INDEPENDENT ACCOUNTANT’S COMPILATION REPORT

To the Board of Commissioners

Highland Water District

Monroe, Washington

We have compiled the accompanying statement of net position of Highland Water District as of December 31, 2012 and the related statement of revenues, expenses and changes in fund net position and the statement of cash flows for the year then ended. We have not audited or reviewed the accompanying financial statements and, accordingly, do not express an opinion or provide any assurance about whether the financial statements 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 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.

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 without undertaking to obtain or provide any assurance that there are no material modifications that should be made to the financial statements.

The supplementary information contained in the Management's Discussion and Analysis is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplementary information has been compiled from information that is the representation of management. We have not audited or reviewed the supplementary information and, accordingly, do not express an opinion or provide any assurance on such supplementary information.

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

Certified Public Accountants

March 21, 2013

Highland Water District

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December 31, 2012

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**Brief Discussion of the Basic Financial Statements**

The District’s financial statements include a Statement of Net Position; a Statement of Revenues, Expenses & Changes in Fund Net Position; 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, 2012. Readers are encouraged to read this section in conjunction with the accompanying financial statements.

**Condensed Comparative Statement of Net Position**

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

2012 2011

**Assets**

Current Assets $ 661,662 $ 643,743

Noncurrent Assets:

Capital Assets - Net 9,268,519 9,489,270

Other 441,259 422,013

Total Assets $ 10,371,440 $ 10,555,026

**Liabilities**

Current Liabilities $ 389,127 $ 387,951

Noncurrent Liabilities:

Long-Term Debt 5,479,902 5,758,636

Other 8,283 8,282

Total Liabilities $ 5,877,312 $ 6,154,869

**Net Position**

Net Investment in Capital Assets $ 3,509,355 $ 3,453,090

Restricted for Debt Service 555,390 512,495

Restricted for Capital Projects 27,646 27,619

Unrestricted 401,737 406,953

Total Net Position $ 4,494,128 $ 4,400,157

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

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 funds decreased by $17,323 in 2012. 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 $22,595 in 2012. 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 $19,246. This change was a combination of a decrease from payments received on the assessments and an increase due to a prior period adjustment. See the prior period adjustment discussion below. Noncurrent assets also include capital assets net of accumulated depreciation.

Liabilities

Current liabilities consist of accounts payable, accrued wages, accrued interest payable on debt and the current portion of long-term debt. These items increased $1,176 in 2012.

Noncurrent Liabilities consist of vested employee benefits and long-term debt. Long-term debt decreased by $278,734 due to required payments of principal during the year. The District did not incur any additional long-term debt during the year.

Net Position consists of assets minus liabilities. The increase in net position for 2012 corresponds to the change in net position from the statement of revenues, expenses, and changes in fund net position. Over time, increases or decreases in the District’s net position indicate the District’s overall financial growth. The increase in net position is a positive sign of the District’s financial strength.

**Prior Period Adjustment**

The prior period adjustment increased the Friar Creek assessments receivable by $45,939. The adjustment was to restore assessments receivable amounts after reinterpretation of resolutions in past years that changed the payment amounts of the assessments.

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

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

2012 2011

**Revenues**

Water Operating Revenue $ 950,342 $ 949,346

Interest Income 23,117 21,639

Total Revenues $ 973,459 $ 970,985

**Expenses**

Operating Expenses $ 730,374 $ 713,722

Nonoperating Expenses 195,053 201,442

Total Expenses $ 925,427 $ 915,164

Change in Net Position before

Capital Contributions $ 48,032 $ 55,821

Capital Contributions - 84,246

Change in Net Position 48,032 140,067

**Total Net Position, January 1** $ 4,400,157 $ 4,260,090

Prior Period Adjustment 45,939 -

Total Net Position, January 1, as Restated $ 4,446,096 $ 4,260,090

**Total Net Position, December 31** $ 4,494,128 $ 4,400,157

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

Revenues

Water operating revenue increased by $996 in 2012. Nonoperating revenue, which is interest income from investments, increased by $1,478 in 2012.

Expenses

Operating expenses increased by $16,652 in 2012. The increase was mostly due to increased field labor of $17,890 as a result of increased field staffing, increased backup service charges of $7,004, and increased water purchases of $14,469. These increases were offset by a decrease in administrative wages of $48,809 as a result of a decrease in the administrative staffing toward the end of 2011.

Nonoperating expenses consist of interest expense on long-term debt. The interest on long-term debt decreased by $6,389 in 2012 due to a decreasing outstanding loan balance through 2012 as the District paid down its debt. No new borrowings occurred in 2012.

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

Capital Contributions decreased by $84,246 in 2012. The decrease was a result of a reduction in new construction activity in the District.

Change in Net Position

The District recorded growth in their net position in 2012, reflecting the fact that total revenues exceeded expenses.

**Analysis of Overall Financial Condition**

The District’s financial condition improved in 2012 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 2012. 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, 2012 was as follows:

Balance Balance

12/31/12 12/31/11 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 (2,566,768) (2,346,017) (220,751)

Total Capital Assets, Net $ 9,268,519 $ 9,489,270 $ (220,751)

**Long-Term Debt**

At December 31, 2012, the District had total Public Works Trust Fund and Drinking Water State Revolving Fund loans outstanding of $1,971,907, and total United States Department of Agriculture loans outstanding of $3,799,337. The total long-term debt of the District decreased by $278,734 during 2012 due to principal payments made on the loans.

2012

ASSETS

Current Assets

Maintenance Fund:

Cash & Cash Equivalents $ 161,038

Accrued Interest Receivable 12

Construction Fund:

Cash & Cash Equivalents 219,562

Accrued Interest Receivable 561

Receivables (Net):

Customer Accounts Receivable 99,452

Restricted Assets:

Cash & Cash Equivalents - Other 27,646

USDA Reserve Funds:

Cash & Cash Equivalents 101,985

Accrued Interest Receivable 21

Assessments Receivable - Friar Creek - Current Portion 12,125

Inventories 28,969

Prepayments 10,281

Due from Developers 10

Total Current Assets $ 661,662

Noncurrent Assets

Restricted Assets:

U.L.I.D. Assessments Receivable $ 14,309

Assessments Receivable - Friar Creek (Net of Current Portion) 426,950

Capital Assets (Net) 9,268,519

Total Noncurrent Assets $ 9,709,778

Total Assets $ 10,371,440

2012

LIABILITIES

Current Liabilities

Accounts Payable $ 11,946

Accrued Wages 5,916

Accrued Interest Payable 8,836

Current Portion of Long-Term Debt 279,272

Payables from Restricted Assets:

Accrued Interest Payable - USDA Loans 83,157

Total Current Liabilities $ 389,127

Noncurrent Liabilities

Department of Agriculture Loans $ 3,799,337

Public Works Trust Fund Loans 1,634,666

State Revolving Fund Loan 337,241

Less Current Portion of Long-Term Debt (279,272)

Less Deferred Charges (12,070)

Vested Benefits 8,283

Total Noncurrent Liabilities $ 5,488,185

Total Liabilities $ 5,877,312

NET POSITION

Net Investment in Capital Assets $ 3,509,355

Restricted for Debt Service 555,390

Restricted for Capital Projects 27,646

Unrestricted 401,737

Total Net Position $ 4,494,128

2012

Operating Revenues

Water Sales $ 934,391

Penalties 13,370

Miscellaneous Revenue 2,581

Total Operating Revenues $ 950,342

Operating Expenses

Water Purchases $ 122,378

Labor Costs 145,209

Payroll Taxes & Benefits 48,975

System Maintenance and Supplies 11,019

Other Operating Expenses 33,019

Depreciation Expense 220,751

Business Taxes 48,894

General & Administrative Expenses 100,129

Total Operating Expenses $ 730,374

Operating Income (Loss) $ 219,968

Nonoperating Revenues (Expenses)

Interest on Investments $ 23,117

Interest Expense (195,053)

Total Nonoperating Revenues (Expenses) $ (171,936)

Change in Net Position $ 48,032

Total Net Position, January 1 $ 4,400,157

Prior Period Adjustment 45,939

Total Net Position, January 1, as Restated $ 4,446,096

Total Net Position, December 31 $ 4,494,128

2012

Cash Flows From Operating Activities

Cash Received From Customers $ 941,405

Cash Paid to Suppliers (324,686)

Cash Paid to Employees (185,729)

Net Cash Provided by Operating Activities $ 430,990

Cash Flows From Capital & Related

Financing Activities

Principal Payments on Public Works

Trust Fund Loans $ (149,353)

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

Principal Payments on Dept. of Agriculture Loans (69,998)

Interest Paid on Long-Term Debt (197,899)

Capital Contributions 25,624

Developer & Other Deposits (1,458)

Net Cash (Used) by Capital

& Related Financing Activities $ (449,291)

Cash Flows From Investing Activities

Interest Received on Investments $ 23,573

Net Cash Provided by Investing Activities $ 23,573

Net Increase in Cash & Cash Equivalents $ 5,272

Cash & Cash Equivalents at Beginning of Year 504,959

Cash & Cash Equivalents at End of Year $ 510,231

Noncash Investing, Capital and Financing Activities

Contributions of Capital Assets from Developers $ -

2012

Reconciliation of Net Operating Income

to Net Cash Provided by Operating Activities

Net Operating Income (Loss) $ 219,968

Adjustments to Reconcile Net Operating

Income to Net Cash Provided by

Operating Activities

Depreciation $ 220,751

Change in Assets & Liabilities:

(Increase) Decrease in Customer Accounts Receivable (8,937)

(Increase) Decrease in Prepayments (1,132)

(Increase) Decrease in Inventories (1,955)

Increase (Decrease) in Accounts Payable 2,294

Increase (Decrease) in Vested Benefits 1

Total Adjustments $ 211,022

Net Cash Provided by Operating Activities $ 430,990

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 March 21, 2013, 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.

12/31/12

Petty Cash Fund $ 450

Bank Deposit Accounts - FDIC Insured 116,148

Cash on Deposit with Snohomish

County Treasurer 29,300

Investment in State Investment Pool 364,333

Total Cash & Investments $ 510,231

NOTE 3 - CAPITAL ASSETS

Capital assets activity for the year ended December 31, 2012 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 2,121,169 204,212 - 2,325,381

Equipment 58,559 5,059 - 63,618

Intangibles 166,289 11,480 - 177,769

Total accumulated

depreciation 2,346,017 220,751 - 2,566,768

Total capital assets being

depreciated, net 9,390,123 (220,751) - 9,169,372

TOTAL CAPITAL

ASSETS, NET $ 9,489,270 $ (220,751) $ - $ 9,268,519

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:

2012

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

interest at 5.5% per annum) through the year 2036 $ 288,625

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

interest at 4.625% per annum) through the year 2027 310,277

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

interest at 4.5% per annum) through the year 2023 214,557

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

interest at 4.25% per annum) through the year 2049 2,985,878

$ 3,799,337

The annual requirements to amortize all Department of Agriculture loans outstanding as of December 31, 2012, including interest, are as follows:

Principal Interest Total

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 87,926 152,411 240,337

2018 - 2022 502,847 698,839 1,201,686

2023 - 2027 465,820 586,997 1,052,817

2028 - 2032 431,101 486,213 917,314

2033 - 2037 503,030 381,136 884,166

2038 - 2042 533,942 273,813 807,755

2043 - 2047 657,468 150,288 807,756

2048 - 2049 301,818 19,334 321,152

$ 3,799,337 $ 3,394,994 $ 7,194,331

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:

2012

2000 loan - payable at $4,931 annually through

the year 2020, plus interest at .5% per annum $ 39,449

2000 loan - payable at $8,644 annually through

the year 2020, plus interest at .5% per annum 69,155

2002 loan - payable at $73,786 annually through

the year 2022, plus interest at .5% per annum 737,857

2004 loan - payable at $17,671 annually through

the year 2024, plus interest at .5% per annum 212,053

2005 loan - payable at $14,122 annually through

the year 2025, plus interest at 2% per annum 183,586

2005 loan - payable at $30,197 annually through

the year 2025, plus interest at .5% per annum 392,566

$ 1,634,666

The annual requirements to amortize all Public Works Trust Fund loans outstanding as of December 31, 2012, including interest, are as follows:

Principal Interest Total

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 149,352 7,093 156,445

2018 - 2022 719,606 21,153 740,759

2023 - 2025 168,300 2,866 171,166

$ 1,634,666 $ 69,069 $ 1,703,735

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 $ 337,241

The annual requirements to amortize the Drinking Water State Revolving Fund loan outstanding as of December 31, 2012, including interest, are as follows:

Principal Interest Total

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 56,207 4,497 60,704

2018 56,206 2,248 58,454

$ 337,241 $ 47,214 $ 384,455

d. Changes in Long-Term Debt

During the year ended December 31, 2012, the following changes occurred in long-term debt:

Balance Balance Due Within

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

U.S. Department of

Agriculture Loans $ 3,869,874 $ - $ 70,537 $ 3,799,337 $ 73,713

Public Works Trust

Fund Loans 1,784,019 - 149,353 1,634,666 149,352

Drinking Water

State Revolving

Fund Loan 393,448 - 56,207 337,241 56,207

Total Long-Term

Debt $ 6,047,341 $ - $ 276,097 $ 5,771,244 $ 279,272

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 $6,185 in 2012.

As of January 1, 2011, the actuarial value of the assets in the Pension Trust fund was $32,880,990,000, the value of the liabilities was $35,729,226,000, and the funded ratio was 92.0%. The market value of the fund on December 31, 2011 was $29,879,068,991. As of December 31, 2011, the asset allocation of the fund’s assets were as follow: 21.29% US Government securities, 20.33% corporate debt instruments, 5.74% corporate stocks, 8.54% partnership/joint venture interests, 6.96% real estate, 0.19% loans, 27.78% common/collective trusts, 4.78% pooled separate accounts, 0.46% funds held in insurance company general account, 0.04% building and other property used in the fund’s operations, -.02% interest bearing cash, 2.39% value of interest in 103-102 investment entities, 1.52% other.

NOTE 6 - RISK MANAGEMENT

The District is a member of Enduris. Chapter 48.62 RCW provides the exclusive source of local government entity authority to individually or jointly self-insure risks, jointly purchase insurance or reinsurance, and to contract for risk management, claims, and administrative services. Enduris was formed July 10, 1987 pursuant to the provisions of Chapter 48.62 RCW, Chapter 200-100 WAC, and Chapter 39.34 RCW. Two (2) counties and two (2) cities in the State of Washington joined together by signing an Interlocal Governmental Agreement to fund their self-insured losses and jointly purchase insurance and administrative services. As of August 31, 2012, there are 477 Enduris members representing a broad array of special purpose districts throughout the state.

Enduris members share in the self-insured retention, jointly purchase excess and/or reinsurance coverage and provide risk management services and other related administrative services. Enduris provides “per occurrence” based policies for all lines of liability coverage including Public Official’s Liability. The Property coverage is written on an “all risk”, blanket basis using current Statement of Values. The Property coverage includes but is not limited to mobile equipment, electronic data processing equipment, business interruption, course of construction and additions, property in transit, fine arts, and 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 reinsurance from unrelated insurance companies on a “per occurrence” basis:

$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.

NOTE 9 - PRIOR PERIOD ADJUSTMENT

The prior period adjustment increased the Friar Creek assessments receivable by $45,939. The adjustment was to restore assessments receivable amounts after reinterpretation of resolutions in past years that changed the payment amounts of the assessments.