

Notes to the Financial Statements
For the year ended December 31, 2016

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 described below.
- Component units are required to be disclosed, but are not included in the financial statements.
- Government-wide statements, as defined in 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 classifications defined in GAAP.

A. Fund Accounting

Financial transactions of the district are reported in individual funds. Each fund uses a separate set of self-balancing accounts that comprises its cash and investments, revenues and expenditures. The district's resources are allocated to and accounted for in individual funds depending on their intended purpose. Each fund is reported as a separate column in the financial statements. The following fund types are used:

GOVERNMENTAL FUND TYPES:

General Fund

This fund is the primary operating fund of the district. It accounts for all financial resources except those required or elected to be accounted for in another fund.

Special Revenue Funds

These funds account for specific revenue sources that are restricted or committed to expenditures for specified purposes of the district.

Debt Service Funds

These funds account for the financial resources that are restricted, committed, or assigned to expenditures for principal, interest and related costs on general long-term debt.

Capital Projects Funds

These funds account for financial resources which are restricted, committed, or assigned for the acquisition or construction of capital facilities or other capital assets.

Permanent Funds

These funds account for financial resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that support programs for the benefit of the government or its citizenry.

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.

Internal Service Funds

These funds account for operations that provide goods or services to other departments or funds of the government on a cost reimbursement basis.

FIDUCIARY FUND TYPES:

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

Private-Purpose Trust Funds

These funds report all trust arrangements under which principal and income benefit individuals, private organizations or other governments.

Agency Funds

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

B. Basis of Accounting and Measurement Focus

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.

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:

Fund/Department	Final Appropriated Amounts	Actual Expenses	Variance
401 - Operations			
Operations	\$1,721,483	\$1,638,387	\$83,097
2013 Bond Fund	\$592,289	\$591,873	\$416
DWSRF Loan Fund	\$1,814,156	\$739,910	\$1,074,246
Deposit Fund	\$0	\$420	-\$420
Total 401 - Operations	\$4,127,928	\$2,970,590	\$1,157,338

Budgeted amounts are authorized to be transferred between departments within any fund or object classes within departments; 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 30th 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 1st 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. 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, 2016, 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.

I. 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	\$416	Bond Construction Project Funds

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, 2016 are as follows:

L.G.I.P	\$712,736
2014 Investment Bond	\$496,741

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, 2016.

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

Year	Revenue Debt	Interest	Total Debt
2017	\$376,491	\$207,769	\$584,260
2018	\$376,491	\$159,526	\$536,017
2019	\$381,491	\$154,856	\$536,347
2020	\$386,491	\$148,636	\$535,128
2021	\$391,491	\$142,691	\$534,183
2022 - 2026	\$1,947,194	\$574,686	\$2,521,880
2027 - 2031	\$1,736,141	\$308,807	\$2,044,948
2032 – 2036	\$866,141	\$40,276	\$906,418
Totals	\$6,461,933	\$1,737,247	\$8,199,180

Note 4 – Pension Plans

A. State Sponsored Pension Plans

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.

At June 30, 2016 (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	.003341	\$184,798
PERS 2/3	.004405	\$221,788

Note X - Other Disclosures

Legal and Financial Compliance

- In the budget section, the Deposit Fund was over budget by \$420 because the District does not budget for deposit refunds.

Construction Projects

- In 2016 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, 2016, \$1,347,480.78 was drawn down and the project was not complete.
- In 2016 North Beach Water District finished the Bond Construction Project. \$591,873.02 was expended in 2016.
- 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.
- In the Debt Service section, it is assumed that North Beach Water District will draw the full \$882,300 from the DM12-952-121 loan, and start repayment in 2017.