



Office of the Washington State Auditor
Pat McCarthy

Financial Statements Audit Report
North Beach Water District
Pacific County

For the period January 1, 2015 through December 31, 2016

Published July 26, 2018

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Office of the Washington State Auditor

Pat McCarthy

July 26, 2018

Board of Commissioners
North Beach Water District
Ocean Park, Washington

Report on Financial Statements

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

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

Sincerely,

A handwritten signature in cursive script that reads "Pat McCarthy".

Pat McCarthy
State Auditor
Olympia, WA

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**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 Beach Water District
Pacific County
January 1, 2015 through December 31, 2016**

Board of Commissioners
North Beach Water District
Ocean Park, 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 Beach Water District, Pacific County, Washington, as of and for the years ended December 31, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the District's financial statements, and have issued our report thereon dated June 27, 2018.

We issued an unmodified opinion on the fair presentation of the District's financial statements in accordance with its regulatory basis of accounting. We issued an adverse opinion on the fair presentation with regard to accounting principles generally accepted in the United States of America (GAAP) because the financial statements are prepared by the District using accounting practices prescribed by Washington State statutes and the State Auditor's *Budgeting, Accounting and Reporting System* (BARS) manual described in Note 1, which is a basis of accounting other than GAAP. The effects on the financial statements of the variances between the basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

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

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

COMPLIANCE AND OTHER MATTERS

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

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

PURPOSE OF THIS REPORT

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. However,

this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

A handwritten signature in black ink that reads "Pat McCarthy". The signature is written in a cursive style with a large, stylized "P" and "M".

Pat McCarthy
State Auditor
Olympia, WA

June 27, 2018

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

North Beach Water District Pacific County January 1, 2015 through December 31, 2016

Board of Commissioners
North Beach Water District
Ocean Park, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the North Beach Water District, Pacific County, Washington, for the years ended December 31, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the District's financial statements, as listed on page 11.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the financial reporting provisions of Washington State statutes and the *Budgeting, Accounting and Reporting System* (BARS) manual prescribed by the State Auditor described in Note 1. This includes determining that the basis of accounting is acceptable for the presentation of the financial statements in the circumstances. Management is also responsible for 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 opinions on these financial statements based on our audits. We conducted our audits 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 opinions.

Unmodified Opinion on Regulatory Basis of Accounting (BARS Manual)

As described in Note 1, the North Beach Water District has prepared these financial statements to meet the financial reporting requirements of Washington State statutes using accounting practices prescribed by the State Auditor's *Budgeting, Accounting and Reporting System* (BARS) manual. Those accounting practices differ from accounting principles generally accepted in the United States of America (GAAP). The differences in these accounting practices are also described in Note 1.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position and results of operations of the North Beach Water District, for the years ended December 31, 2016 and 2015, on the basis of accounting described in Note 1.

Basis for Adverse Opinion on U.S. GAAP

Auditing standards issued by the American Institute of Certified Public Accountants (AICPA) require auditors to formally acknowledge when governments do not prepare their financial statements, intended for general use, in accordance with GAAP. The effects on the financial statements of the variances between GAAP and the accounting practices the District used, as described in Note 1, although not reasonably determinable, are presumed to be material. As a result, we are required to issue an adverse opinion on whether the financial statements are presented fairly, in all material respects, in accordance with GAAP.

Adverse Opinion on U.S. GAAP

The financial statements referred to above were not intended to, and in our opinion they do not, present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the North Beach Water District, as of December 31, 2016 and 2015, or the changes in financial position or cash flows for the years then ended, due to the significance of the matter discussed in the above “Basis for Adverse Opinion on U.S. GAAP” paragraph.

Other Matters

Supplementary and Other Information

Our audits were performed for the purpose of forming opinions on the financial statements taken as a whole. The Schedules of Liabilities are presented for purposes of additional analysis, as required by the prescribed BARS manual. These schedules are not a required part of the 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the 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 June 27, 2018 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.

A handwritten signature in cursive script that reads "Pat McCarthy".

Pat McCarthy

State Auditor

Olympia, WA

June 27, 2018

FINANCIAL SECTION

**North Beach Water District
Pacific County
January 1, 2015 through December 31, 2016**

FINANCIAL STATEMENTS

Fund Resources and Uses Arising from Cash Transactions – 2016 and 2015
Notes to the Financial Statements – 2016 and 2015

SUPPLEMENTARY AND OTHER INFORMATION

Schedule of Liabilities – 2016 and 2015

North Beach Water District
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2016

Beginning Cash and Investments

30810	Reserved	897,709
30880	Unreserved	1,281,407
388 / 588	Prior Period Adjustments, Net	-

Revenues

310	Taxes	-
320	Licenses and Permits	-
330	Intergovernmental Revenues	-
340	Charges for Goods and Services	1,798,875
350	Fines and Penalties	-
360	Miscellaneous Revenues	18,621
Total Revenues:		1,817,495

Expenditures

530	Utilities	963,096
Total Expenditures:		963,096
Excess (Deficiency) Revenues over Expenditures:		854,400

Other Increases in Fund Resources

391-393, 596	Debt Proceeds	631,494
397	Transfers-In	-
385	Special or Extraordinary Items	-
386 / 389	Custodial Activities	55,367
381, 395, 398	Other Resources	-
Total Other Increases in Fund Resources:		686,861

Other Decreases in Fund Resources

594-595	Capital Expenditures	1,622,428
591-593, 599	Debt Service	384,591
597	Transfers-Out	-
585	Special or Extraordinary Items	-
586 / 589	Custodial Activities	475
Total Other Decreases in Fund Resources:		2,007,494

Increase (Decrease) in Cash and Investments: **(466,233)**

Ending Cash and Investments

5081000	Reserved	174,851
5088000	Unreserved	1,538,031
Total Ending Cash and Investments		1,712,882

The accompanying notes are an integral part of this statement.

North Beach Water District
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2015

Beginning Cash and Investments

30810	Reserved	1,296,051
30880	Unreserved	1,423,935
388 & 588	Prior Period Adjustments, Net	-

Operating Revenues

310	Taxes	-
320	Licenses and Permits	-
330	Intergovernmental Revenues	-
340	Charges for Goods and Services	1,764,798
350	Fines and Penalties	-
360	Miscellaneous Revenues	19,539
Total Operating Revenues:		1,784,336

Operating Expenditures

530	Utilities	923,025
598	Miscellaneous Expenses	-
Total Operating Expenditures:		923,025
Net Operating Increase (Decrease):		861,311

Nonoperating Revenues

370-380, 395 & 398	Other Financing Sources	15,405
391-393	Debt Proceeds	201,323
397	Transfers-In	-
Total Nonoperating Revenues:		216,728

Nonoperating Expenditures

580, 596 & 599	Other Financing Uses	9,482
591-593	Debt Service	385,760
594-595	Capital Expenditures	1,223,667
597	Transfers-Out	-
Total Nonoperating Expenditures:		1,618,910

Net Increase (Decrease) in Cash and Investments: **(540,870)**

Ending Cash and Investments

5081000	Reserved	875,140
5088000	Unreserved	1,303,976
Total Ending Cash and Investments		2,179,116

The accompanying notes are an integral part of this statement.

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:

	Employer Contributions	Allocation %	Liability (Asset)
PERS 1 UAAL	\$19,516	.003441	\$184,798
PERS 2/3	\$25,430	.004405	\$221,788

Note 5 - Other Disclosures

Significant Transactions With Related Parties

- The General Manager of North Beach Water District has a continuing contract with the Surfside Homeowners Association (HOA) in which he acts as their Water Manager. The contract states that in return for the General Manager acting as the HOA Water manager the HOA will pay the District a total of \$5,450 per month plus mileage reimbursement for travel done using the General Manager's District Vehicle to perform duties for the HOA. Additionally any parts, supplies or labor belonging to the District that is used to aid the HOA will be billed accordingly. Also any parts, supplies or labor belonging to the HOA that is used to aid the District will be billed accordingly. Of the \$5,450 monthly payment 60% (\$3,270) goes to the District and 40% (\$2,180) goes to the General Manager.
 - In 2016 the District received a total of \$68,050.86 from the HOA for the contract, mileage and parts and labor.
 - In 2016 the District paid a total of \$3,045.66 to the HOA for parts and labor.

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.

**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.

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

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	1,833,176.00	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
Deposit Fund	0	834.73	-834.73
Retainage	0	9,215.30	-9,215.30
Total 401 - Operations	4,844,640.09	2,541,934.05	2,302,706.04

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 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*.

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

H. Other Financing Sources or Uses

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

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

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.

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	\$376,491	\$207,769	\$584,260
2018	\$376,491	\$159,526	\$536,017
2019	\$381,491	\$154,856	\$536,347

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

2020	\$386,491	\$148,636	\$535,128
2021 - 2025	\$2,017,457	\$621,809	\$2,639,266
2026 - 2030	\$1,686,141	\$367,964	\$2,054,105
2031 - 2035	\$1,116,141	\$74,868	\$1,191,010
2036 - 2040	\$121,228	\$1,818	\$123,047
Totals	\$6,717,196	\$1,866,575	\$8,583,771

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.

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:

	Employer Contribution	Allocation %	Liability (Asset)
PERS 1 UAAL	\$13,927	0.003030%	\$158,497
PERS 2/3	\$17,438	0.003915%	\$139,885

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

Note 5 - Other Disclosures

Significant Transactions With Related Parties

- The General Manager of North Beach Water District has a continuing contract with the Surfside Homeowners Association (HOA) in which he acts as their Water Manager. The contract states that in return for the General Manager acting as the HOA Water manager the HOA will pay the District a total of \$5,000 per month plus mileage reimbursement for travel done using the General Manager's District Vehicle to perform duties for the HOA. Additionally any parts, supplies or labor belonging to the District that is used to aid the HOA will be billed accordingly. Also any parts, supplies or labor belonging to the HOA that is used to aid the District will be billed accordingly. Of the \$5,000 monthly payment 60% (\$3,000) goes to the District and 40% (\$2,000) goes to the General Manager.
 - In 2015 the District received a total of \$62,680.65 from the HOA for the contract, mileage and parts and labor.
 - In 2015 the District paid a total of \$1,431.99 to the HOA for parts and labor.

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.
- In the budget section, the Deposit Fund was over budget by \$834.73 because the District does not budget for deposit refunds.
- In the budget section, the Retainage Fund was over budget by \$9,215.30 because the District does not budget for Retainage.
-

Construction Projects

- In 2015 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, 2015, \$614,457.03 was drawn down and the project was not complete.
- In 2015 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, 2015, \$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

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

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.

**North Beach Water District
Schedule of Liabilities
For the Year Ended December 31, 2016**

ID. No.	Description	Due Date	Beginning Balance	Additions	Reductions	Ending Balance
Revenue and Other (non G.O.) Debt/Liabilities						
252.11	PWTF Loan 05-691-PRE-117	1/1/2025	526,315	-	52,632	473,684
252.11	PWTF Loan 05-691-PRE-129	1/1/2025	526,315	-	52,632	473,684
252.11	2013 Water Revenue Bond	1/1/2032	3,240,000	-	150,000	3,090,000
263.82	DWSRF Loan DM12-952-121	1/1/2040	651,205	-	-	651,205
263.82	DWSRF Loan DM12-952-129	1/1/2040	614,457	631,494	-	1,245,951
259.12	Compensated Employee Absences		11,025	8,169	-	19,194
264.30	Net Pension Liability		298,382	108,204	-	406,586
Total Revenue and Other (non G.O.) Debt/Liabilities:			5,867,699	747,867	255,263	6,360,303
Total Liabilities:			5,867,699	747,867	255,263	6,360,303

**North Beach Water District
Schedule of Liabilities
For the Year Ended December 31, 2015**

ID. No.	Description	Due Date	Beginning Balance	Additions	Reductions	Ending Balance
Revenue and Other (non G.O.) Debt/Liabilities						
252.11	PWTF Loan 05-691-PRE-117	1/1/2025	578,947	-	52,632	526,315
252.11	PWTF Loan 05-691-PRE-129	1/1/2025	578,947	-	52,632	526,315
252.11	2013 Water Revenue Bond	1/1/2032	3,390,000	-	150,000	3,240,000
263.82	DWSRF Loan DM12-952-121	1/1/2040	649,716	1,488	-	651,205
263.82	DWSRF Loan DM12-952-129	1/1/2040	414,623	199,834	-	614,457
259.12	Compensated Employee Absences - Prop		11,506	-	481	11,025
264.30	Net Pension Liability		-	298,382	-	298,382
Total Revenue and Other (non G.O.) Debt/Liabilities:			5,623,739	499,705	255,744	5,867,699
Total Liabilities:			5,623,739	499,705	255,744	5,867,699

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.

Contact information for the State Auditor's Office	
Public Records requests	PublicRecords@sao.wa.gov
Main telephone	(360) 902-0370
Toll-free Citizen Hotline	(866) 902-3900
Website	www.sao.wa.gov