

Washington State Auditor's Office
Financial Statements and Federal Single Audit Report

Stevens County Hunters Water District

Audit Period
January 1, 2010 through December 31, 2010

Report No. 1006922

Issue Date
December 27, 2011



WASHINGTON
BRIAN SONNTAG
STATE AUDITOR



**Washington State Auditor
Brian Sonntag**

December 27, 2011

Board of Commissioners
Stevens County Hunters Water District
Hunters, Washington

Report on Financial Statements and Federal Single Audit

Please find attached our report on the Stevens County Hunters Water District's financial statements and compliance with federal laws and regulations.

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

Sincerely,

BRIAN SONNTAG, CGFM
STATE AUDITOR

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Federal Summary

Stevens County Hunters Water District January 1, 2010 through December 31, 2010

The results of our audit of the Stevens County Hunters Water District are summarized below in accordance with U.S. Office of Management and Budget Circular A-133.

FINANCIAL STATEMENTS

An unqualified opinion was issued on the financial statements.

Internal Control Over Financial Reporting:

- ***Significant Deficiencies:*** We reported no deficiencies in the design or operation of internal control over financial reporting that we consider to be significant deficiencies.
- ***Material Weaknesses:*** We identified deficiencies that we consider to be material weaknesses.

We noted no instances of noncompliance that were material to the financial statements of the District.

FEDERAL AWARDS

Internal Control Over Major Programs:

- ***Significant Deficiencies:*** We reported no deficiencies in the design or operation of internal control over major federal programs that we consider to be significant deficiencies.
- ***Material Weaknesses:*** We identified no deficiencies that we consider to be material weaknesses.

We issued an unqualified opinion on the District's compliance with requirements applicable to its major federal program.

We reported no findings that are required to be disclosed under section 510(a) of OMB Circular A-133.

Identification of Major Programs:

The following was a major program during the period under audit:

<u>CFDA No.</u>	<u>Program Title</u>
66.468	Capitalization Grants for Drinking Water State Revolving Funds

The dollar threshold used to distinguish between Type A and Type B programs, as prescribed by OMB Circular A-133, was \$300,000.

The District did not qualify as a low-risk auditee under OMB Circular A-133.

Schedule of Audit Findings and Responses

Stevens County Hunters Water District January 1, 2010 through December 31, 2010

- 1. The District did not have adequate internal controls over accounting and financial reporting, resulting in the District missing a single audit deadline.**

Background

District management, the state Legislature, state and federal agencies and bondholders rely on the information included in financial statement and supplemental schedules to make decisions. It is the responsibility of District management to design and follow internal controls that provide reasonable assurance regarding the reliability of financial reporting. Our audit identified deficiencies in internal controls that adversely affect the District's ability to produce reliable financial statements and its Schedule of Long-Term Liabilities.

Government Auditing Standards, prescribed by the Comptroller General of the United States, require the auditor to communicate material weaknesses, as defined below in the Applicable Laws and Regulations section, as a finding.

Description of Condition

The District has not assigned adequate resources to financial statement preparation or the development of internal control policies and procedures. We identified the following deficiencies in internal controls over financial reporting that, when taken together, represent a material weakness:

- District personnel responsible for compiling and reviewing financial information did not have adequate experience to determine if the financial statements, notes and required supplemental information were accurate and conformed to *Budgeting Accounting and Reporting System Manual* (BARS) requirements.
- District personnel responsible for the monitoring and managing federally funded projects did not have adequate experience to ensure all federal Single Audit reporting requirements and deadlines were met.

Cause of Condition

The District generally spends less than \$500,000 in federal grant money and is not required to obtain a Single or financial statement audit. Because of this, its staff does not have the technical knowledge and experience to ensure information is complete and accurate.

Effect of Condition

The original financial reports did not include the statements, notes and schedules required for the Single and financial statement audits. We received revised financial statements for audit in October 2011. These did not include beginning or ending cash balances, complete note disclosures, or the Schedule of Long-Term Liabilities and required additional revisions.

Delays in financial reports prevent District officials, the public, and other interested parties from obtaining timely information. Delays also prevented the District from meeting the Single Audit deadline of September 30, 2011.

Recommendation

We recommend the District:

- Ensure persons responsible for preparing and reviewing the financial statements are knowledgeable of applicable accounting standards and BARS reporting requirements.
- Establish and follow effective internal controls practices that ensure accurate financial reporting and presentation in accordance with prescribed guidance.
- Ensure persons responsible for compliance with federal funding requirements are knowledgeable of all single audit reporting requirements and deadlines.

District's Response

The District will continue to put processes in place to ensure financial reporting is accurate and timely.

Auditor's Remarks

We appreciate the District's commitment to resolving these issues.

Applicable Laws and Regulations

Government Auditing Standards, July 2007 Revision - Section 5.11, states:

For all financial audits, auditors should report the following deficiencies in internal control:

- a. Significant deficiency: a deficiency in internal control, or combination of deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is a more than remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected.

- b. Material weakness: a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected.

Budgeting Accounting and Reporting System Manual - Part 3, Accounting, Chapter 1. Accounting Principles and General Procedures, Section C. Internal Control, states in part:

Management is responsible for the entity's performance, compliance and financial reporting. Therefore, the adequacy of internal controls to provide reasonable assurance regarding the achievement of such objectives is also the responsibility of management.

RCW 43.09.200 states:

The state auditor shall formulate, prescribe, and install a system of accounting and reporting for all local governments, which shall be uniform for every public institution, and every public office, and every public account of the same class.

The system shall exhibit true accounts and detailed statements of funds collected, received, and expended for account of the public for any purpose whatever, and by all public officers, employees, and other persons.

The accounts shall show the receipt, use, and disposition of all public funds properly, and the income, if any, derived therefrom; all sources of public income, and the amounts due and received from each source; all receipts, vouchers, and other documents kept, or required to be kept, necessary to isolate and prove the validity of every transaction; all statements and reports made or required to be made, for the internal administration of the office to which they pertain; and all reports published or required to be published, for the information of the people regarding any and all details of the financial administration of public affairs.

RCW 43.09.230 states in part:

The state auditor shall require from every taxing district and other political subdivisions financial reports covering the full period of each fiscal year, in accordance with the forms and methods prescribed by the state auditor, which shall be uniform for all accounts of the same class.

Such reports shall be prepared, certified, and filed with the state auditor within one hundred fifty days after the close of each fiscal year.

OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations states in part:

§____.320 Report submission.

(a) General. The audit shall be completed and . . . submitted within the earlier of 30 days after receipt of the auditor's report(s), or nine months after the end of the audit period, unless a longer period is agreed to in advance by the cognizant or oversight agency for audit.

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

**Stevens County Hunters Water District
January 1, 2010 through December 31, 2010**

Board of Commissioners
Stevens County Hunters Water District
Hunters, Washington

We have audited the financial statements of the Stevens County Hunters Water District, Stevens County, Washington, as of and for the year ended December 31, 2010, and have issued our report thereon dated November 15, 2011.

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.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Audit Findings and Responses, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

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. We consider the deficiencies described in the accompanying Schedule of Audit Findings and Responses as Finding 1 to be material weaknesses.

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*.

The District's response to the finding identified in our audit is described in the accompanying Schedule of Audit Findings and Responses. We did not audit the District's response and, accordingly, we express no opinion on it.

This report is intended for the information and use of management, the Board of Commissioners, federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

A handwritten signature in black ink, appearing to read "Brian Sonntag", is positioned above the printed name and title.

BRIAN SONNTAG, CGFM
STATE AUDITOR

November 15, 2011

Independent Auditor's Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133

**Stevens County Hunters Water District
January 1, 2010 through December 31, 2010**

Board of Commissioners
Stevens County Hunters Water District
Hunters, Washington

COMPLIANCE

We have audited the compliance of the Stevens County Hunters Water District, Stevens County, Washington, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on its major federal program for the year ended December 31, 2010. The District's major federal program is identified in the Federal Summary. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the District's compliance with those requirements.

In our opinion, the District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2010.

INTERNAL CONTROL OVER COMPLIANCE

The management of the District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance 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 compliance that we consider to be material weaknesses, as defined above.

This report is intended for the information of management, the Board of Commissioners, federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

A handwritten signature in black ink, appearing to read "Brian Sonntag", with a stylized, cursive script.

BRIAN SONNTAG, CGFM
STATE AUDITOR

November 15, 2011

Independent Auditor's Report on Financial Statements

Stevens County Hunters Water District January 1, 2010 through December 31, 2010

Board of Commissioners
Stevens County Hunters Water District
Hunters, Washington

We have audited the accompanying financial statements of the Stevens County Hunters Water District, Stevens County, Washington, for the year ended December 31, 2010. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1 to the financial statements, the District prepares its financial statements on the basis of accounting that demonstrates compliance with Washington State statutes and the *Budgeting, Accounting and Reporting System* (BARS) manual prescribed by the State Auditor, which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position and results of operations of the Stevens County Hunters Water District, for the year ended December 31, 2010, on the basis of accounting described in Note 1.

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.

Our audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular

A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. The accompanying Schedule of Long-Term Liabilities is also presented for purposes of additional analysis as required by the prescribed BARS manual. These schedules are not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

A handwritten signature in black ink, appearing to read "Brian Sonntag", with a stylized, cursive script.

BRIAN SONNTAG, CGFM
STATE AUDITOR

November 15, 2011

Financial Section

Stevens County Hunters Water District January 1, 2010 through December 31, 2010

FINANCIAL STATEMENTS

Statement of Activities Arising from Cash Transactions – 2010
Notes to Financial Statements – 2010

SUPPLEMENTAL INFORMATION

Schedule of Long-Term Liabilities – 2010
Schedule of Expenditures of Federal Awards and Notes – 2010

Stevens County Hunters Water District**Statement of Activities Arising from Cash Transactions
For the Year Ended December 31, 2010****OPERATING RECEIPTS**

Water Sales		<u>\$34,325.00</u>
	Total Operating Receipts	\$34,325.00

OPERATING DISBURSEMENTS

Supplies/Services		<u>\$25,478.81</u>
	Total Operating Expenses	\$25,478.81
	Operating Income (Loss)	\$8,846.19

NON-OPERATING RECEIPTS

Investment Income		\$0.00
Tax		\$0.00
Long-Term Debt Proceeds		\$843,367.00
Capital Contributions		\$0.00
Gain on investments		\$0.00
Other Non-Operating Receipts		<u>\$48,492.21</u>
	Total Nonoperating Receipts	\$891,859.21

NON-OPERATING DISBURSEMENTS

Drinking Water State Revolving Fund project		\$891,860.00
Long-Term Debt Payments - Principal		\$0.00
Long-Term Debt Payments - Interest		\$0.00
Loss on Investments		\$0.00
Other Non-Operating Disbursements		<u>\$0.00</u>
Total Nonoperating Disbursements		\$891,860.00

Net increase (decrease) in net cash and investments	\$8,845.40
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Beginning balance of net cash and investments	\$23,762.00
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Ending balance of net cash and investments	\$32,607.40
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See accompanying notes to the financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Hunters Water District is a public water utility that provides water to the general public and is supported primarily through water sales. The district operates under RCW 57 and other laws of the state of Washington applicable to the water district type.

The district accounts and reports in accordance with methods prescribed by the State Auditor's Office under the authority of Chapter 43.09 RCW and contained in the *Cash Basis Budgeting, Accounting and Reporting* (BARS) manual. This basis of accounting and reporting is other comprehensive basis of accounting (OCBOA) and it does not conform to generally accepted accounting principles (GAAP).

Revenues are recognized only when cash is received and expenses are recognized when paid. Purchases of capital assets are expensed during the year of acquisition. There is no allocation of depreciation expenses. Inventory is expensed when purchased.

NOTE 2 - COMPLIANCE AND ACCOUNTABILITY

There have been no material violations of finance-related legal or contractual provisions.

NOTE 3 - INVESTMENTS

The district's investments are held by the Stevens County Treasurer as its agent in the district's name.

Investments by type at December 31, 2010 are as follows:

<u>Type of Investment</u>	<u>Balance</u>
LGIP	\$3,752

NOTE 6 - LONG-TERM DEBT

The accompanying Schedule of Long-Term Debt (09) provides a listing of the outstanding debt of the District and summarizes debt transactions for years 2011 through 2016. The debt service requirements, including interest, are as follows:

	<u>Other Debt</u>	<u>Total Debt</u>
2011	\$1,025,213.47	\$1,025,213.47
2012	\$2,364	\$2,364
2013	\$2,364	\$2,364
2014	\$2,364	\$2,364
2015	\$2,364	\$2,364
2016	\$2,364	\$2,364
Total	<u>\$1,037,033.47</u>	<u>\$1,037,033.47</u>

Note: When the Drinking Water State Revolving Fund project is complete, the loan amount of \$987,400.70 will be forgiven less a 1% loan fee of \$11,820 (the loan fee is included in the loan amount). The loan fee will be paid over five years in annual installments of \$2,364 and there is no interest charged on the loan fee. The remaining amount due in 2011 of \$49,632.77 is explained under Other Disclosures.

OTHER DISCLOSURES

On November 8, 2010 the District entered into an agreement with the Stevens County Treasurer to borrow \$48,492.21 to cover shortfalls due to timing differences between project expenditures and grant funding. These funds were never deposited by the Treasurer into the District's account resulting in a negative cash balance per the County Treasurer records. However, as a signed promissory note exists, the District recorded this amount as other non-operating receipts and shows a positive ending cash balance in the financial statements. This short-term loan was repaid in full during June 2011 and included interest of \$1,140.56.

Stevens County Hunters Water District
Schedule of Long Term Liabilities
for the year ended December 31, 2010

Schedule 9

MCAG NO. 2679

ID. No.	Description	Beginning Balance 01/01/2010	Additions	Reductions	BARS Code for Redemption of Debt Only	Ending Balance Debt 12/31/2010
263.62	Loan from Stevens County	\$ -	\$ 48,492.21	\$ -	-	\$ 48,492.21
263.82	Drinking Water State Revolving Fund loan	\$ 144,033.70	\$ 843,367.00	\$ -	-	\$ 987,400.70
Total						\$ 1,035,892.91

**STEVENS COUNTY HUNTERS WATER DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

For the Year Ended December 31, 2010

Federal Agency Name/ Pass-Through Agency Name	Federal Program Name	CFDA Number	Other I.D. Number	Current Year Expenditures			Foot-note Ref.
				From Pass- Through Awards	From Direct Awards	Total	
Environmental Protection Agency/ WA State Dept of Commerce	ARRA - Capitalization Grants for Drinking Water State Revolving Fund	66.468	DR09-952-056	843,367.00		843,367.00	

NOTE 1 - BASIS OF ACCOUNTING

This schedule is prepared on the same basis of accounting as the District's financial statements. The District uses the cash basis of accounting.

This basis of accounting and reporting is another comprehensive basis of accounting (OCBOA) that is prescribed by the State Auditor's Office under the authority of Washington State law, Chapter 43.09 RCW.



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.

State Auditor
Chief of Staff
Deputy Chief of Staff
Chief Policy Advisor
Director of Audit
Director of Performance Audit
Director of Special Investigations
Director for Legal Affairs
Director of Quality Assurance
Local Government Liaison
Communications Director
Public Records Officer
Main number
Toll-free Citizen Hotline

Brian Sonntag, CGFM
Ted Rutt
Doug Cochran
Jerry Pugnetti
Chuck Pfeil, CPA
Larisa Benson
Jim Brittain, CPA
Jan Jutte, CPA, CGFM
Ivan Dansereau
Mike Murphy
Mindy Chambers
Mary Leider
(360) 902-0370
(866) 902-3900

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