Washington State Auditor's Office

Financial Statements Audit Report

Shoreline Water District

King County

Audit Period

January 1, 2009 through December 31, 2009

Report No. 1005265

Issue Date

March 21, 2011

WASHINGTON

BRIAN SONNTAG

STATE AUDITOR

Washington State Auditor
Brian Sonntag

March 21, 2011

Board of Commissioners
Shoreline Water District
Shoreline, Washington

Report on Financial Statements

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

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

Sincerely,

BRIAN SONNTAG, CGFM
STATE AUDITOR

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King County
January 1, 2009 through December 31, 2009

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters in Accordance with *Government Auditing Standards*

Shoreline Water District
King County
January 1, 2009 through December 31, 2009

Board of Commissioners
Shoreline Water District
Seattle, Washington

We have audited the basic financial statements of the Shoreline Water District, King County, Washington, as of and for the year ended December 31, 2009, and have issued our report thereon dated February 28, 2011.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the District's financial statements are free of 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*.

This report is intended for the information and use of management and the Board of Commissioners. 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.

BRIAN SONNTAG, CGFM
STATE AUDITOR

February 28, 2011

Independent Auditor's Report on Financial Statements

Shoreline Water District
King County
January 1, 2009 through December 31, 2009

Board of Commissioners
Shoreline Water District
Seattle, Washington

We have audited the accompanying basic financial statements of the Shoreline Water District, King County, Washington, as of and for the year ended December 31, 2009, as listed on page 5. These financial statements are the responsibility of the District's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Shoreline Water District, as of December 31, 2009, and the changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 6 through 9 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

BRIAN SONNTAG, CGFM
STATE AUDITOR

February 28, 2011

Financial Section

Shoreline Water District
King County
January 1, 2009 through December 31, 2009

REQUIRED SUPPLEMENTAL INFORMATION

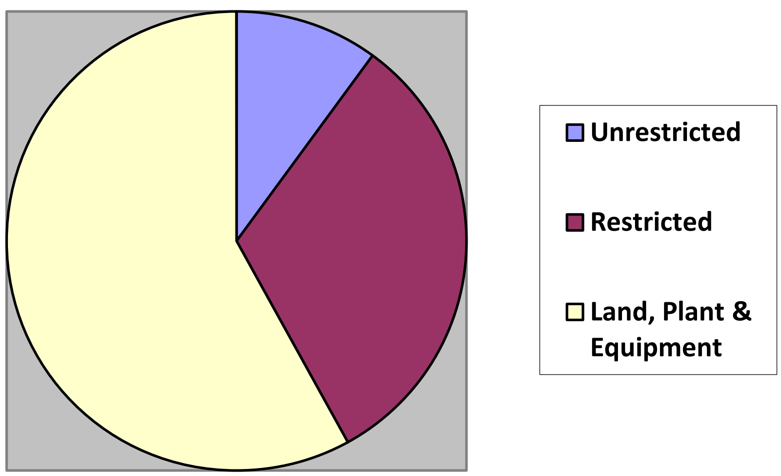
BASICFINANCIAL STATEMENTS

MANAGEMENT DISCUSSION AND ANALYSIS
For the Year Ended December 31, 2009

As management of the Shoreline Water District (the District), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended December 31, 2009. We encourage readers to consider the information presented here in conjunction with the District's financial statements, which begin on page 10.

The financial position of the District improved in 2009 as noted below:

- The assets of the District exceeded its liabilities creating net assets at the close of the most recent fiscal year in the amounts of $23,269,429.
- As of the close of 2009, the District cash balance was $8,858,381, an increase of $160,788 over December 31, 2008.
- The District has total operating revenues of $5,061,502 and operating expenses of $3,930,530 for the fiscal year ended December 31, 2009
- A majority of the District's assets are held in land, plant, and equipment. Other assets are categorized as restricted, unrestricted, and other as illustrated below:



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.

DISTRICT FINANCIAL STATEMENTS

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 Assets* presents information on the District' assets and liabilities, with the difference between the two reported as net assets per GASB 34. Increases or decreases in net assets may serve as an indicator of whether the financial position of the District is improving or deteriorating. Assts are designed 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 District does not have any restrictions, commitments, or other limitations that my affect the availability of resources for future use. The District had assets restricted for capital construction/purchases and debt service of $8,143,050 as of December 31, 2009.

The *Statement of Revenues, Expenses, and Changes in Net Assets* presents information showing how the District' 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. The notes to the financial statements can be found on pages 15 through 30 of this report.

FINANCIAL ANALYSIS

The overall financial condition of the District has improved and remains strong as indicated by the increase in net assets over 2008, and 2007: The majority of the District is comprised of properties developed prior to the economic downturn and, as a result, the District has not heavily relied upon new development revenues for capital improvements. While most developer projects in the District have been suspended due to the current economic conditions, this has not caused a significant financial impact for the District.

Condensed Statement of Net Assets

	2009	2008	2007	2009-2008 Change	%
Current, Restricted and Other Assets	11,059,920	10,852,165	10,103,439	207,755	1.91%
Capital Assets, net of depreciation	15,291,395	14,354,906	14,612,665	936,489	6.54%
Total Assets	26,351,315	25,207,071	24,716,104	1,144,244	4.53%
Long-term Liabilities	2,206,322	2,613,743	3,368,445	(407,421)	(15.58%)
Other Liabilities	875,564	868,410	953,033	7,154	0.82%
Total Liabilities	3,081,886	3,482,153	4,321,478	(400,267)	(11.49%)
Net Assets					
Invested in Capital Assets, net of related debt	12,736,646	11,135,098	9,722,691	1,601,548	14.38%
Restricted	8,143,050	8,239,776	651,313	(96,726)	(1.17%)
Unrestricted	2,389,733	2,350,044	10,020,622	39,689	.02%
Total Net Assets	23,269,429	21,724,918	20,394,626	1,544,511	.07%

The net assets of the District increased $1,544,511 during 2009. The majority of the District's revenues (95.3%) are derived from water service charges received from its ratepayers. The District also derives cash flow from connection charges (facility benefit charges) and interest. In 2009, the District did not receive any donated infrastructure (developer donated plant).

Condensed Statement of Revenues, Expenses, and Changes in Net Assets

	2009	2008	2007	2009-2008 Change	%
Operating Revenues:					
Water sales	4,824,584	4,618,430	4,439,914	206,154	4.20%
Other	236,918	242,020	223,070	(5,102)	(2.10)%
Non-Operating Revenues:					
Facility benefit charges	257,738	318,331	226,433	(60,593)	(19.03%)
Other	174,629	26,312	2,712,012	148,317	563.6%
Total Revenues	5,493,869	5,205,093	7,601,429	288,776	1.50%
Operating Expenses	3,930,530	3,774,887	3,684,461,	155,643	3.99%
Non-Operating Expenses	18,828	99,914	312,840	(81,086)	(81.15%)
Total Expenses	3,949,358	3,874,801	3,997,301	74,557	(2.20%)
Excess Before Contributions	1,544,511	1,330,292	3,604,128	214,219	16.1%
Beginning Net Assets	21,724,918	20,394,626	16,790,498	1,330,292	6.52%
Ending Net Assets	23,269,429	21,724,918	20,394,626	1,544,511	7.10%

CAPITAL ASSETS AND DEBT ADMINISTRATION

By far the largest portion of the District's net assets (65.3%) is 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. The unrestricted net assets of the District are available for future use to provide utility services.

As of December 31, 2009, the District's investment in capital assets shown on the Statement of Net Assets as Capital Assets was $15,291,395 net of depreciation. This is an increase of $936,489 since December 31, 2008. 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 on page 19.

LONG-TERM DEBT

The District funds its capital projects with revenue bonds and, for qualifying projects, low interest loans from the Department of Community, trade and Economic Development.
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.

Detailed information about the District's long-term liabilities is presented in Note 6 on page 20 of these financial statements.

SHORELINE WATER DISTRICT
STATEMENTS OF NET ASSETS
DECEMBER 31, 2009

ASSETS	
Current Assets:	
Cash & Cash Equivalents	703,331
Accounts Receivable	898,804
Accrued Interest Receivable	9,004
Restricted Assets:	
Cash & Cash Equivalents	
Public Works Trust Fund	6,944
Bond Redemption Fund	798,383
Sinking Fund	4,020,982
Construction Fund	3,316,741
Deposits – Rental	12,000
Inventories	180,064
Other Current Assets - Prepaid Expenses	73,044
TOTAL CURRENT ASSETS	10,019,297
Non-Current & Other Assets:	
Deferred Cost (Note 8)	775,949
Intangible Assets (Note 9)	2,621
Other Assets	262,053
Capital Assets:	
Non-depreciable – land	637,687
Depreciable assets:	
Buildings	512,669
Equipment	858,387
Infrastructure	18,231,105
Vehicles	619,838
Less: Accumulated Depreciation	(9,148,472)
Construction in Progress	3,580,181
TOTAL NONCURRENT & OTHER ASSETS	16,332,018
TOTAL ASSETS	26,351,315

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

SHORELINE WATER DISTRICT
STATEMENTS OF NET ASSETS
DECEMBER 31, 2009

LIABILITIES	
Current Liabilities:	
Accounts payable	360,805
Accrued employee benefits	50,859
Other liabilities	36,214
Payable from Restricted Assets::	
Accrued interest payable	7,689
Current portion of long-term debt - PWTF	150,061
Current portion of long-term debt-Bonds	255,000
Other restricted liabilities	14,936
TOTAL CURRENT LIABILITIES	875,564
Non-Current Liabilities:	
Payable from Restricted Assets	
Accounts payable	91,209
Revenue bonds	1,785,000
Less discount	(34,575)
Public Works Trust Fund Loans:	364,688
TOTAL NONCURRENT LIABILITIES	2,206,322
TOTAL LIABILITIES	3,081,886
NET ASSETS	
Invested in capital assets, net of related debt	12,736,646
Restricted for capital projects	8,143,050
Unrestricted	2,389,733
TOTAL NET ASSETS	23,269,429
TOTAL LIABILITIES & NET ASSETS	26,351,315

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

SHORELINE WATER DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
For the Year Ended December 31, 2009

OPERATING REVENUE:	
Utility Sales – Water	4,824,584
Other Operating Revenue	236,918
Total Operating Income	5,061,502
OPERATING EXPENSES:	
Water purchased for resale	1,285,280
Adjustments on utility sales	4,743
Maintenance	819,074
Administrative – General	1,014,042
Depreciation	576,792
Property, Excise, and B&O Tax	230,599
Total Operating Expenses	3,930,530
OPERATING INCOME	1,130,972
NON-OPERATING REVENUES (EXPENSES)	
Facility benefit charges	257,738
Investment interest income	164,350
Gain from sale of assets	10,955
Bond and loan interest expense	(18,828)
Other non-operating revenues (expenses)	(676)
Total Non-Operating Revenues-(Expenses)	413,539
Capital Contributions – donated plant	0
CHANGE IN NET ASSETS	1,544,511
TOTAL NET ASSETS, January 1	21,724,918
TOTAL NET ASSETS, December 31	23,269,429

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

SHORELINE WATER DISTRICT
STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2009

CASH FLOWS FROM OPERATING ACTIVITIES	
Cash Received from Customers	4,979,629
Other Operating Cash Receipts	78,031
Cash Payment to Suppliers for Goods and Services	(1,880,702)
Cash Payments to Employees for Services	(1,304,825)
Net Cash Provided (used) by Operating Activities	1,872,133
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES	
Street Lighting – Net of Cost	(676)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Capital Contributions	257,738
Increase in Property, Plant and Equipment	(500,622)
Increase in Construction in Progress	(939,027)
Decrease in deferred cost	0
Principal Paid on Revenue Bonds	(515,000)
Principal Paid on PWTF Loans	(150,060)
Interest Paid on Revenue Bonds and PWTF Loans, Net of Capitalized Interest	(24,768)
Gains (Losses) on Capital Asset Disposition	10,955
Net Cash Provided (used) for Capital Financing Activities	(1,860,785)
CASH FLOWS FROM INVESTING ACTIVITIES:	
Interest received on investments	150,200
Net cash provided by investing activities	150,200
NET INCREASE(DECREASE) IN CASH & CASH EQUIVALENTS	**160,788**
Cash balance – beginning of year	8,697,593
Cash balance – end of year	8,858,381
NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:	
Contribution of capital assets from developers	0

During 2009, the District did not accept any projects as complete and therefore recorded $0 in donated plant from developers. Utility plant donated by developers is recorded at the contract price paid by the developer for the facilities accepted by the District.

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

SHORELINE WATER DISTRICT
STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2009

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

Net Operating Income	1,130,972
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities	
Depreciation	576,792
Change in Assets and Liabilities:	
Decrease (Increase) in accounts receivable	901
Decrease (Increase) in inventory	18,169
Decrease (Increase) in other assets - prepaid expenses	(29,508)
Increase (Decrease) in accounts payable	245,860
Increase (Decrease) in accumulated absences	(10,001)
Increase (Decrease) in other liabilities	(61,052)
Net Cash Provided by Operating Activities	1,872,133

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

SHORELINE WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended December 31, 2009

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. The District has elected to apply Financial Accounting Standards Board (FASB) guidance issued after November 30, 1989 to the extent that it does not conflict or contradict with guidance of the Governmental Accounting Standards Board (GASB). GASB is the accepted standard setting body for establishing governmental accounting and financial reporting principles. In June 1999, GASB approved Statement 34, *Basic Financial Statements – and Management Discussion and Analysis – for State and Local Governments.* This and consecutive statements are reflected in the accompanying financial statements (including notes to the financial statements). The following is a summary for the most significant policies (including identification of those policies, which result in material departures from GAAP:

a. Reporting Entity

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

b. Basis of Accounting and Presentation

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

The District uses the full-accrual basis of accounting where revenues are recognized when earned and expenses are recognized when incurred. An exception to full accrual is that interest on assessments is recorded when received. Capital asset purchases are capitalized and long-term liabilities are accounted for in the appropriate funds.

Unbilled utility service receivables are recorded at year-end. Operating income includes gains and losses from the disposal of utility plant.

c. Cash and Cash Equivalents

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

d. Capital Assets

See Note 3

e. Restricted Funds

In accordance with bond resolutions (and certain related agreements) separate restricted funds are required to be established. The assets held in these funds are restricted for specific uses, including construction, debt service and other special reserve requirements. Restricted funds currently include the following:

Water Construction Fund	$ 3,316,741
Bond Fund(s)	798,383
Debt Service	6,944
Sinking Fund and Deposits	4,020,982
Deposits	12,000

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 on page 18.

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. With the exception of the District Manager, accumulated sick leave is not paid upon termination of employment.

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 and wastewater collection services. Non-operating expenses are all other expenses not meeting the definition of an operating expense.

k. Unamortized Debt Expenses

Costs relating to the sale of bonds are deferred and amortized over the lives of the various bond issues.

l. 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 Department of Economic Development for public works projects. See refer to Note No. 6 on page 22 for additional information.

Developers also build regular system extensions. Upon the completion of the project, the developer donates those main lines to the District.

m. 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 note in Note 10, 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.

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, 2009, the District had the following investments:

Investment Type	Fair Value	Effective Duration
King County Investment Pool	$8,677,427.93	.68 Years

Impaired Investments: As of December 31, 2009, 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; and the residual investments in four commercial paper assets that were part of completed enforcement events, where the Impaired Pool accepted the cash out options. The District's share of the impaired investment pool principle is $89,909.90 and the District's fair value of these investments is $33,105.13.

Interest Rate Risk. As of December 31, 2009, the Pool's average duration was 0.68 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. In January 2008, 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 tow NRSROs), Certificates of deposits issued by qualified public depositories, repurchase agreements, and eh Local Government Investment Pool managed by the Washington State Treasurer's office. King County has initiated discussions with S&P to restore the pool's AAA rating and anticipates a decision sometime during 2010.

NOTE 3 – CAPITAL ASSETS

Capital assets are defined by the District as assets with initial individual cost of more than $2,500 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, 2009 were as shown in the following table:

	Beginning Balance	Increase	Decrease	Ending Balance
Utility plant, not being depreciated				
Land	$ 637,687	0	0	637,687
Construction in progress	2,641,154	1,066,077	127,050	3,580,181
Total utility plant not being depreciated	3,278,841	1,066,077	127,050	4,217,868
Utility plant being depreciated				
Buildings	512,669	0	0	512,669
Equipment	1,670,962	15,700	828,275	858,387
Infrastructure	17,363,080	889,333	21,308	18,231,105
Vehicles	408,306	275,964	64,432	619,838
Total utility plant being depreciated	19,955,017	1,180,997	914,015	20,221,999
Less accumulated depreciation				
Buildings	(238,240)	(16,380)	0	(254,620)
Equipment	(1,357,402)	(42,585)	704,405	(695,582)
Infrastructure	(6,950,064)	(988,013)	21,308	(7,916,769)
Vehicles	(333,245)	(12,688)	64,432	(281,501)
Total accumulated depreciation	(8,878,951)	(1,059,666)	790,145	(9,148,472)
TOTAL UTILITY PLANT, NET	14,354,907	1,187,408	250,920	15,291,395

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, 2009 was as follows:

	2009
492 Zone Transmission Lines	$ 828,355
2.0 Reservoir Re-Coat	61,112
2.0 Res Ext Paint 2009	402
660 Zone Expansion	469,927
15th Avenue/NE 175th Main Replacement	204,069
Generator/Emergency Power	609,102
19th Ave NE Main	47,383
424/392 Zone Improvement	80,085
15th Project	396,438
24th Project	79,635
Pump Station	26,949
SSA Project	58,431
Water Efficiency Project	2,765
GIS Project	13,577
25th Project	140,730
2.0 Inlet/Outlet	128,815
2.0 Res Fill Line	150,000
Construction in Progress – Main Replacements	282,406
Total	3,580,181

NOTE 5 – LEASE COMMITMENTS

The District has no lease commitments for the period ended December 31, 2009.

NOTE 6 - LONG-TERM DEBT

a. Revenue Bonds

The District issued Water Revenue Bonds in 2003 in the amount of $2,165,000. These bonds bear interest rates ranging from 2.0% to 3.0% and are payable semi-annually each May 1 and November 1. A portion of the bond principle matures each October 1 beginning in the year 2000 through 2019.	100,000
The District issued Water Revenue Bonds in 1999 in the amount of $3,130,000. These bonds bear interest rates ranging from 4.75% to 5.50% 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 2000 through 2019.	1,940,000
Total Bond Restricted Debt	2,040,000

b. Junior Lien Loans

The District had junior lien loans of $514,748 as of December 31, 2009 from the Washington Public Works Trust Fund.

1991 PWTF Loan	$ 96,810
1993 PWTF Loan	132,030
1994 PWTF Loan	247,684
2004 PWTF Loan	38,224
Total Long Term Debt - PWTF	514,748
Less Current Portion	(150,060)
Net Long Term Debt - PWTF	364,688

The proceeds from these low interest 20-year loans are used for water main replacement programs. The principal will be repaid equal annual installments. As of December 31, 2009, the District has drawn all available proceeds of all approved loans. At year-end 2009, $150,060 of the $514,748 in loans outstanding was reclassified as a current liability.

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

	Revenue Bonds		PWTF Loans		
	Principle	**Interest**	**Principle**	**Interest**	**Total**
2010	255,000	105,370	150,062	5,733	516,165
2011	-		150,063		150,063
2012-2016	1,090,000		214,623		1,304,623
2017-2019	695,000				695,000
Total	$ 2,040,000	105,370	$ 514,748	$ 5,733	$ 2,665,851

Changes in Long-Term Liabilities

During the year ended December 31, 2009, the following changes occurred in long-term liabilities:

	Beginning Balance 01/01/09	Additions	Reductions	Ending Balance 12/31/09	Due Within One Year
Bonds Payable	$ 2,555,000	$ 0	$ -515,000	$ 2,040,000	$ 255,000
Less Deferred Amounts: For Discount on refunding:	-42,212	0	-3,884	-38,328	-3,884
Total Bonds Payable	2,512,788	0	511,116	2,001,672	251,116
Public Works Trust Fund Loans	664,809	0	150,060	514,749	150,060
Total LT Liabilities	3,177,597	0	661,176	2,516,421	401,176

The District's compensated absence liability represents the amount owed to District employees upon separation from District employment. See Note 1i for more information regarding compensated absences. This liability increased from $81,208 at year end 2008 to $91,209 at December 31, 2009.

Debt service coverage requirements as determined by the 2003 bond covenants are as follows:

		2009
Net Service Revenue	$	4,819,841
Cost of service		1,285,280
Net operating & administrative expense		2,403,589
Net operting income (loss)		1,130,972
Interest / Investment income		164,352
Income availabe for debt service		1,295,324
Other source of funds:Facility benefit charges		257,738
Total available for debt service		1,430,206
Debt service coverage required		727,929
Excess coverage		**702,277**

The allocation of the debt service coverage requirement is based on the outstanding debt issues. The 2003 bonds were issued for these purposes to reduce the annual debt service requirements by advance refunding and defeasing a portion of the outstanding bonds. The Public Works Trust Fund Loan is used for financing water projects. It is serviced by revenue from water operations as appropriate.

The reserve balances required by the covenants of the 2003 revenue bond issue are:

Debt service reserve:	
Lesser of:	
Average annual debt service	$ 193,117
Applicable coverage factor	1.25
Per bond covenants	
A. Total	241,396
B. Maximum annual debt service	360,000
C. 10% of bonds outstanding	240,000
Debt service reserve requirement by bond covenants:	240,000
Actual reserve balance:	
Cash	798,383
Total	
Balance in excess of requirement	558,383

NOTE 7– PENSION PLAN

All of the District's full 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 and defined contribution 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. The following disclosures are made pursuant to GASB Statement No. 27 *Accounting for Pensions by State and Local Government Employers.*

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 combined defined benefit/defined contribution plan. Membership in the system includes: elected officials; state employees; employees of the Supreme, Appeals, and Superior courts (other than judges currently in a judicial retirement system); employees of legislative committees, community and technical colleges, college and university employees (not in national higher education retirement programs); judges of district and municipal courts, and employees of local governments. PERS participants 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 participants joining the system on or after March 1, 2002 for state and higher education employees or September 1, 2002 for local government employees have the choice of joining PERS 2 or the irrevocable option of choosing membership in PERS Plan 3. The option must be exercised within 90 days of employment. An employee is reported in Plan 2 until a choice is made. Employees who fail to choose with in 90 days default into PERS Plan 3. PERS defined benefit retirement benefits are financed from a combination of investment earnings and employer and employee contributions. PERS retirement benefit provisions are established in state statute and may be amended only by the State Legislature.

PERS Plan 1 retirement benefits are vested after an employee completes five years of eligible service. Plan 1 members are eligible for retirement at any age after 30 years of service or at the age of 60 with five years of service, or at the age of 55 with 25 years of service. The annual 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 retirement benefits are vested after an employee completes five years of eligible service. Plan 2 members may retire at the age of 65 with five years of service, or at the age of 55 with 20 years of service, with an allowance of two 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 2 retirements 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 a cost-of-living allowance is granted (indexed to the Consumer Price Index – U, Seattle), capped at three percent annually.

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 1,190 participating employers in PERS. Membership in PERS consisted of the following as of the latest actuarial valuation date for the plans of June 30, 2009:

Retirees and Beneficiaries Receiving Benefits	130,033
Terminated Plan Members Entitled to But Not Yet Receiving Benefits	197,802
Active Plan Members	302,903

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, 2009, were as follows:

	Plan I		Plan II		Plan III	
	Required	Actual	Required	Actual	Required	Actual
Employer	5.31%	5.31%	5.31%	5.31%	5.31%%	5.31%
Employee	6.00%	6.00%	3.9%	3.9%	5% to 15%	5% to 15%
Total	11.31%	11.31%	9.2%	9.2%	Up to 20.31%	Up to 20.31%

The employer rates include the employer administrative expense fee of 0.19%.

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
2009	0	48,048	12,630
2008	0	46,229	12,935
2007	0	33,874	11,062
2006	0	16,029	6,131
2005	62	9,453	2,752
2004	715	7,277	1,998
2003	806	8,420	695

NOTE 8 – PRIOR PERIOD ADJUSTMENTS

The District had no prior period adjustments for 2009.

NOTE 9 – 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 District purchased water in the amount of $1,285,280 in 2009. The supply quantity in the agreement is sufficient to supply the District for at least 3 decades.

NOTE 10 – DEFERRED COST

The deferred costs are costs incurred for the potential acquisition of the West Side / Southeast Corner and for an evaluation of Lake Washington as being a future water source.

The West Side / Southeast Corner project involves the District's negotiations with the City of Seattle to acquire water system facilities for approximately 11,000 water customers from Seattle Public Utilities. The West Side facilities are within the City

of Shoreline, the Southeast Corner facilities are generally within the City of Lake Forest Park. Monies spent on this effort are for engineering and financial evaluations of system condition and necessary improvements including system separation costs, anticipated operations and maintenance costs, staffing requirements, outstanding debt service, and system valuation.

The Lake Washington project involves the District's application for a water right to withdraw water from Lake Washington for potable use. This would replace the City of Seattle supply presently serving the District. Monies spent to date are for preliminary engineering feasibility studies and for water quality evaluations.

NOTE 11 – INTANGIBLE ASSETS

The District capitalizes the costs of easements and the costs to develop the Comprehensive Water System Plan. These costs are then amortized over the useful lives of these assets.

NOTE 12 – 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. .

Shoreline 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, 2009, there are 444 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”:

- $500,000 deductible on liability loss (9/1/08-12/31/08) - the member is responsible for the first $1,000 of the deductible amount of each claim, while Enduris is responsible for the remaining $499,000 on liability loss;
- $750,000 deductible on liability loss (1/1/09-8/31/09) - the member is responsible for the first $1,000 of the deductible amount of each claim, while Enduris is responsible for the remaining $749,000 on liability loss;
- $100,000 deductible on property loss (9/1/08-6/30/09) - the member is responsible for the first $1,000 of the deductible amount of each claim, while Enduris is responsible for the remaining $99,000 on property loss. Enduris is responsible for the $4,000 deductible on boiler and machinery loss;
- $250,000 deductible on property loss (7/1/09-8/31/09) - the member is responsible for the first $1,000 of the deductible amount of each claim, while Enduris is responsible for the remaining $249,000 on property loss. Enduris is responsible for the $4,000 deductible on boiler and machinery loss.

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

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

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

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

ABOUT THE STATE AUDITOR'S OFFICE

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

Our mission is to work in cooperation with our audit clients and citizens as an advocate for government accountability. 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.

The State Auditor's Office employees are located around the state to deliver our services effectively and efficiently.

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 and fraud, whistleblower and citizen hotline investigations.

The results of our work are widely distributed through a variety of reports, which are available on our Web site and through our free, electronic subscription service. We continue to refine our reporting efforts to ensure the results of our audits are useful and understandable.

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

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