Washington State Auditor's Office

Financial Statements Audit Report

Shoreline Water District

King County

Audit Period

January 1, 2011 through December 31, 2011

Report No. 1009483

Issue Date

April 15, 2013

Washington

Troy Kelley

State Auditor

Washington State Auditor
Troy Kelley

April 15, 2013

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,

Troy X. Kelley

TROY KELLEY
STATE AUDITOR

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Status of Prior Audit Findings

Shoreline Water District
King County
January 1, 2011 through December 31, 2011

The status of findings contained in the prior years' audit reports of the Shoreline Water District is provided below:

1. **The District's internal controls over financial statement preparation are inadequate to ensure accurate reporting.**

   Report No. 1007575, dated May 7, 2012

   Background

   During the 2010 audit, the District's review process did not ensure the financial statements and notes were accurately reported. Further, the District used spreadsheets to track assets and calculate depreciation. There was no process to ensure the calculations in the spreadsheet were correct and reconciled to the financial statements.

   Status

   The condition reported during the 2010 audit has been resolved. Management has developed a review process by someone other than the preparer to ensure the financial statements and notes are accurately reported. No material errors or significant deficiencies in internal controls were identified in the current audit.

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, 2011 through December 31, 2011

Board of Commissioners
Shoreline Water District
Shoreline, 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, 2011, and have issued our report thereon dated April 1, 2013.

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.

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.

Troy X. Kelley

TROY KELLEY
STATE AUDITOR

April 1, 2013

Independent Auditor's Report on Financial Statements

Shoreline Water District
King County
January 1, 2011 through December 31, 2011

Board of Commissioners
Shoreline Water District
Shoreline, Washington

REPORT ON THE FINANCIAL STATEMENTS

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, 2011, as listed on page 6.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Shoreline Water District, as of December 31, 2011, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 7 through 9 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

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.

Troy X. Kelley

TROY KELLEY
STATE AUDITOR

April 1, 2013

Financial Section

Shoreline Water District
King County
January 1, 2011 through December 31, 2011

REQUIRED SUPPLEMENTARY INFORMATION

BASIC FINANCIAL STATEMENTS

Overview of the Financial Statements

The management discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements are comprised of District-wide financial statements and notes to the financial statements. The District began implementing the Governmental Accounting Standards Board (GASB) Statement 34 model of financial reporting in 2003. This statement establishes standards for external financial reporting for all state and local government entities.

The District's financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private sector business.

The *Statement of Net Position* presents information on the District's assets and liabilities, with the difference between the two reported as net position per GASB 34. Increases or decreases in net position may serve as an indicator of whether the financial position of the District is improving or deteriorating. Assets are designated as either Unrestricted or Restricted based upon their purpose. Assets whose use is subject to constraints that are externally imposed, such as those imposed by creditors through debt covenants, are defined as Restricted Assets. Funds without a designated purpose are called Unrestricted.

The *Statement of Revenues, Expenses, and Changes in Net Position* presents information showing how the District's position changed during the most recent fiscal year. All changes are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g. depreciation as well as earned but unused vacation leave).

The *Statement of Cash Flows* accounts for the net change in cash and cash equivalents by summarizing cash receipts and cash disbursements resulting from operating activities, capital and related financing activities and investment activities. This statement assists the user in determining the source of cash coming into the District, the items for which cash was expended, and the beginning and ending cash balance.

The notes provide additional information that is essential to the full understanding of the data provided in the District's financial statements. The notes to the financial statements can be found on pages 11 through 21 of this report.

Financial Analysis

The overall financial condition of the District remains strong even with a decrease in net assets of $519,299 in 2011. The decrease was due to a large write off of deferred assets and abandoned capital projects – see Note 8. Without this write off the increase in net asset would have been approximately $800,000. Liabilities increased largely due to a revenue bond issuance in December 2011. Please refer to Note 6 for more details regarding debt. 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.

Condensed Comparative Statement of Net Position

	2011	2010	2009	2011-2010 Change
Current and Other Assets	$ 15,669,688	$ 10,058,983	$ 11,058,920	$ 5,610,705
Capital Assets	19,804,217	17,212,309	15,291,395	2,591,908
Total Assets	35,473,904	27,271,292	26,350,315	8,202,612
Long-term Liabilities	10,072,461	1,908,822	2,206,322	8,163,639
Other Liabilities	1,284,830	726,558	875,564	558,272
Total Liabilities	11,357,291	2,635,380	3,081,886	8,721,911
Invested in Capital Assets	17,964,590	15,062,622	12,736,646	2,901,968
Restricted	4,098,582	5,835,422	8,143,050	(1,736,840)
Unrestricted	2,053,440	3,737,868	2,389,733	(1,684,428)
Total Net Position	$ 24,116,613	$ 24,635,912	$ 23,269,429	$ (519,299)

The majority of the District's revenues are derived from water service charges received from its ratepayers. The District also derives cash flow from connection charges and interest. The significant increase in revenues in 2011 over 2010 is due to a reclassification of Facility Benefit Charges (CIC charge) from non-operating revenue to service revenues, and the treatment of Franchise Fee payments as service revenue. Previously Franchise fee payments from customers were offset by remittances to the City of Lake Forest Park and the City of Shoreline in a liability account. The significant increase in expenses is due to the treatment of Franchise fee costs as expenses rather than a pass-through, and the increase in wholesale water costs resulting from booking unmetered water costs.

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

	2011	2010	2009	2011-2010 Change
Water Service	$ 5,116,371	$ 4,595,157	$ 4,824,584	$ 521,214
Other Operating Revenue	142,336	251,359	236,918	(109,023)
Facility Benefit Charges	-	211,030	257,738	(211,030)
Other Non-Operating Revenue	98,804	105,448	174,629	(6,644)
Total Revenues	5,357,511	5,162,994	5,493,869	194,517
Operating Expenses	4,495,645	3,744,852	3,930,530	750,793
Non-Operating Expenses	114,697	51,659	18,828	63,038
Total Expenses	4,610,341	3,796,511	3,949,358	813,830
Excess before Contributions	747,170	1,366,483	1,544,511	(619,313)
Capital Contributions	60,238	-	-	60,238
Change in Net Position	807,408	1,366,483	1,544,511	(559,075)
Beginning Net Position	24,635,912	23,269,429	21,724,918	1,366,483
Prior Period Adjustments	(1,326,707)	-	-	(1,326,707)
Ending Net Position	$ 24,116,613	$ 24,635,912	$ 23,269,429	$ (519,299)

Capital Assets and Debt Administration

The majority of the District's net assets 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, 2011, the District's investment in capital assets shown on the Statement of Net Assets as Capital Assets was $19,804,217 net of depreciation. This is an increase of $2,591,908 since December 31, 2010. Capital assets include land, improvements to land, easements, buildings, building improvements, vehicles, machinery, equipment, infrastructure, and all other tangible or intangible assets that are used in operations and that have initial useful lives extending beyond a single reporting period. Please refer to Note 3.

Long-Term Debt

The District funds its capital projects with revenue bonds and, for qualifying projects, low interest loans from the Washington State Department of Commerce.

Bond covenants require the District to fund reserves in its Bond Redemption Fund at a level at least equal to the average amount required in any calendar year to pay the principal of and interest on the outstanding bonds. The District issued revenue bonds in December 2011.

Shoreline Water District

STATEMENT OF NET POSITION

As of December 31, 2011

ASSETS	
Current Assets:	
Cash and Cash Equivalents	$ 2,034,927
Accounts Receivable (Net)	929,288
Accrued Interest Receivable	3,328
Inventories	218,414
Prepayments	54,825
TOTAL CURRENT ASSETS	3,240,783
Non-Current Assets:	
Restricted Assets (*Cash & Cash Equivalents*) - (NOTE 1)	
Public Works Trust Fund	42,345
Revenue Bond Fund	772,148
Sinking Fund	3,284,089
Construction Fund	8,315,749
Customer Deposits	14,573
Capital Assets Not Being Depreciated:	
Land - (NOTE 3)	936,244
Construction in Progress - (NOTE 4)	2,469,731
Capital Assets Being Depreciated: - (NOTE 3)	
Buildings	512,669
Equipment	1,507,328
Infrastructure	23,565,940
Vehicles	682,614
Intangibles *(Amortized)*	358,583
Less Accumulated Depreciation	(10,228,893)
Total Capital Assets (Net)	19,804,217
TOTAL NONCURRENT ASSETS	32,233,122
TOTAL ASSETS	35,473,904
LIABILITIES	
Current Liabilities:	
Accounts Payable - Maint	572,343
Accrued Employee Benefits	55,394
Other Liabilities	93,476
Accrued Interest Payable	1,073
Current Portion of Public Works Trust Fund Loans - (NOTE 6)	82,545
Current Portion of Long-Term Debt - (NOTE 6)	480,000
TOTAL CURRENT LIABILITIES	1,284,830
Non-Current Liabilities:	
Accounts Payable - Construction	261,300
Compensated Absences	185,171
Public Works Trust Fund Loans - Net of Current Portion - (NOTE 6)	132,082
Long-Term Debt - Net of Current Portion - (NOTE 6)	9,385,000
Bond Premium	108,909
TOTAL NONCURRENT LIABILITIES	10,072,461
TOTAL LIABILITIES	11,357,291
NET POSITION	
Net Investment in Capital Assets	17,964,590
Restricted for Debt Service and Capital Construction	4,098,582
Unrestricted	2,053,440
TOTAL NET POSITION	**$ 24,116,613**

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

Shoreline Water District

STATEMENT OF REVENUES, EXPENSES & CHANGES IN NET POSITION

As of December 31, 2011

OPERATING REVENUE	
Utility Sales and Service Fees	$ 5,116,371
Other Operating Revenue	142,336
Total Operating Income	5,258,707
OPERATING EXPENSES	
Operations:	
Water Purchased for Resale	1,175,291
Adjustment on Utility Sales	5,141
General Operations	829,230
Maintenance	208,220
Customer Service	123,396
Administration:	
General Administration	862,330
Planning, Conservation, Research & Development	118,341
Depreciation and Amortization	663,479
Francise Fees	272,631
Property, Excise, and B&O Taxes	237,587
Total Operating Expenses	4,495,645
OPERATING INCOME	**763,063**
NON-OPERATING REVENUES (EXPENSES)	
Investment Interest Income	98,804
Bond and Loan Interest Expense	(113,099)
Other Non-Operating Expense	(1,598)
Total Non-Operating Revenues (Expenses)	(15,893)
Capital Contributions	60,238
CHANGE IN NET POSITION	807,408
TOTAL NET ASSETS, January 1	24,635,912
Prior Period Adjustments - (NOTE 8)	(1,326,707)
TOTAL NET ASSETS, December 31	**$ 24,116,613**

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

Shoreline Water District

STATEMENT OF CASH FLOWS

As of December 31, 2011

CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash Received from Customers	$	5,219,711
Cash Payments to Suppliers for Goods & Services		(2,002,549)
Cash Payments for Payroll and Related Costs		(1,381,918)
NET CASH PROVIDED BY OPERATING ACTIVITIES		**1,835,244**
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Capital Contributions		60,238
Cash Payments for Capital Construction & Acquisition		(2,955,166)
Proceeds from New Debt (Net of Issue Costs)		9,875,981
Principal Paid on Refunded Bonds		(1,625,000)
Principal Paid on Revenue Bonds		(160,000)
Interest Paid on Revenue Bonds		(125,667)
Principal Paid on Public Works Trust Fund Loan		(150,061)
Interest Paid on Public Works Trust Fund Loan		(4,035)
TOTAL CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		**4,916,289**
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest Received on Investments (Net of Fees)		98,957
CASH FLOWS FROM INVESTING ACTIVITIES		**98,957**
NET INCREASE (DECREASE IN CASH AND CASH EQUIVALENTS		**6,850,490**
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR		7,613,343
CASH AND CASH EQUIVALENTS - END OF YEAR		**14,463,833**
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
OPERATING INCOME (LOSS)	**$**	**763,063**
ADJUSTMENTS TO RECONCILE NET OPERAING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATIONS:		
Depreciation Expense	$	663,479
Decrease (Increase) in Inventory		(25,567)
Decrease (Increase) in Accounts Receivable		(38,997)
Decrease (Increase) in Prepaid Expense		(2,220)
Increase (Decrease) in Other Payables		2,272
Increase (Decrease) in Maintenance Accounts Payable		206,717
Accrued Non-Metered Water Costs - (NOTE 9)		266,497
NET CASH PROVIDED BY OPERATING ACTIVITIES	**$**	**1,835,244**

The accompanying notes are an integral part of these 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 as of December 31, 2011 include the following:

PWTF Debt Fund	$	42,345
Bond Fund		772,148
Sinking Fund		3,284,089
Construction Fund		8,315,749
Deposits		14,573

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.

e. 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.

f. Inventories

Inventory is valued at the average acquisition cost, which approximates the market value. All items are physically counted at year-end.

g. 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 13.

h. 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.

i. Revenues and Expenses

OPERATING REVENUE is defined as those revenues generated from the sale of utility services and all associated administrative charges directly connected to those services. Non-operating revenues are defined as those revenues not meeting the definition of operating revenue.

OPERATING EXPENSES are those direct costs necessary for providing water services. Non-operating expenses are all other expenses not meeting the definition of an operating expense.

j. Unamortized Debt Expenses

Costs relating to the sale of bonds are deferred and amortized over the life of the bond issue.

k. Construction Financing

The District has issued revenue bonds for long-term financing of capital improvements. The District also takes advantage of Public Works Trust Fund Loans made available through the Washington State Department of Commerce for public works projects. See refer to Note No. 6 on page 15 for additional information. Developers also build regular system extensions. Upon the completion of the project, the developer donates those main lines to the District. This was $60,238 in 2011.

l. Other Current Assets – Pre-paid items

Prepaid expenses are those costs which are paid up front for short term future use. One such prepaid item is insurance. As noted in Note 11, the District carries insurance through the Washington Governmental Entities Pool and pays for this coverage bi-annually. Since the monies are paid in advance of the coverage, the amount allocated to future periods is noted as a pre-paid expense. The District also includes applies funds toward its postage meter and postage permit.

m. Intangible Assets

The District defers costs for intangible assets for a period of time equal to its estimated useful life. As of December 31, 2011, the District's intangible assets $358,583. See Note 3.

NOTE 2 – DEPOSITS AND INVESTMENTS

a. Deposits

The District's deposits are covered by federal depository insurance (FDIC). The Public Deposit Protection Commission of the State of Washington (PDPC) also provides limited coverage of the Districts funds held by King County. The PDPC is a statutory authority which constitutes a multiple financial institution collateral pool that can make pro rata assessments to all public depositories within the state of up to ten percent (10%) of all their public deposits. For more information, please refer to Note 2 of these financial statements.

b. Investments

In accordance with state investment laws, the District's governing body has entered into a formal interlocal agreement with King County, its *ex officio* treasurer, to have all funds not required for immediate expenditure invested in the King County Investment Pool (Pool). As of December 31, 2011, the District had the following investments:

Investment Type	Fair Value	Effective Duration
King County Investment Pool	$14,334,585	.72 Years

Impaired Investments: As of December 31, 2011, all impaired commercial paper investments have completed enforcement events. The King county impaired investment pool (Impaired Pool) held one commercial paper asset where the Impaired Pool accepted an exchange offer and is receiving the cash flows from the investment's underlying securities. The Impaired Pool also held the residual investments in four commercial paper assets that were part of completed enforcement events, where the Impaired Pool accepted the cash out option. The District's share of the impaired investment pool principle is $89,909.90 and the District's fair value of these investments is $90,134.67.

Interest Rate Risk. As of December 31, 2011, the Pool's average duration was 0.72 years. As a means of limiting its exposure to rising interest rates, securities purchased in the Pool must have a final maturity or weighted average life, no longer than five years. While the Pool's market value is calculated on a monthly basis, unrealized gains and losses are not distributed to participants. The Pool distributes earnings monthly using an amortized cost methodology.

Credit risk. As of December 2011, 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 the Local Government Investment Pool managed by the Washington State Treasurer's office.

NOTE 3 – CAPITAL ASSETS

Capital assets are defined by the District as assets with initial individual cost of more than $5,000 and an estimated useful life in excess of one year.

Major expenses for capital assets such as major repairs that increase useful lives are capitalized. Maintenance, repairs, and minor renewals are accounted for as expenses when incurred.

Utility plants in service and other capital assets are recorded at cost. Capital assets for the year ended December 31, 2011 were as shown in the following table:

	2011	2011 Activity		2011
	Beg Bal	**Increase**	**Decrease**	**End Bal**
UTILITY PLANT NOT BEING DEPRECIATED				
Land	$ 936,244	$ -	$ -	936,244
Construction-in-Progress	4,361,190	3,001,126	(4,892,585)	2,469,731
TOTAL UTILITY PLANT NOT BEING DEPRECIATED	**$ 5,297,434**	**$ 3,001,126**	**$ (4,892,585)**	**$ 3,405,975**
UTILITY PLANT BEING DEPRECIATED/AMORTIZED				
Building & Structures	$ 512,669	$ -	$ -	$ 512,669
Machinery & Equipment	1,496,866	10,461	-	1,507,328
Vehicles	682,614	-	-	682,614
Infrastructure	18,896,525	4,777,802	(108,386)	23,565,940
Intangibles *(Amortized)*	526,036	411,050	(578,502)	358,583
TOTAL UTILITY PLANT BEING DEPRECIATED	**$ 22,114,710**	**$ 5,199,313**	**$ (686,888)**	**$ 26,627,135**
LESS ACCUMULATED DEPRECIATION FOR:				
Building & Structures	$ (270,996)	$ (16,296)	-	$ (287,293)
Machinery & Equipment	(763,283)	(94,282)	-	(857,565)
Vehicles	(263,876)	(51,181)	(803)	(315,861)
Infrastructure	(8,375,644)	(500,915)	108,386	(8,768,174)
TOTAL ACCUMULATED DEPRECIATION	**$ (9,673,800)**	**$ (662,675)**	**$ 107,583**	**$ (10,228,893)**
UTILITY PLANT BEING DEPRECIATED (NET)	**$ 12,440,909**	**$ 4,536,638**	**$ (579,306)**	**$ 16,398,242**
TOTAL UTILITY PLANT, NET	**$ 17,738,344**	**$ 7,537,764**	**$ (5,471,891)**	**$ 19,804,217**

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, 2011 was as follows:

CONSTRUCTION IN PROGRESS *As of December 31, 2011*		
3.7MG Reservoir Exterior recoat	$	77,211
Pump Station Pre-Design		69,532
Space Needs		366,402
Comprehensive Plan		178,271
Reservoir (.4 MG) Demolition and Site Upgrade		186,733
Supply Station #4		362,520
Supply Station #1		1,229,061
TOTAL	**$**	**2,469,731**

NOTE 5 – LEASE COMMITMENTS

The District has no lease commitments for the period ended December 31, 2011.

NOTE 6 - LONG-TERM DEBT

a. Revenue Bonds

The District issued Water Revenue Bonds in December 31, 2011 in the amount of $9,865,000. These bonds bear interest rates ranging from 2.0% to 4.0% and are payable semi-annually each April 1 and October 1. A portion of the bond principle matures each October 1 beginning in the year 2012 through 2031.	$	9,865,000
Total Bond Restricted Debt	$	9,865,000

b. Junior Lien Loans

The District had junior lien loans of $214,628 as of December 31, 2011 from the Washington Public Works Trust Fund.

1991	PWTF Loan	$	-
1993	PWTF Loan		66,015
1994	PWTF Loan		148,612
2004	PWTF Loan		-
	Total PWTF long-term debt		214,627
	Less current portion		(82,545)
	Net long-term PWTF Debt		132,082

The proceeds from these low interest 20-year loans are used for water main replacement programs. The principal will be repaid in equal annual installments. As of December 31, 2011, the District has drawn all available proceeds of all approved loans. At year-end 2011, $82,545 of the $214,626 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

	2011 Revenue Bond Principal	2011 Revenue Bond Interest	PWTF Loan Principal	PWTF Loan Interest	COMBINED ANNUAL DEBT SERVICE
2012	480,000	201,014	82,545	2,147	765,706
2013	510,000	256,448	82,545	991	849,984
2014	520,000	246,248	49,536	495	816,279
2015	525,000	235,848			760,848
2016	540,000	225,348			765,348
2017	555,000	214,548			769,548
2018	565,000	203,448			768,448
2019	580,000	192,148			772,148
2020-2025	2,540,000	911,474			3,451,474
2026-2031	3,050,000	400,665			3,450,665
	$ 9,865,000	**$ 3,087,189**	**$ 214,627**	**$ 3,633**	**$ 13,170,449**

Changes in Long-Term Liabilities

During the year ended December 31, 2010, the following changes occurred in long-term liabilities: The District's compensated absence liability represents the amount owed to District employees upon separation from District employment. See Note 1h for more information regarding compensated absences. This liability increased from $95,264 at year end 2010 to $185,171 at December 31, 2011.

	Beginning Balance 1/1/2011	Additions	Reductions	Ending Balance 12/31/2011	Due Within One Year
Revenue Bonds Payable	$ 1,785,000	$ 9,865,000	$ (1,785,000)	$ 9,865,000	$ 480,000
PWTF Loans	364,687	-	(150,061)	214,626	82,545
Total LT Liabilities	$ 2,149,687	$ 9,865,000	$ (1,935,061)	$ 10,079,626	$ 562,545

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 1,197 participating employers in PERS. Membership in PERS consisted of the following as of the latest actuarial valuation date for the plans of June 30, 2011:

Retirees and Beneficiaries Receiving Benefits	76,899
Terminated Plan Members Entitled to But Not Yet Receiving Benefits	28,860
Active Plan Members	105,521
Active Plan Members Non-Vested	51,005

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, 2011, were as follows:

	Plan I		**Plan II**		**Plan III**	
	Required	Actual	Required	Actual	Required	Actual
Employer	7.25%	7.25%	7.25%	7.25%	7.25%%	7.25%
Employee	6.00%	6.00%	4.64%	4.64%	5% to15%	5% to15%
Total	13.25%	13.25%	11.89%	11.89%	Up to 22.25%	Up to 22.25%

The employer rates include the employer administrative expense fee of 0.16%.

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**
2011	0	$ 52,259	$ 8,457
2010	0	$ 40,547	$ 8,918
2009	0	$ 48,048	$ 12,630

NOTE 8 – PRIOR PERIOD ADJUSTMENTS

Several capital projects and deferred assets, as summarized in the table below, were completed in prior years but had not yet been closed until 2011.

CIP projects reclassified as operations and maintenance expenses were either projects that began as capital projects but were abandoned before completion or for projects that normally would have been considered operating expenses but were classified as capital projects because of the multi-year scope of the project. These projects were either completed by District staff or by consultants in lieu of District staff.

CIP projects reclassified as administrative expenses include projects that should have been completed in a given year's operation budget instead of being deferred as intangible assets. All costs were for professional services and included assistance with a graphical systems upgrade and for the completion of a rate study. These projects occurred in the late 2000's.

I**ntangible plant with no remaining value** included deferred assets related to a comprehensive plan with a different capital improvement program than the District currently is using. The District's standard specifications were reviewed and brought current with the state RCWs making the prior comprehensive plan obsolete.

A**bandoned deferred assets** includes the costs related to investigating an alternative water source, and the costs of a financial analysis of the purchase of the water system from the City of Seattle in Lake Forest Park and the City of Shoreline. The District spent several years in the late 1990's looking at the possibility of using Lake Washington as a water source and not contracting with Seattle Public Utilities (SPU). In late 2001, the District signed a 60 year contract with SPU to provide wholesale water. In the early 2000's, the District's interlocal agreement with the City of Shoreline required the District to look at what it would cost to acquire the water system from SPU. The District completed engineering, financial and legal studies to determine how much it would cost the District and the future rate payers. The District began negotiations with SPU but was then asked to stop at the City of Shoreline's request. All of these projects should have been expensed many years ago.

PRIOR PERIOD ADJUSTMENTS		
CIP Projects Reclassified as O&M Expense	$	137,801
CIP Projects Reclassified as Administrative Expense		42,921
Intangible Plant with no Remaining Value		370,035
Abandoned Deferred Assets		775,949
TOTAL	**$**	**1,326,707**

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 supply quantity in the agreement is sufficient to supply the District for at least three decades. The District made direct water purchases from SPU in 2011 of $908,794, plus recorded a liability for $266,497 in unmetered water costs. It is a long-standing policy of SPU to back-bill for unmetered water resulting from under-functioning meters. The actual amount paid may vary somewhat as the final amount due is negotiated with the District. Negotiations are expected to conclude in mid-2013.

NOTE 10 – DEFERRED COST

All deferred costs ($775,949) were expensed as a prior period adjustment. See Note 8.

NOTE 11 – 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, 2011, there are 468 Enduris members representing a broad range of special purpose districts.

Enduris allows members to jointly purchase excess insurance coverage, share in the self-insured retention, establish a plan for total self-insurance, and provide excellent risk management services and other related services. Enduris provides “occurrence” policies for all lines of liability coverage including Public Official’s Liability. The Property coverage is written on an “all risk” basis blanket form using current Statement of Values. The Property coverage includes mobile equipment, electronic data processing equipment, valuable papers, building ordinance coverage, property in transit, extra expense, consequential loss, accounts receivable, fine arts, inventory or appraisal cost, automobile physical damage to insured vehicles. Boiler and machinery coverage is included on a blanket limit of $100 million for all members. Enduris offers employee dishonesty coverage up to a liability limit of $1,000,000.

Members make an annual contribution to fund Enduris. Enduris acquires insurance from unrelated insurance companies that is subject to a “per occurrence”:

- $1,000,000 deductible on liability loss - the member is responsible for the first $1,000 of the deductible amount of each claim, while Enduris is responsible for the remaining $999,000 on liability loss;

- $250,000 deductible on property loss - the member is responsible for the first $1,000 of the deductible amount of each claim, while Enduris is responsible for the remaining $249,000 on property loss. Enduris is responsible for the $4,000 deductible on boiler and machinery loss.

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

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

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

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

NOTE 12 – SUBSEQUENT EVENTS

In March 2012, the District revised its Vacation and Leave Policy by Resolution 2012.03.22 which changes the information contained in Note 1h-Compensated Absences. Vacation pay, which may be accumulated up to 468 hours, is payable upon resignation, retirement, or death. Sick leave no longer has a maximum accrual.

During 2012 the District entered into two public-private partnerships with local developers - Development Services of America for a project adjacent to I-5, and the Inland Group for rebuilding the old YMCA into a new apartment complex in the North City area. In both cases additional fire flow was needed to support the development activity. Since the District had identified capital projects designed to increase the fire flow to these two areas within the next eight to ten years, they agreed to complete the projects early if the developers contributed approximately one-half of the project costs. Both developers agreed to these terms. The total savings to the District will be nearly $500,000.

Additionally, the District applied for and has been approved to receive Drinking Water State Revolving Fund loan monies for two capital projects.

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 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 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 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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