INDEPENDENT ACCOUNTANT’S COMPILATION REPORT

To the Board of Commissioners

Highland Water District

Monroe, Washington

We have compiled the accompanying statement of Net Asset of Highland Water District as of December 31, 2011 and the related statement of revenues, expenses and changes in fund Net Asset and the statement of cash flows for the year then ended, and the accompanying supplementary information contained in the Management’s Discussion and Analysis which is presented only for supplementary analysis purposes. We have not audited or reviewed the accompanying financial statements and supplementary schedules and, accordingly, do not express an opinion or provide any assurance about whether the financial statements and supplementary schedules are in accordance with accounting principles generally accepted in the United States of America.

Management is responsible for the preparation and fair presentation of the financial statements and supplementary schedules in accordance with accounting principles generally accepted in the United States of America and for designing, implementing, and maintaining internal control relevant to the preparation and fair presentation of the financial statements and supplementary schedules.

Our responsibility is to conduct the compilation in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. The objective of a compilation is to assist management in presenting financial information in the form of financial statements and supplementary schedules without undertaking to obtain or provide any assurance that there are no material modifications that should be made to the financial statements or supplementary schedules.

C.P. McAuliffe, C.P.A.

C.P. McAuliffe, C.P.A., P.S.

Certified Public Accountants

April 25, 2012

Highland Water District

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December 31, 2011

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**Brief Discussion of the Basic Financial Statements**

The District’s financial statements include a Statement of Net Asset; a Statement of Revenues, Expenses & Changes in Fund Net Asset; a Statement of Cash Flows; and Notes to Financial Statements. The financial statements are prepared using the accrual basis of accounting and conform to generally accepted accounting principles as applicable to proprietary funds of governments. The intent of the management’s discussion and analysis is to provide highlights of the District’s financial activities for the year ended December 31, 2011. Readers are encouraged to read this section in conjunction with the accompanying financial statements.

**Condensed Comparative Statement of Net Asset**

The following condensed statements of Net Asset present the assets of the District and show the mix of liabilities and net assets used to acquire these assets:

2011 2010

**Assets**

Current Assets $ 643,743 $ 631,976

Noncurrent Assets:

Capital Assets - Net 9,489,270 9,721,904

Other 422,013 374,403

Total Assets $ 10,555,026 $ 10,728,283

**Liabilities**

Current Liabilities $ 387,951 $ 423,443

Noncurrent Liabilities:

Long-Term Debt 5,758,636 6,034,558

Other 8,282 10,192

Total Liabilities $ 6,154,869 $ 6,468,193

**Net Asset**

Net Investment in Capital Assets $ 3,453,090 $ 3,375,929

Restricted for Debt Service 512,495 73,053

Restricted for Capital Projects 27,619 26,087

Unrestricted 406,953 785,021

Total Net Asset $ 4,400,157 $ 4,260,090

**Analysis of the Condensed Comparative Statement of Net Asset**

Assets

Current assets consist of cash and cash equivalents held in the maintenance and construction funds which are unrestricted and can be used for day-to-day operations. The balance held in these fund decreased by $17,063 in 2011. Current assets also include cash and cash equivalents held in restricted accounts, which include the USDA reserve funds and ULID accounts. Combined, these accounts increased by $24,191 in 2011. The remainder of the current assets include accounts receivable, accrued interest receivable, prepaid expenses, inventories and the current portion of the Friar Creek assessments receivable.

Noncurrent Assets consist of U.L.I.D. assessments receivable and assessments receivable for Friar Creek, net of the current portion. These items increased by $47,610 due to a resolution passed in 2011 which increased the Friar Creek Assessment Receivable. Noncurrent assets also include capital assets net of accumulated depreciation.

Liabilities

Current liabilities consist of accounts payable, retainage, accrued interest payable on debt and the current portion of long-term debt. These items decreased $35,492 in 2011, primarily due to the paying down of debt during the year and decreases in developer extension deposits.

Noncurrent Liabilities consist of vested employee benefits and long-term debt. The vested benefits decreased by $1,910 and long term debt decreased by $275,922 due to required payments of principal during the year. The District did not incur any additional long-term debt during the year.

Net Asset consists of assets minus liabilities. The increase in Net Asset for 2011 corresponds to the change in Net Asset from the statement of revenues, expenses, and changes in fund Net Asset. Over time, increases or decreases in the District’s Net Asset indicate the District’s overall financial growth. The increase in Net Asset is a positive sign of the District’s financial strength.

**Condensed Comparative Statement of Revenues, Expenses & Changes in Fund Net Asset**

The following statements of revenues, expenses and changes in fund Net Asset present the annual surplus or deficiency of revenues over expenses (the change in Net Asset):

2011 2010

**Revenues**

Water Operating Revenue $ 949,346 $ 949,002

Interest Income 21,639 20,412

Total Revenues $ 970,985 $ 969,414

**Expenses**

Operating Expenses $ 713,722 $ 701,596

Nonoperating Expenses 201,442 206,587

Total Expenses $ 915,164 $ 908,183

Change in Net Asset before

Capital Contributions $ 55,821 $ 61,231

Capital Contributions 84,246 30,550

Change in Net Asset 140,067 91,781

**Total Net Asset, January 1** $ 4,260,090 $ 4,168,309

**Total Net Asset, December 31** $ 4,400,157 $ 4,260,090

**Analysis of the Condensed Comparative Statement of Revenues, Expenses & Changes in Fund Net Asset**

Revenues

Water operating revenue increased by $344 in 2011. There was a rate increase on October 1, 2010, partially offset by a decrease in consumption. Nonoperating revenue, which is interest income from investments, increased by $1,227 in 2011.

Expenses

Operating expenses increased by $12,126 in 2011. The increase was due to increased field labor of $19,234 as a result of increased field staffing, increased backup service charges of $7,641, increased payroll taxes and benefits of $4,982 and increased permit fees of $3,315. These increases were partially offset by decreased administrative wages of $20,052 as a result of a decrease in the administrative staffing during 2011.

Nonoperating expenses consist of interest expense on long-term debt. The interest on long-term debt decreased by $5,145 in 2011 due to a decreasing outstanding loan balance through 2011 as the District paid down its debt. No new borrowings occurred in 2011.

**Analysis of the Condensed Comparative Statement of Revenues, Expenses & Changes in Fund Net Asset (Continued)**

Capital Contributions increased by $53,696 in 2011. The increase was a result of the District enacting a resolution increasing the customer’s monthly payments on Friar Creek Assessment Receivable from $52 to $57 on October 1, 2011 through September 30, 2012 and from $57 to $62 on October 1, 2012.

Change in Net Asset

The District recorded growth in their Net Asset in 2011, reflecting the fact that total revenues exceeded expenses.

**Analysis of Overall Financial Condition**

The District’s financial condition improved in 2011 with adequate liquid assets and positive operating cash flow.

**Capital Assets**

Capital assets consist of land, utility plant and equipment. The District did not incur any additions to its capital assets during 2011. Over the next five years it is not anticipated there will be any major capital spending other than changing out meters.

Capital assets activity for the year ended December 31, 2011 was as follows:

Balance Balance

12/31/11 12/31/10 Change

Land $ 99,147 $ 99,147 $ -

Utility Plant 11,469,585 11,469,585 -

Equipment 83,974 83,974 -

Intangibles 182,581 182,581 -

Accumulated Depreciation (2,346,017) (2,113,383) (232,634)

Total Capital Assets, Net $ 9,489,270 $ 9,721,904 $ (232,634)

**Long-Term Debt**

At December 31, 2011, the District had total Public Works Trust Fund and Drinking Water State Revolving Fund loans outstanding of $2,177,467, and total United States Department of Agriculture loans outstanding of $3,869,874. The total long-term debt of the District decreased by $293,556 during 2011 due to principal payments made on the loans.

2011

ASSETS

Current Assets

Maintenance Fund:

Cash & Cash Equivalents $ 177,932

Accrued Interest Receivable 8

Construction Fund:

Cash & Cash Equivalents 219,991

Accrued Interest Receivable 1,033

Receivables :

Customer Accounts Receivable 90,515

Restricted Assets:

Cash & Cash Equivalents - Other 27,619

USDA Reserve Funds:

Cash & Cash Equivalents 79,417

Accrued Interest Receivable 9

Assessments Receivable - Friar Creek - Current Portion 11,056

Inventories 27,014

Prepayments 9,149

Total Current Assets $ 643,743

Noncurrent Assets

Restricted Assets:

U.L.I.D. Assessments Receivable $ 15,296

Assessments Receivable - Friar Creek (Net of Current Portion) 406,717

Capital Assets (Net) 9,489,270

Total Noncurrent Assets $ 9,911,283

Total Assets $ 10,555,026

2011

LIABILITIES

Current Liabilities

Accounts Payable $ 15,568

Accrued Interest Payable 9,877

Current Portion of Long-Term Debt 276,096

Payables from Restricted Assets:

Accrued Interest Payable - USDA Loans 84,962

Retainage 1,448

Total Current Liabilities $ 387,951

Noncurrent Liabilities

Department of Agriculture Loans $ 3,869,874

Public Works Trust Fund Loans 1,784,019

State Revolving Fund Loan 393,448

Less Current Portion of Long-Term Debt (276,096)

Less Deferred Charges (12,609)

Vested Benefits 8,282

Total Noncurrent Liabilities $ 5,766,918

Total Liabilities $ 6,154,869

NET ASSET

Net Investment in Capital Assets $ 3,453,090

Restricted for Debt Service 512,495

Restricted for Capital Projects 27,619

Unrestricted 406,953

Total Net Asset $ 4,400,157

2011

Operating Revenues

Water Sales $ 930,998

Penalties 13,913

Miscellaneous Revenue 4,435

Total Operating Revenues $ 949,346

Operating Expenses

Water Purchases $ 107,909

Labor Costs 170,847

Payroll Taxes & Benefits 39,263

System Maintenance and Supplies 7,301

Other Operating Expenses 17,058

Depreciation Expense 232,634

Business Taxes 48,781

General & Administrative Expenses 89,929

Total Operating Expenses $ 713,722

Operating Income (Loss) $ 235,624

Nonoperating Revenues (Expenses)

Interest on Investments $ 21,639

Interest Expense (201,442)

Total Nonoperating Revenues (Expenses) $ (179,803)

Income (Loss) Before Contributions $ 55,821

Capital Contributions 84,246

Change in Net Asset $ 140,067

Total Net Asset, January 1 $ 4,260,090

Total Net Asset, December 31 $ 4,400,157

2011

Cash Flows From Operating Activities

Cash Received From Customers $ 945,675

Cash Paid to Suppliers (272,576)

Cash Paid to Employees (207,720)

Net Cash Provided by Operating Activities $ 465,379

Cash Flows From Capital & Related

Financing Activities

Principal Payments on Public Works

Trust Fund Loans $ (169,850)

Principal Payments on State Revolving Fund Loan (56,207)

Principal Payments on Dept. of Agriculture Loans (66,961)

Interest Paid on Long-Term Debt (204,212)

Capital Contributions 34,272

Developer & Other Deposits (16,777)

Net Cash (Used) by Capital

& Related Financing Activities $ (479,735)

Cash Flows From Investing Activities

Interest Received on Investments $ 21,484

Net Cash Provided by Investing Activities $ 21,484

Net Increase in Cash & Cash Equivalents $ 7,128

Cash & Cash Equivalents at Beginning of Year 497,831

Cash & Cash Equivalents at End of Year $ 504,959

Noncash Investing, Capital and Financing Activities

Contributions of Capital Assets from Developers $ -

2011

Reconciliation of Net Operating Income

to Net Cash Provided by Operating Activities

Net Operating Income (Loss) $ 235,624

Adjustments to Reconcile Net Operating

Income to Net Cash Provided by

Operating Activities

Depreciation $ 232,634

Change in Assets & Liabilities:

(Increase) Decrease in Customer Accounts Receivable (3,671)

(Increase) Decrease in Prepayments (122)

(Increase) Decrease in Inventories 1,674

Increase (Decrease) in Accounts Payable 1,150

Increase (Decrease) in Vested Benefits (1,910)

Total Adjustments $ 229,755

Net Cash Provided by Operating Activities $ 465,379

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Highland Water 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 with or contradict guidance of the Governmental Accounting Board (GASB). GASB is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the most significant accounting policies of the District.

a. Reporting Entity

Highland Water District is a municipal water district governed by an elected 3 member board. The District operates principally as a purveyor of water in Snohomish County, Washington. The District was formed effective April 1, 1998 under the authority of Highland Water District Resolution No. 98-001, after the Snohomish County Canvassing Board certified that the special election held March 10, 1998 overwhelmingly voted for the formation of Highland Water District. The District merged with the Friar Creek Water Users Association on January 9, 2003. As part of the merger agreement, the properties in the Friar Creek Water Users Association will bear the total expense for, and repayment of, the U.S. Department of Agriculture Rural Development loan to Highland Water District for the new system and additional fire protection. 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 uniform system of accounts for water utilities as prescribed by the National Association of Regulatory Utility Commissioners.

The District uses the full-accrual basis of accounting where revenues are recognized when earned and expenses are recognized when incurred. 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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

b. Basis of Accounting and Presentation (Continued)

The District distinguishes between operating revenues and expenses and nonoperating revenues and expenses. Operating revenues and expenses result from providing services and producing and delivering goods in connection with the District’s principal ongoing operations. The principal operating revenues of the District are charges to customers for water sales and related services. Operating expenses pertain to the furnishing of those services and include the cost of sales and services, administration expenses and depreciation expense. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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.

d. Capital Assets

Capital assets placed in service are recorded at cost. The District uses a capitalization threshold of $1,000. The provision for depreciation is computed on the straight-line method with the following useful lives: Equipment, 3-10 years; Plant, 5-75 years, Intangibles, 5-10 years. Donations by developers are recorded at the contract price. The assets and liabilities of the Highland Water Association were transferred to the District on April 1, 1998. The costs associated with the formation of the District have been capitalized.

Repairs and maintenance are expensed as incurred, while major renewals, replacements and betterments are capitalized.

Preliminary planning and design costs incurred for proposed projects are deferred pending construction of the facility. Costs relating to projects that are ultimately constructed are transferred to capitalized utility plant. Costs relating to those projects abandoned are charged to expense when it is determined that they will not be completed.

See Note 3.

e. Restricted Funds

In accordance with bond resolutions and loan agreements, separate restricted funds are required to be established. The assets held in these funds are restricted for specific uses, including debt service requirements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

f. Receivables

Receivables consist primarily of amounts due from water customers. All receivables are recorded when earned. No allowance for uncollectible accounts is provided since the District has power to record liens for its receivables and, generally, does not experience significant uncollectible amounts.

g. Inventories

Inventory of materials is recorded at cost on the first-in/first-out basis and a physical inventory is taken at the end of each calendar year.

h. Investments

Investments are recorded at cost which generally approximates market value. See Note 2.

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.

j. Subsequent Events

Management has evaluated subsequent events through April 25, 2012, the date the financial statements were available to be issued.

NOTE 2 - DEPOSITS & INVESTMENTS

The District’s deposits and certificates of deposit are entirely covered by federal depository insurance (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (PDPC).

All investments are under the management of the Snohomish County Treasurer. As required by state law, all investments of the District’s funds are obligations of the U.S. Government, U.S. agency issues, obligations of the state of Washington, general obligations of Washington State municipalities, the State Treasurer’s Investment Pool, or certificates of deposit with Washington State banks and savings and loan institutions.

NOTE 2 - DEPOSITS & INVESTMENTS (Continued)

The District’s cash and investment balances at year end are shown below. Carrying amount and market value are the same.

12/31/11

Petty Cash Fund $ 500

Bank Deposit Accounts - FDIC Insured 122,476

Cash on Deposit with Snohomish

County Treasurer 27,136

Investment in State Investment Pool 354,847

Total Cash & Investments $ 504,959

NOTE 3 - CAPITAL ASSETS

Capital assets activity for the year ended December 31, 2011 was as follows:

Beginning Ending

Balance Increase Decrease Balance

Capital assets not being depreciated:

Land $ 99,147 $ - $ - $ 99,147

Total capital assets not

being depreciated 99,147 - - 99,147

Capital assets being depreciated:

Plant 11,469,585 - - 11,469,585

Equipment 83,974 - - 83,974

Intangibles 182,581 - - 182,581

Total capital assets being

depreciated 11,736,140 - - 11,736,140

Less accumulated depreciation for:

Plant 1,911,187 209,982 - 2,121,169

Equipment 52,894 5,665 - 58,559

Intangibles 149,302 16,987 - 166,289

Total accumulated

depreciation 2,113,383 232,634 - 2,346,017

Total capital assets being

depreciated, net 9,622,757 (232,634) - 9,390,123

TOTAL CAPITAL

ASSETS, NET $ 9,721,904 $ (232,634) $ - $ 9,489,270

NOTE 4 - LONG-TERM DEBT

a. Department of Agriculture Loans

The District has entered into agreements with the United States Department of Agriculture to receive the following loans:

2011

1996 loan - payable at $1,826 monthly (including

interest at 5.5% per annum) through the year 2036 $ 294,488

2003 loan - payable at $29,858 annually (including

interest at 4.625% per annum) through the year 2027 325,099

2003 loan - payable at $27,016 annually (including

interest at 4.5% per annum) through the year 2023 231,170

2009 loan - payable at $161,551 annually (including

interest at 4.25% per annum) through the year 2049 3,019,117

$ 3,869,874

The annual requirements to amortize all Department of Agriculture loans outstanding as of December 31, 2011, including interest, are as follows:

Principal Interest Total

2012 $ 70,537 $ 169,800 $ 240,337

2013 73,713 166,624 240,337

2014 77,034 163,303 240,337

2015 80,505 159,832 240,337

2016 84,133 156,204 240,337

2017 - 2021 481,133 720,553 1,201,686

2022 - 2026 485,913 608,984 1,094,897

2027 - 2031 426,669 505,439 932,108

2032 - 2036 502,921 403,158 906,079

2037 - 2041 512,174 295,581 807,755

2042 - 2046 630,664 177,091 807,755

2047 - 2049 444,478 38,227 482,705

$ 3,869,874 $ 3,564,796 $ 7,434,670

NOTE 4 - LONG-TERM DEBT (Continued)

b. Public Works Trust Fund Loans

The District has entered into agreements with the Department of Community, Trade and Economic Development of the State of Washington to receive the following Public Works Trust Fund loans:

2011

2000 loan - payable at $4,931 annually through

the year 2020, plus interest at .5% per annum $ 44,381

2000 loan - payable at $8,644 annually through

the year 2020, plus interest at .5% per annum 77,800

2002 loan - payable at $73,786 annually through

the year 2022, plus interest at .5% per annum 811,643

2004 loan - payable at $17,671 annually through

the year 2024, plus interest at .5% per annum 229,724

2005 loan - payable at $20,500 annually through

the year 2011. The interest rate is 0%. -

2005 loan - payable at $14,122 annually through

the year 2025, plus interest at 2% per annum 197,708

2005 loan - payable at $30,197 annually through

the year 2025, plus interest at .5% per annum 422,763

$ 1,784,019

The annual requirements to amortize all Public Works Trust Fund loans outstanding as of December 31, 2011, including interest, are as follows:

Principal Interest Total

2012 $ 149,352 $ 11,886 $ 161,238

2013 149,352 10,927 160,279

2014 149,352 9,969 159,321

2015 149,352 9,010 158,362

2016 149,352 8,051 157,403

2017 - 2021 733,183 25,878 759,061

2022 - 2025 304,076 5,233 309,309

$ 1,784,019 $ 80,954 $ 1,864,973

NOTE 4 - LONG-TERM DEBT (Continued)

c. Drinking Water State Revolving Fund Loan

The District has entered into an agreement with the Department of Community, Trade and Economic Development of the State of Washington to receive the following Drinking Water State Revolving Fund loan:

1997 loan - payable at $56,207 annually through

the year 2018, plus interest at 4% per annum $ 393,448

The annual requirements to amortize the Drinking Water State Revolving Fund loan outstanding as of December 31, 2011, including interest, are as follows:

Principal Interest Total

2012 $ 56,207 $ 15,738 $ 71,945

2013 56,207 13,490 69,697

2014 56,207 11,241 67,448

2015 56,207 8,993 65,200

2016 56,207 6,745 62,952

2017 - 2018 112,413 6,745 119,158

$ 393,448 $ 62,952 $ 456,400

d. Changes in Long-Term Debt

During the year ended December 31, 2011, the following changes occurred in long-term debt:

Balance Balance Due Within

1/1/11 Additions Reductions 12/31/11 One Year

U.S. Department of

Agriculture Loans $ 3,937,371 $ - $ 67,497 $ 3,869,874 $ 70,537

Public Works Trust

Fund Loans 1,953,871 - 169,852 1,784,019 149,352

Drinking Water

State Revolving

Fund Loan 449,655 - 56,207 393,448 56,207

Total Long-Term

Debt $ 6,340,897 $ - $ 293,556 $ 6,047,341 $ 276,096

NOTE 5 - PENSION PLAN

All district employees covered by a collective bargaining agreement are members of the Western Conference of Teamsters Pension Trust fund, a multiple employer union pension plan. Additional information can be obtained by writing to Western Conference of Teamster Pension Plan, 2323 Eastlake Avenue East, Seattle, WA 98102.

The District makes pension contributions to the Pension Trust fund, a defined benefit pension plan, on the behalf of all covered employees at the rate of $0.75 per hour for the first 2080 hours. The District’s total contributions to the Trust Fund were $5,025 in 2011.

As of January 1, 2010, the actuarial value of the assets in the Pension Trust fund was $30,734,945,000, the value of the liabilities was $34,414,558,000, and the funded ratio was 93.4%. The market value of the fund on December 31, 2010 was $29,164,796,854. As of December 31, 2010, the asset allocation of the fund’s assets were as follow: 20.67% US Government securities, 20.97% corporate debt instruments, 5.66% corporate stocks, 7.3% partnership/joint venture interests, 6.03% real estate, 0.20% loans, 30.86% common/collective trusts, 4.44% pooled separate accounts, 0.53% funds held in insurance company general account, 0.05% building and other property used in the fund’s operations, 1.23% interest bearing cash, 2.06% value of interest in 103-102 investment entities.

NOTE 6 - RISK MANAGEMENT

The District is a member of Enduris. Chapter 48.62 RCW authorizes the governing body of any one or more governmental entities 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 Government 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.

NOTE 6 - RISK MANAGEMENT (Continued)

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 contributions 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 7 - USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 8 - CONTINGENCIES

The District’s financial statements include all material liabilities. There are no material contingent liabilities to record or disclose.