beach Water District drew down funds on Drinking Water State Revolving Fund Loan number DM12-952-121. These funds were used for the capital improvement project(s) of upgrading/improving current water mains. The loan agreement authorized the district to draw up to \$891,123. After the project is completed, the loan will be repaid over 24 years at 1.50% interest. As of December 31, 2014, \$651,204.50 was drawn down and the project was not complete.
- In 2015 North Beach Water District commenced the Bond Construction Project. \$410,583.19 was expended in 2015. The project is scheduled to be completed by June 2016 Funds up to the full amount remaining on the fund balance (\$592,288.84) will be expended in 2016 to complete the project.
- In the Debt Service section, it is assumed that North Beach Water District will draw the full \$891,123 from the DM12-952-121 loan and start repayment in 2017.
- In the Debt Service section, it is assumed that North Beach Water District will draw the full \$2,190,631 from the DM12-952-129 loan, 30% forgiveness will be granted as per the contract, and start repayment in 2017.