



Washington State Auditor's Office

Troy Kelley

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**Financial Statements and Federal Single Audit
Report**

**Public Utility District No 1 of Stevens
County**

For the period January 1, 2013 through December 31, 2013

Published September 22, 2014

Report No. 1012634





Washington State Auditor
Troy Kelley

September 22, 2014

Board of Commissioners
Public Utility District No 1 of Stevens County
Loon Lake, Washington

Report on Financial Statements and Federal Single Audit

Please find attached our report on Public Utility District No 1 of Stevens County'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,

TROY KELLEY
STATE AUDITOR

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Federal Summary

Public Utility District No 1 of Stevens County January 1, 2013 through December 31, 2013

The results of our audit of Public Utility District No 1 of Stevens County are summarized below in accordance with U.S. Office of Management and Budget Circular A-133.

FINANCIAL STATEMENTS

An unmodified opinion was issued on the basic 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 no 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 identified 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 unmodified opinion on the District's compliance with requirements applicable to each of its major federal programs.

We reported findings that are required to be disclosed under section 510(a) of OMB Circular A-133.

Identification of Major Programs:

The following were major programs during the period under audit:

<u>CFDA No.</u>	<u>Program Title</u>
11.557	ARRA – Broadband Technology Opportunities Program (Recovery Act)
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 Federal Audit Findings and Questioned Costs

Public Utility District No 1 of Stevens County January 1, 2013 through December 31, 2013

1. **The District did not have adequate internal controls to ensure compliance with federal requirements for its Drinking Water State Revolving Fund loan program.**

CFDA Number and Title:	66.468 Capitalization Grants for Drinking Water State Revolving Fund
Federal Grantor Name:	U.S. Environmental Protection Agency Office of Water
Federal Award/Contract Number:	NA
Pass-through Entity Name:	Department of Commerce
Pass-through Award/Contract Number:	DM12-952-123
Questioned Cost Amount:	\$0

Description of Condition

For fiscal year 2013, the District spent \$315,000 in its Drinking Water State Revolving Fund loan program. The objective of the loan program is to assist public water systems finance the costs of infrastructure needed to achieve and maintain compliance with Safe Drinking Water Act requirements.

The District charged \$20,721 in benefit costs to the loan program. We audited the District's internal controls over payroll to determine whether benefits charged to the program were reasonable and charged in accordance with federal regulations. The District allocated these benefit costs to the program using an estimate of 57 percent of the actual salaries and wages charged to the program rather than using actual benefit costs. The allocation percentage was developed during the budget process based on estimated salary and benefit costs for all District employees. Federal regulations do not allow the use of estimates unless amounts are compared to and adjusted to actual costs or an approved cost allocation plan is in place.

Cause of Condition

The District was not aware that federal regulations did not allow the use of estimates for fringe benefits. We consider this control weakness a significant deficiency in internal controls.

Effect of Condition and Questioned Costs

The District is unable to ensure the benefit costs charged to the program are an accurate reflection of actual activities. However, the District was able to provide support for actual benefit costs paid for each employee that worked in the program, which was more than the amount charged to the grant. As a result, we are not questioning these costs.

Recommendation

We recommend the District establish and follow appropriate internal controls and practices that ensure it charges only allowable costs to federal programs.

District's Response

The Stevens Public Utility District has a well-established system of internal controls in place and we have a long history of excellent audit results.

As is stated in the auditor's finding, the District's benefits allocation method did not result in overcharging the federal program.

For the project and the associated loan, the District charged payroll costs for engineering and construction inspection.

The District applied payroll benefits on a percentage basis of the wages charged. This percentage and procedure was identical to the allocation used in the District's internal cost allocation procedure. The percentage was calculated via a formula in which the total projected cost of benefits is the numerator of the ratio, and the total projected wage costs for time worked (excluding all leave) is the denominator.

The sum of the numerator and the denominator is the total projected payroll costs for the next time period under evaluation, normally the next calendar year.

The numerator includes all projected fringe benefits and all projected leave accruals.

While the ending result could be described as an "estimate", it's also important to point out that the computations were based upon known information (actual wage rates, actual leave accruals based on the current benefits policy, actual health insurance rates, and so on).

The District thanks the State Auditor's Office for bringing this matter to our attention. We have taken corrective action. Benefits charged to federally-funded projects in the future will be done in accordance with the applicable regulations and accounting guidance.

Auditor's Remarks

We appreciate the steps the District is taking to resolve this issue. We will review the condition during our next audit.

Applicable Laws and Regulations

Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, Subpart C—Auditees, Section 300, states in part:

The auditee shall . . .

(b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs.

(c) Comply with laws, regulations, and the provisions of contracts or grant agreements related to each of its Federal programs.

U.S. Office of Management and Budget Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments* (2 CFR, Part 225), Appendix B, Section 8(d), states in part:

(1) Fringe benefits are allowances and services provided by employers to their employees as compensation in addition to regular salaries and wages. Fringe benefits include, but are not limited to, the costs of leave, employee insurance, pensions, and unemployment benefit plans. Except as provided elsewhere in these principles, the costs of fringe benefits are allowable to the extent that the benefits are reasonable and are required by law, governmental unit employee agreement, or an established policy of the governmental unit.

(2) The cost of fringe benefits in the form of regular compensation paid to employees during periods of authorized absences from the job, such as for annual leave, sick leave, holidays, court leave, military leave, and other similar benefits, are allowable if: (a) they are provided under established written leave policies; (b) the costs are equitably allocated to all related activities, including Federal awards; and, (c) the accounting basis (cash or accrual) selected for costing each type of leave is consistently followed by the governmental unit.

(3) When a governmental unit uses the cash basis of accounting, the cost of leave is recognized in the period that the leave is taken and paid for. Payments for unused leave when an employee retires or terminates employment are allowable in the year of payment provided they are

allocated as a general administrative expense to all activities of the governmental unit or component.

(4) The accrual basis may be only used for those types of leave for which a liability as defined by Generally Accepted Accounting Principles (GAAP) exists when the leave is earned. When a governmental unit uses the accrual basis of accounting, in accordance with GAAP, allowable leave costs are the lesser of the amount accrued or funded.

(5) The cost of fringe benefits in the form of employer contributions or expenses for social security; employee life, health, unemployment, and worker's compensation insurance (except as indicated in section 22, Insurance and indemnification); pension plan costs (see subsection e.); and other similar benefits are allowable, provided such benefits are granted under established written policies. Such benefits, whether treated as indirect costs or as direct costs, shall be allocated to Federal awards and all other activities in a manner consistent with the pattern of benefits attributable to the individuals or group(s) of employees whose salaries and wages are chargeable to such Federal awards and other activities.

The A-87 Cost Implementation Guide (Part 4: Attachment C - Requirements for Cost Allocation Plans) states the following related to cost allocation plans:

4.4.3 Local Governments Not Considered "Major"

Local governments that are not designated as "major" are not required to submit their cost allocation plans for Federal review and approval unless specifically instructed to do so by a Federal agency. Local governments that only receive funds as a subrecipient of another government should follow instructions from their pass-through grantors concerning submission and review. However, they are expected to prepare and retain their plans for audit by independent auditors and Federal auditors. Pass-through grantors (primary recipients) are expected to review and monitor subrecipient plans to provide reasonable assurance that provisions of Circular A-87 are being followed.

4.5.4 Fringe Benefits Costs

For fringe benefit costs, the proposed cost allocation plan must:

- list fringe benefits provided to covered employees and the overall annual cost of each type of benefit;
- identify current fringe benefit policies; and
- describe procedures used to charge or allocate the costs of the benefits to benefitted activities.

Drinking Water State Revolving Fund Loan Agreement, Attachment V: DWSRF Eligible Project Costs, No. 9(b)) states in part:

Employee benefits relating to labor are considered a direct cost of construction projects. The following items may be included as employee benefits:

- F.I.C.A (Social Security) - employer's share.
- Retirement benefits.
- Hospital, health, dental, and other welfare insurance.
- Life insurance.
- Industrial and medical insurance.
- Vacation.
- Holiday.
- Sick leave.
- Military leave and jury duty.

Employee benefits must be calculated as a percentage of direct labor dollars. The computation of predetermined percentage rates to be applied to current labor costs must be based on the average of total employee benefits and total labor costs for the prior fiscal year and adjusted by known current year variations.

U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, Section 500, states in part:

(a) General. The audit shall be conducted in accordance with GAGAS.

Government Auditing Standards, December 2011 Revision, paragraph 4.23, states:

4.23 When performing GAGAS financial audits, auditors should communicate in the report on internal control over financial reporting and compliance, based upon the work performed, (1) significant deficiencies and material weaknesses in internal control; (2) instances of fraud and noncompliance with provisions of laws or regulations that have a material effect on the audit and any other instances that warrant the attention of those charged with governance; (3) noncompliance with provisions of contracts or grant agreements that has a material effect on the audit; and (4) abuse that has a material effect on the audit.

The American Institute of Certified Public Accountants defines significant deficiencies and material weaknesses in its *Codification of Statements on Auditing Standards*, section 265, as follows:

.07 For purposes of generally accepted auditing standards, the following terms have the meanings attributed as follows:

Material weakness. A deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material

misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.

Significant deficiency. A deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness yet important enough to merit attention by those charged with governance.

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Public Utility District No 1 of Stevens County January 1, 2013 through December 31, 2013

Board of Commissioners
Public Utility District No 1 of Stevens County
Loon Lake, Washington

We have audited, 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, the financial statements of Public Utility District No 1 of Stevens County, Washington, as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated September 8, 2014. As discussed in Note 1 to the financial statements, during the year ended December 31, 2013, the District implemented Governmental Accounting Standards Board Statement No. 65, *Items Previously Reported as Assets and Liabilities*.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did

not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

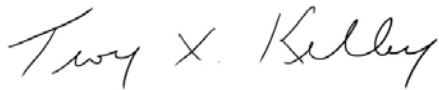
COMPLIANCE AND OTHER MATTERS

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

PURPOSE OF THIS REPORT

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. 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 KELLEY
STATE AUDITOR

September 8, 2014

Independent Auditor's Report on Compliance for Each Major Federal Program and on Internal Control over Compliance in Accordance with OMB Circular A-133

**Public Utility District No 1 of Stevens County
January 1, 2013 through December 31, 2013**

Board of Commissioners
Public Utility District No 1 of Stevens County
Loon Lake, Washington

REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM

We have audited the compliance of Public Utility District No 1 of 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 each of its major federal programs for the year ended December 31, 2013. The District's major federal programs are identified in the accompanying Federal Summary.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the District's major federal programs based on our audit of the types of compliance requirements referred to above. 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 on compliance for each major federal program. Our audit does not provide a legal determination on the District's compliance.

Opinion on Each Major Federal Program

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2013.

REPORT ON INTERNAL CONTROL OVER COMPLIANCE

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program in order to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program 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. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance, as described in the accompanying Schedule of Federal Audit Findings and Questioned Costs as Finding 1 that we consider to be significant deficiencies.

District's Response to Findings

The District's response to the internal control over compliance findings identified in our audit is described in the accompanying Schedule of Federal Audit Findings and Questioned Costs. The District's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

PURPOSE OF THIS REPORT

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose. 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 cursive script that reads "Troy X. Kelley".

TROY KELLEY
STATE AUDITOR

September 8, 2014

Independent Auditor's Report on Financial Statements

Public Utility District No 1 of Stevens County January 1, 2013 through December 31, 2013

Board of Commissioners
Public Utility District No 1 of Stevens County
Loon Lake, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of Public Utility District No 1 of Stevens County, Washington, as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed on page 20.

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 Public Utility District No 1 of Stevens County, as of December 31, 2013, 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.

Matters of Emphasis

As discussed in Note 1 to the financial statements, in 2013, the District adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 21 through 23 and information on postemployment benefits other than pensions on page 45 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.

Supplementary and Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the District's basic financial statements. 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*. This schedule is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United

States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated September 8, 2014 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Troy X. Kelley". The signature is written in a cursive, flowing style.

TROY KELLEY
STATE AUDITOR

September 8, 2014

Financial Section

Public Utility District No 1 of Stevens County January 1, 2013 through December 31, 2013

REQUIRED SUPPLEMENTARY INFORMATION

Management Discussion and Analysis – 2013

BASIC FINANCIAL STATEMENTS

Statement of Net Position – 2013

Statement of Revenues, Expenses, and Changes in Net Position – 2013

Statement of Cash Flows – 2013

Notes to Financial Statements – 2013

REQUIRED SUPPLEMENTARY INFORMATION

Other Post Employment Benefits – Retiree Medical Benefits – Schedule of Funding
Progress – 2013

SUPPLEMENTARY AND OTHER INFORMATION

Schedule of Expenditures of Federal Awards – 2013

Notes to the Schedule of Expenditures of Federal Awards – 2013

Management Discussion and Analysis

The financial manager of Public Utility District No. 1 of Stevens County (the District) is providing this overview and summary analysis of the financial activities of the District for the year ended December 31, 2013, with additional comparative data for 2012. This discussion and analysis should be read in conjunction with the District's financial statements and notes to the financial statements, which follow this section.

Summary of Operations

The District consists of 17 public water systems serving approximately 4,743 homes and businesses, and 7 public sewer systems serving approximately 1,469 homes and businesses, spread throughout Stevens County and northern Spokane County. ¹

The District also owns and operates a Septage Reuse Facility which accepts septic tank contents from commercial pumpers meeting certain conditions, and from PUD-owned septic tanks. The septage is treated and then injected into the earth as a fertilizer and soil conditioner.

Overview of the Financial Statements

In accordance with the requirements of the Governmental Accounting Standards Board (GASB), the District uses the full-accrual basis of accounting where revenues are recognized when earned and expenses are recognized when incurred, without regard for when cash is actually received or disbursed. The financial statements presented in the following pages of this document are comprised of:

Statement of Net Position: Also known as the Balance Sheet, this statement of position reflects the assets, liabilities and net position (equity) of the District as of the end of the fiscal year.

Statement of Revenues, Expenses, and Changes in Fund Net Position: This income statement reflects the transactions and events that have increased or decreased the District's total resources during the period. Revenues and expenses are classified as operating or non-operating based on the nature of the transaction.

Statement of Cash Flows: The statement of cash flows reflects the sources and uses of cash, separated into four categories of activities: operating, noncapital, capital and related financing, and investing. The District does not include cash equivalents within its definition of cash.

Notes to the Financial Statements: The notes to the financial statements, presented at the end of the basic statements, are considered an integral part of the District's presentation of financial position, results of operations, and changes in cash flows and should be considered as part of the whole presentation.

¹ The number of water systems was reduced by one in 2013 due to a system consolidation: the Chattaroy Springs water system was tied into the Riverside system via a waterline installed under the Little Spokane River in north Spokane County.

The following table presents a summary of the data presented in the financial statements:

Condensed Comparative Financial Information for 2013 and 2012 (in thousands)

	2013	2012	Change	% Change
Current Assets	\$ 3,468	\$ 4,999	\$ (1,532)	-30.6%
Noncurrent Assets	1,634	1,712	(78)	-4.5%
Capital Assets (net of Depreciation)	33,434	32,620	815	2.5%
<i>Total Assets</i>	<i>\$38,536</i>	<i>\$ 39,331</i>	<i>\$ (795)</i>	<i>-2.0%</i>
Current Liabilities	\$ 995	\$ 1,741	\$ (745)	-42.8%
Long-Term Liabilities	4,788	5,902	(1,115)	-18.9%
<i>Total Liabilities</i>	<i>\$ 5,783</i>	<i>\$ 7,643</i>	<i>\$ (1,860)</i>	<i>-24.3%</i>
Net Investment in Capital Assets	\$28,314	\$ 25,671	\$ 2,644	10.3%
Restricted	2,378	3,838	(1,459)	-38.0%
Unrestricted	2,061	2,179	(119)	-5.4%
<i>Total Net Position</i>	<i>\$32,753</i>	<i>\$ 31,688</i>	<i>\$ 1,066</i>	<i>3.4%</i>
Operating Revenues	\$ 3,346	\$ 3,268	\$ 78	2.4%
Nonoperating Revenues	377	158	219	138.7%
<i>Total Revenues</i>	<i>\$ 3,723</i>	<i>\$ 3,426</i>	<i>\$ 297</i>	<i>8.7%</i>
Operating Expenses	\$ 3,109	\$ 2,989	\$ 121	4.0%
Nonoperating Expenses	355	206	149	72.6%
<i>Total Expenses</i>	<i>\$ 3,464</i>	<i>\$ 3,194</i>	<i>\$ 270</i>	<i>8.5%</i>
Income Before Contributions	\$ 258	\$ 232	\$ 27	11.5%
Capital Contributions	\$ 891	\$ 470	\$ 422	89.8%
Change in Net Position	\$ 1,150	\$ 701	\$ 448	63.9%
Restatement of Beginning Net Position due to:				
Under-reported cash in 2012	\$ 25	\$ -	\$ 25	0.0%
Eliminated prepaid debt expense	\$ (108)	\$ -	\$ (108)	0.0%
Net Position, End of Year	\$32,753	\$ 31,688	\$ 1,066	3.4%

Financial Analysis

Capital Assets

The District had \$33.4 million, net of depreciation invested in capital assets as of December 31, 2013. This represents an increase of \$0.82 million over the comparative figure for December 31, 2012. This figure is computed by subtracting accumulated depreciation from the total cost of capital assets

purchased, constructed, or donated to the District, so a net increase indicates that for 2013, the District acquired more in capital assets than expended through depreciation for the year. A major portion of the increase was due to the Federal grant funds used to partially finance the construction of a broadband system in Colville and Kettle Falls, with the balance of that project's funding being provided by Stevens County.

Funds for capital construction for the water and wastewater systems and the septage facility are provided for through a combination of installation charges, cash flow from revenues, developers, and various funding sources from Federal, state, and local governments. In 2013, the District purchased and placed into service \$1.5 million worth of capital assets as compared to \$0.5 million in 2012. See Note 3 of the accompanying notes to the financial statements for further detail related to Capital Asset activity.

Long Term Debt Activity

As of December 31, 2013, total long term debt principal outstanding was \$5.1 million, a decrease of \$2.1 million from the comparative figure of \$7.2 million from 2012. During 2013, the District refinanced \$1.025 million of water revenue bonds with a lower interest loan, and retired \$0.78 million of DOE sewer debt years ahead of schedule.

Total new debt issued in 2013 was \$0.315 million and total retired debt was \$2.415 million. Loan draws for existing debt commitments in 2014 (for projects completed in 2013) are expected to be \$35,000, and the District has recently signed 6 new Drinking Water State Revolving Fund loans totaling \$239,370, all of which is expected to be issued in 2014.

The largest portion of the District's long term debt are low-interest loans from the Drinking Water State Revolving Fund. The interest rates on these loans vary from 0.5% to 1.5% and the combined debt principal outstanding for this low-interest loan program as of December 31, 2013 is \$3.23 million.

The District has dedicated certain income streams for each loan. These income streams can be described as follows:

System Debt	Primary Income Stream for Debt Service
Water System Debt	Charges for Water Service
Sewer System Debt	Sewer Assessment Receipts
Septage Facility Debt	Charges for Septage Disposal

For more information on the District's long term debt, see note 5.

Summary and Outlook

The District maintained and improved upon its strong financial position in 2013. The water revenue increased over 2012 and the water system still provided the majority of the net revenues for the district. Sewer income also increased. Business is growing at the septage facility, so revenues and net income have steadily increased for that segment.

Construction of the broadband project in Colville and Kettle Falls was substantially completed in 2013 and the District has contracted with Northwest Open Access Network (NoaNet) to operate the system for initial four year period. The broadband system provides wholesale broadband service to Internet Service Providers, who in turn sell the service to end users.

PUBLIC UTILITY DISTRICT NO. 1 OF STEVENS COUNTY
STATEMENT OF NET POSITION
December 31, 2013

Page 1 of 2

ASSETS

Current Assets:

Cash and Cash Equivalents	\$ 724,642
Short-Term Investments	1,638,754
Receivables (Net):	
Utilities	285,773
Other Accounts Receivable	60,640
Restricted Assets:	
Debt Service, Deposits, Replacements	610,190
Special Assessments Receivable	113,283
Inventories	34,343
Prepayments	-
TOTAL CURRENT ASSETS	\$ 3,467,625

Noncurrent Assets:

Restricted Assets:	
Debt Service, Deposits, Replacements	\$ 614,096
Special Assessments	1,020,042
Capital Assets Not Being Depreciated:	
Land	2,461,948
Construction in Progress	1,396,790
Capital Assets Being Depreciated:	
Plant	12,570,366
Other Improvements	24,940,937
Machinery & Equipment	6,683,969
Less Accumulated Depreciation	(14,619,748)
Total Capital Assets (net)	33,434,262
TOTAL NONCURRENT ASSETS	\$ 35,068,400

TOTAL ASSETS	\$ 38,536,025
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The notes to financial statements are an integral part of this statement.

PUBLIC UTILITY DISTRICT NO. 1 OF STEVENS COUNTY
STATEMENT OF NET POSITION
December 31, 2013

Page 2 of 2

LIABILITIES

Current Liabilities:

Accounts/Vouchers Payable	\$ 284,855
Payroll Payables	99,293
Revenues Collected in Advance	27,509
Deposits Payable	800
Sales & Use Tax Payable	718
Debt Principal Due Within One Year	559,557
Debt Interest	22,324
TOTAL CURRENT LIABILITIES	\$ 995,056

Noncurrent Liabilities:

Payable from Restricted Assets:

Debt Principal	\$ 4,560,441
Compensated Absences	207,926
Accrued OPEB	19,221
TOTAL NONCURRENT LIABILITIES	\$ 4,787,588

TOTAL LIABILITIES	\$ 5,782,644
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NET POSITION

Net Investment in Capital Assets	\$ 28,314,264
Restricted (note 1e)	2,378,442
Unrestricted	2,060,675
TOTAL NET POSITION	\$ 32,753,381

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

PUBLIC UTILITY DISTRICT NO. 1 OF STEVENS COUNTY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
For The Year Ended December 31, 2013

OPERATING REVENUES:

Utility Sales & Service Fees	\$ 3,237,527
Other Charges for Services	67,633
Other Operating Revenue	<u>40,783</u>
Total Operating Revenue	\$ 3,345,943

OPERATING EXPENSES:

Operations:	
General Operations	\$ 1,169,107
Maintenance	72,051
Administration:	
General Administration	743,303
Depreciation/Amortization/Depletion	980,567
Excise and B&O Taxes	<u>144,196</u>
Total Operating Expenses	\$ 3,109,224

OPERATING INCOME (LOSS)	<u>\$ 236,719</u>
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NONOPERATING REVENUES (EXPENSES) :

Interest and Dividend Income	\$ 86,191
(Interest Expense & Related Charges)	(68,529)
Gains (Losses) on Capital Asset Disposition	-
Non-operating non-capital state grants	290,429
Other non-operating expenses	<u>(286,708)</u>
Nonoperating Revenues (Expenses)	\$ 21,383

Income Before Contributions	\$ 258,102
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Capital Contributions	<u>\$ 891,423</u>
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CHANGE IN NET POSITION	\$ 1,149,525
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TOTAL NET POSITION, January 1	\$ 31,687,554
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Adjustments to Beginning Net Position due to:

Under-reported cash in 2012	24,585
Eliminated prepaid debt expense	(108,283)

TOTAL NET POSITION, December 31	<u><u>\$ 32,753,381</u></u>
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The notes to financial statements are an integral part of this statement.

PUBLIC UTILITY DISTRICT NO. 1 OF STEVENS COUNTY
STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2013

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Cash Flows from Operating Activities:

Receipts from customers	\$ 3,427,490
Payments to suppliers	(727,991)
Payments to employees	(1,152,435)
Excise Taxes	(144,196)
	<hr/>
Net cash provided by (used for) operating activities	\$ 1,402,868

Cash Flows from Noncapital Financing Activities:

Non-capital non-operating grants received	\$ 356,851
Non-capital non-operating expenses	(286,708)
	<hr/>
Net cash provided by (used for) noncapital financing activities	\$ 70,143

Cash Flows from Capital Financing Activities:

Proceeds from capital debt	\$ 315,000
Capital contributions	61,249
Capital grants received	27,971
Proceeds from sale of capital assets	-
Acquisition & construction of capital assets	(917,324)
Principal paid on capital debt	(2,415,438)
Interest paid on capital debt	(113,902)
Special assessment receipts	193,927
Plant investment receipts	67,250
	<hr/>
Net cash provided by (used for) capital financing activities	\$ (2,781,267)

Cash Flows from Investing Activities:

Proceeds from sale of investment securities	\$ 2,568,037
Purchase of investment securities	(1,290,067)
Interest and dividends on investments	20,093
	<hr/>
Net cash provided by (used for) investing activities	\$ 1,298,063
Net increase (decrease) in cash	\$ (10,193)
Cash at beginning of year	734,834
	<hr/>
Cash at end of year	\$ 724,641

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

PUBLIC UTILITY DISTRICT NO. 1 OF STEVENS COUNTY
STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2013

Page 2 of 2

Reconciliation of Operating Income (Loss) to Net Cash

Provided (Used) by Operating Activities:

Net operating income (loss)	\$ 236,719
Adjustments to reconcile operating income to	
Net cash provided by operating activities:	
Depreciation	\$ 980,567
Change in assets and liabilities:	
(Increase) Decrease in accounts receivable	\$ 121,900
(Increase) Decrease in inventory	(12,607)
(Increase) Decrease in prepaid expenses	-
Increase (Decrease) in revenues in advance	(40,353)
Increase (Decrease) in accounts payable	116,642
Total adjustments	<u>\$ 1,166,149</u>
Net cash provided by (used for) operating activities	\$ 1,402,868

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

PUBLIC UTILITY DISTRICT NO. 1 OF STEVENS COUNTY
NOTES TO FINANCIAL STATEMENTS
For The Year Ended December 31, 2013

These notes are an integral part of the accompanying financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Stevens County Public Utility District No. 1 (the District) conform to generally accepted accounting principles (GAAP) as applicable to proprietary funds of governments. The Governmental Accounting Standards Board (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 financial statements).

In June 2011, GASB approved Statement 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This statement amends the net asset reporting requirements in Statement No. 34, *Basic Financial Statements—and Management’s Discussion and Analysis—for State and Local Governments*, and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets.

In March 2012, the GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This statement provides guidance for reclassifying certain items as deferred outflows of resources or deferred inflows of resources. The statement further requires reclassification of certain items previously recorded as assets and liabilities to be presented as expenses or revenues. The statement is effective for financial statements for periods beginning after December 15, 2012. The District adopted this new pronouncement in the current year and has elected not to restate prior years’ statements accordingly, as the net effect did not meet the materiality threshold.

The following is a summary of the most significant policies (including identification of those policies which result in material departures from generally accepted accounting principles):

a. Reporting Entity

Stevens County Public Utility District No. 1 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. 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.

The District distinguishes operating revenues and expenses from nonoperating ones. 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 and sewer service. The District also recognizes as operating revenue the income from its Septage Reuse Facility, rental income, and contract work done for others. Operating expenses for the District include the cost of sales and services, administrative expenses, depreciation on capital assets, and excise taxes. 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 cash in the checking account, petty cash, and change fund monies, only to be cash.

d. Capital Assets

See Note 3.

e. Restricted Funds

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

	Totals	Payment Funds	Reserve Funds	Construction	Other
<u>Restricted for Debt Service:</u>					
Restricted for DOE Loans	876,921	258,476	618,445		
Restricted for USDA Bond	33,787	19,072	14,715		
<u>Restricted for Other Uses:</u>					
Fiber Project Expense Reserve	306,097			306,097	
Assessments	1,133,325				1,133,325
Customer Deposits & Prepayments	28,312				28,312
Total Restricted Funds	2,378,442	277,548	633,160	306,097	1,161,637

f. Receivables

Receivables are written off in the year they are determined uncollectible. In 2013, the District elected to perform a one-time write off \$56,345 in charges for 30 accounts that met certain conditions outlined in Resolution 4-2013. In Resolution 7-2013, the District modified certain policies and practices in regards to seriously delinquent accounts. These include physically disconnecting services, and suspending billing until service is requested and the balance due is paid in full.

g. Inventories

Inventories are valued at average cost which approximates the market value.

h. Investments

The District's certificates of deposit are valued at face value plus accrued interest, and are entirely covered by federal depository insurance (FDIC). The only other investments are deposits in the State Local Government Investment Pool and US Treasury Securities.

i. Compensated Absences

Compensated absences are absences for which employees will be paid, such as vacation, holidays, and sick leave, which are all combined into "Personal Leave", except for Sick Leave Reserve. The

Sick Leave Reserve account is comprised of excess sick leave remaining when the Personal Leave program was initiated on April 1, 2005. The District records unpaid leave for compensated absences as an expense and liability when incurred.

Personal leave, which may accumulate up to 800 hours, is payable upon termination of employment. Sick leave reserve, comprised of a portion of employee sick leave balance as of April 1, 2005, is payable at a rate of 25% upon voluntary termination, retirement, or death of the employee.

j. Unamortized Debt Expenses

In accordance with GASB 65, \$108,283 of prepaid debt issuance expense was fully expensed in 2013. Future debt issuance costs will be expensed in the year incurred.

k. Construction Financing

In 2013, the District contracted for the following loans to finance construction:

Description	Amount
DWSRF Loan for Addy Water System Improvements	\$ 49,490
DWSRF Loan for Waitts Lake Water System Improvements	39,895
DWSRF Loan for Deer Lake Water System Improvements	54,540
DWSRF Loan for Westshore Water System Improvements	49,490
Totals	\$ 193,415

As of December 31, 2013, nothing has yet been requested on these loans. Two additional DWSRF loan contracts were signed in early 2014.

NOTE 2 – DEPOSITS AND INVESTMENTS

a. Deposits

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

b. Investments

The primary requirements of the District's investment policy are security, liquidity, and yield, in that order, and investments must be made in accordance with applicable state law.

As of December 31, 2013, the District had the following investments:

	Investments	Maturities	Fair Value
State Investment Pool (LGIP)	\$2,209,369	n/a	\$2,209,369
WA Trust Cert. of Deposit	646,190	7/15/2015	646,190
Total Investments	\$2,855,559		\$2,855,559

c. Securities Lending Transactions

The District did not participate in any securities lending transactions.

d. Gains and Losses on Investments

The District had no gains or losses on investments in 2013.

NOTE 3 - CAPITAL ASSETS

Capital assets are defined by the District as assets with initial individual cost of more than \$1,000 and an estimated useful life in excess of 2 years.

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

Utility plant in service and other capital assets are recorded at cost where the historical cost is known.

Where historical cost is not known, assets are recorded at fair market value. Donations by developers and customers are recorded at the Engineer's estimated value.

Utility plant activity for the year ended December 31, 2013 was as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Utility plant not being depreciated:				
Land	1,729,839	732,109	-	2,461,948
Construction in progress	1,112,835	1,699,580	1,415,625	1,396,790
<u>Total utility plant not being depreciated:</u>	2,842,674	2,431,689	1,415,625	3,858,738
Utility plant being depreciated:				
Buildings & other structures	12,570,366	-	-	12,570,366
Equipment	6,585,038	98,931	-	6,683,969
Other Improvements	24,260,581	680,356	-	24,940,937
<u>Total utility plant being depreciated:</u>	43,415,985	779,287	-	44,195,272
<u>Less accumulated depreciation for:</u>				
Buildings & other structures	2,189,071	236,363	-	2,425,434
Equipment	3,686,480	240,618	-	3,927,098
Other Improvements	7,763,594	503,622	-	8,267,216
<u>Total accumulated depreciation:</u>	13,639,145	980,603	-	14,619,748
<u>Total utility plant being depreciated, net:</u>	29,776,840	(201,316)	-	29,575,524
TOTAL UTILITY PLANT, NET	32,619,514	2,230,373	1,415,625	33,434,262

The original cost of operating property retired or otherwise disposed of is removed from the utility plant accounts, accumulated depreciation is charged with the accumulated depreciation related to the property sold, and the net gain or loss on disposition is credited or charged to income.

An allowance for funds used during construction is capitalized as part of the cost of utility plant. While cash is not received currently from such allowance, it is realized under the rate-making process over the service life of the related property through increased revenue resulting from a higher rate base and higher depreciation expense. This procedure is intended to remove the cost of financing construction activity from the income statement and to treat such cost in the same manner as construction labor and material costs.

Capital assets are depreciated using straight-line method over the following estimated useful lives:

Buildings: 40-60 years
Improvements: 10-50 years
Vehicles: 5-25 years
Equipment: 5-20 years

Initial depreciation on utility plant is recorded in the year subsequent to purchase and/or placed in to service.

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 related to abandoned projects are expensed.

NOTE 4 - CONSTRUCTION IN PROGRESS

Construction in progress represents expenses to date on projects whose authorizations total \$1,963,092.

Project Number	Project Description	Project Authorization	Expended to 12/31/13	Committed	Req. Future Financing	Primary Funding
206	Broadband - Colville & Kettle Falls	\$ 1,151,108	\$ 1,146,092	\$ 5,016	\$ -	Federal Grant
213	Addy Water	49,490	550	48,940	-	DWSRF Loan
214	Waitts Water	39,895	996	38,899	-	DWSRF Loan
215	Westshore Water	49,490	1,739	47,751	-	DWSRF Loan
216	River Park Water	18,180	656	17,524	-	DWSRF Loan
217	Deer Lake Water	54,540	522	54,018	-	DWSRF Loan
218	Echo Estates Water	27,775	633	27,142	-	DWSRF Loan
219	Misson Water	49,614	49,614		-	Internal Funds
220	Clayton Sewer Improvements	165,000	113,977	51,023	-	State Grant
221	Suncrest-Villier Terrace	212,000	-	212,000	-	State Grant
222	Halfmoon Ranchos Water	4,000	-	4,000	-	State Grant
223	Clayton Water Improvements	140,000	80,011	59,989	-	State Grant
	Currigan Water Rights	2,000	2,000		-	Internal Funds
TOTALS		\$ 1,963,092	\$ 1,396,790	\$ 566,302	\$ -	

The funding for the broadband project was a combination of Federal grant funds and the Stevens County "Economic Development Sales Tax Fund" (see RCW 82.14.370). The county funds covered grant match requirements and costs not eligible for grant funding. The primary funding sources for the other open projects is noted in the table above.

NOTE 5 - LONG-TERM DEBT AND LIABILITIES

a. Long-Term Debt

The District issues revenue bonds and loans to finance the purchase of property and equipment or the construction of water, wastewater, and septage assets. Bonded indebtedness has also been entered into to advance refund revenue bonds. The revenue debt is being repaid from the applicable sources.

The annual requirements to amortize all debts outstanding as of December 31, 2013, including interest, are as follows.

Fiscal Year Ending December 31st				
YR ENDING	DEBT SERVICE			BALANCE
DEC. 31ST	TOTAL	INTEREST	PRINCIPAL	AS OF 12/31
				5,119,999
2014	634,873	75,316	559,557	4,560,442
2015	631,246	65,930	565,316	3,995,126
2016	627,618	56,370	571,248	3,423,878
2017	553,520	60,165	493,355	2,930,523
2018	441,105	45,156	395,949	2,534,574
2019-2023	1,718,581	159,473	1,559,108	975,466
2024-2028	677,787	87,097	590,690	384,776
2029-2033	259,171	47,582	211,589	173,187
2034-2037	187,296	14,109	173,187	-
TOTALS	\$ 5,731,197	\$ 611,198	\$ 5,119,999	

There are \$2,378,442 in restricted assets of the district. These represent sinking funds and reserve requirements as contained in the various indentures. It also includes funds set aside for debt payment without mandate.

There are a number of other limitations and restrictions contained in the various bond indentures. The district is in compliance with all significant limitations and restrictions.

The District has pledged future Septage Facility revenue, net of Septage Facility expenses, to repay \$1,061,000 in Septage revenue bonds issued in July 2007. Proceeds from the bonds provided financing for construction of the Septage Facility. The bonds are payable solely from Septage Facility revenue and are payable through 2037. In 2013 the District paid \$12,813 of the principal on these bonds from the septage fund. The general fund will make up any future shortfall in debt service. The total principal remaining to be paid on the bonds is \$528,421. Principal and interest paid for the current year and Septage Facility net revenue were \$35,139 and \$886, respectively.

b. Changes in Long-Term Liabilities

During the year ended December 31, 2013, the following changes occurred in long-term liabilities:

	(1)	(2)	(3)	(1+2-3)	
DESCRIPTION	BEGINNING BALANCE 1/1/2013	ADDITIONS	REDUCTIONS	ENDING BALANCE 12/31/2013	DUE WITHIN ONE YEAR
Bonds Payable					
Revenue Bonds *	541,234	-	12,813	528,421	13,342
Revenue Refunding Bonds	1,025,000	-	1,025,000	-	-
Public Works Trust Fund Loans	120,775	-	63,050	57,725	10,171
Drinking Water Revolving Fund Loans	3,187,796	315,000	268,872	3,233,924	268,875
Washington Trust Loan	835,563		176,666	658,897	181,698
Department of Ecology Loans	1,510,087	-	869,055	641,032	85,471
TOTAL LONG TERM DEBT	7,220,455	315,000	2,415,456	5,119,999	559,557
Other Long Term Liabilities					
Compensated Absences	206,725	1,201	-	207,926	-
Other Post Employment Benefits (OPEB)	27,828	-	8,607	19,221	-
TOTAL OTHER LONG TERM LIABILITIES	234,553	1,201	8,607	227,147	-
TOTAL LONG TERM LIABILITIES	7,455,008	316,201	2,424,063	5,347,146	559,557

* The principal balance on the Rural Development bond was overstated by \$3,508 as of 12/31/2012.

NOTE 6 – SHORT-TERM DEBT

There was no short-term activity for the year ended December 31, 2013.

NOTE 7 - LEASE COMMITMENTS

The District is the lessor in various operating leases with revenue of \$8,185 in 2013. The leased property includes land used for farming and grazing, and an apartment located in the second story of a District shop. The District has no capital lease commitments as of December 31, 2013.

NOTE 8 - PENSION PLAN

Substantially all District full-time and qualifying part-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 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; or it may be downloaded from the DRS website at www.drs.wa.gov. The following disclosures are made pursuant to GASB Statements 27, *Accounting for Pensions by State and Local Government Employers* and 50, *Pension Disclosures, an Amendment of GASB Statements 25 and 27*.

Public Employees' Retirement System (PERS) Plans 1, 2, and 3

Plan Description

The Legislature established PERS in 1947. Membership in the system includes: elected officials; state employees; employees of the Supreme, Appeals, and Superior courts; employees of legislative committees; employees of district and municipal courts; and employees of local governments. Membership also includes higher education employees not participating in higher education retirement programs. Approximately 49 percent of PERS salaries are accounted for by state employment. PERS retirement benefit provisions are established in Chapters 41.34 and 41.40 RCW and may be amended only by the State Legislature.

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 defined benefit plan with a defined contribution component.

PERS members 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 exercised an option to transfer their membership to Plan 3. PERS members 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 irrevocable option of choosing membership in either PERS Plan 2 or Plan 3. The option must be exercised within 90 days of employment. Employees who fail to choose within 90 days default to Plan 3.

PERS is comprised of and reported as three separate plans for accounting purposes: Plan 1, Plan 2/3, and Plan 3. Plan 1 accounts for the defined benefits of Plan 1 members. Plan 2/3 accounts for the defined benefits of Plan 2 members, and the defined benefit portion of benefits for Plan 3 members. Plan 3 accounts for the defined contribution portion of benefits for Plan 3 members. Although members can only be a member of either Plan 2 or Plan 3, the defined benefit portions of Plan 2 and Plan 3 are accounted for in the same pension trust fund. All assets of this Plan 2/3 may legally be used to pay the defined benefits of any of

the Plan 2 or Plan 3 members or beneficiaries, as defined by the terms of the plan. Therefore, Plan 2/3 is considered to be a single plan for accounting purposes.

PERS Plan 1 and Plan 2 retirement benefits are financed from a combination of investment earnings and employer and employee contributions. Employee contributions to the PERS Plan 1 and Plan 2 defined benefit plans accrue interest at a rate specified by the Director of DRS. During DRS' Fiscal Year 2013, the rate was five and one-half percent compounded quarterly. Members in PERS Plan 1 and Plan 2 can elect to withdraw total employee contributions and interest thereon, in lieu of any retirement benefit, upon separation from PERS-covered employment.

PERS Plan 2 members are vested after the completion of five years of eligible service. Plan 2 members are eligible for normal retirement at the age of 65 with five years of service. The monthly benefit is 2 percent of the AFC per year of service. The AFC is the monthly average of the 60 consecutive highest-paid service months. There is no cap on years of service credit; and a cost-of-living allowance is granted (based on the Consumer Price Index), capped at 3 percent annually.

PERS Plan 2 members who have at least 20 years of service credit, and are 55 years of age or older, are eligible for early retirement with a reduced benefit. The benefit is reduced by an early retirement factor (ERF) that varies according to age, for each year before age 65.

PERS Plan 2 members who have 30 or more years of service credit and are at least 55 years old can retire under one of two provisions, if hired prior to May 1, 2013:

- With a benefit that is reduced by 3 percent for each year before age 65; or
- With a benefit that has a smaller (or no) reduction (depending on age) that imposes stricter return-to-work rules.

PERS Plan 2 members hired on or after May 1, 2013 have the option to retire early by accepting a reduction of 5 percent for each year of retirement before age 65. This option is available only to those who are age 55 or older and have at least 30 years of service.

PERS Plan 2 retirement benefits are actuarially reduced to reflect the choice, if made, of a survivor option.

PERS Plan 3 has a dual benefit structure. Employer contributions finance a defined benefit component and member contributions finance a defined contribution component. As established by Chapter 41.34 RCW, employee contribution rates to the defined contribution component range from 5 percent to 15 percent of salaries, based on member choice. Members who do not choose a contribution rate default to a 5 percent rate. There are currently no requirements for employer contributions to the defined contribution component of PERS Plan 3.

PERS Plan 3 defined contribution retirement benefits are dependent upon the results of investment activities. Members may elect to self-direct the investment of their contributions. Any expenses incurred in conjunction with self-directed investments are paid by members. Absent a member's self-direction, PERS Plan 3 contributions are invested in the Retirement Strategy Fund that assumes the member will retire at age 65.

For DRS' Fiscal Year 2013, PERS Plan 3 employee contributions were \$99.0 million, and plan refunds paid out were \$69.4 million.

The defined benefit portion of PERS Plan 3 provides members a monthly benefit that is 1 percent of the AFC per year of service. The AFC is the monthly average of the 60 consecutive highest-paid service months.

There is no cap on years of service credit, and Plan 3 provides the same cost-of-living allowance as Plan 2.

Effective June 7, 2006, PERS Plan 3 members are vested in the defined benefit portion of their plan after ten years of service; or after five years of service, if twelve months of that service are earned after age 44; or after five service credit years earned in PERS Plan 2 by June 1, 2003. Plan 3 members are immediately vested in the defined contribution portion of their plan.

Vested Plan 3 members are eligible for normal retirement at age 65, or they may retire early with the following conditions and benefits:

- If they have at least ten service credit years and are 55 years old, the benefit is reduced by an ERF that varies with age, for each year before age 65.
- If they have 30 service credit years and are at least 55 years old, and were hired before May 1, 2013, they have the choice of a benefit that is reduced by 3 percent for each year before age 65; or a benefit with a smaller (or no) reduction factor (depending on age) that imposes stricter return-to-work rules.
- If they have 30 service credit years, are at least 55 years old, and were hired after May 1, 2013, they have the option to retire early by accepting a reduction of 5 percent for each year before age 65.

PERS Plan 3 benefits are actuarially reduced to reflect the choice, if made, of a survivor option.

PERS Plan 2 and Plan 3 provide disability benefits. There is no minimum amount of service credit required for eligibility. The Plan 2 monthly benefit amount is 2 percent of the AFC per year of service. For Plan 3, the monthly benefit amount is 1 percent of the AFC per year of service. These disability benefit amounts are actuarially reduced for each year that the member's age is less than 65, and to reflect the choice of a survivor option. There is no cap on years of service credit, and a cost-of-living allowance is granted (based on the Consumer Price Index) capped at 3 percent annually.

PERS members meeting specific eligibility requirements have options available to enhance their retirement benefits. Some of these options are available to their survivors.

A one-time duty-related death benefit is provided to the beneficiary or the estate of a PERS member who dies as a result of injuries sustained in the course of employment, or if the death resulted from an occupational disease or infection that arose naturally and proximately out of the member's covered employment, if found eligible by the Department of Labor and Industries.

Funding Policy

Each biennium, the state Pension Funding Council adopts PERS Plan 1 employer contribution rates, PERS Plan 2 employer and employee contribution rates, and PERS Plan 3 employer contribution rates. Employee contribution rates for Plan 1 are established by statute at 6 percent for state agencies and local government unit employees, and at 7.5 percent for state government elected officials. 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. Under PERS Plan 3, employer contributions finance the defined benefit portion of the plan and member contributions finance the defined contribution portion. The Plan 3 employee contribution rates range from 5 percent to 15 percent.

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 payroll, as of December 31, 2013, are as follows:

	<i>PERS Plan 1</i>	<i>PERS Plan 2</i>	<i>PERS Plan 3</i>
Employer*	9.21% **	9.21% **	9.21% ***
Employee	6.00% ****	4.92% ****	*****

* The employer rates include the employer administrative expense fee currently set at 0.18%.

** The employer rate for state elected officials is 13.73% for Plan 1 and 9.21% for Plan 2 and Plan 3.

*** Plan 3 defined benefit portion only.

**** The employee rate for state elected officials is 7.50% for Plan 1 and 4.92% for Plan 2.

***** Variable from 5.0% minimum to 15.0% maximum based on rate selected by the PERS 3 member.

Both the District and the employees made the required contributions. The District's required contributions for the years ended December 31 were as follows:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
2013	\$0	\$67,565	\$0
2012	\$0	\$55,772	\$0
2011	\$0	\$51,519	\$0

NOTE 9 – PROPERTY TAX

The District does not levy a property tax at this time, and has no plans to do so.

NOTE 10 – TELECOMMUNICATION SERVICES

In late 2013, the District's Broadband project in Colville and Kettle Falls was substantially constructed. The system began supplying wholesale telecommunications services to Internet Service Providers in the fall of 2013. The District has contracted with Northwest Open Access Network (NoaNet) to operate the system for the initial four-year period of operation of the system.

NOTE 11 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

In 2013, the District was not in violation of any finance-related legal or contractual provisions.

NOTE 12 - RESTRICTED NET POSITION

The District's statement of net assets reports \$2,378,442 of restricted net position, of which \$0 is restricted by enabling legislation.

NOTE 13 – SEGMENT INFORMATION

For 2013, the District's Septage Reuse Facility met the requirements for segment disclosure in the footnotes, due to the fact that the agreement with the bond holder, USDA Rural Development, stipulates the District will report certain financial and operational data to the bond holder until the debt is paid in full.

This disclosure follows:

a. Segment Description:

The Septage Reuse Facility receives truckloads of waste from septic tank pumpers and portable toilet providers, treats it, and injects it underground as a fertilizer on adjacent farmland owned by the District.

b. Condensed Statement of Net Position:

Assets		
Current Assets	\$42,701	
Capital Assets (Net)	<u>3,322,119</u>	
Total Assets		\$3,364,820
Liabilities		
Current Liabilities	\$28,082	
Long Term Liabilities	515,079	
Payable to Admin Fund	<u>897,859</u>	
Total Liabilities		\$1,441,020
Net Position		
Net Investment in Capital Assets	\$1,885,448	
Restricted	33,787	
Unrestricted	<u>4,565</u>	
Total Net Position		\$1,923,800

**c. Condensed Statement of Revenues,
Expenses, and Changed in Net Position:**

Operating Revenues		
Service Revenue	\$190,639	
Rental Income	<u>4,675</u>	
Total Operating Revenue		\$195,314
Operating Expenses		
Operating Expense other than Depreciation	\$81,080	
Depreciation Expense	<u>69,582</u>	
Total Operating Expense		\$150,662
Net Operating Income (Loss)		\$44,652
Nonoperating Income (Loss)		
Interest Income	\$55	
Interest on External Debt	(17,943)	
Interest on Internal Debt	<u>(25,879)</u>	
Change in Net Position		\$885
Beginning Net Position		\$1,922,915
Ending Net Position		\$1,923,800

d. Condensed Statement of Cash Flows:

Net Cash Provided (Used) By:		
Operating Activities	\$119,808	
Capital and Related Financing Activities	(76,179)	
Investing Activities	<u>15,549</u>	
Net Change in Cash		\$59,178
Beginning Cash and Equivalent Balances		(\$957,037)
Ending Cash and Equivalent Balances		(\$897,859)

NOTE 14 - RISK MANAGEMENT

The District faces Liability Risk arising from the officers and employees performing their ordinary duties, the operation of plant and utilities, and the operation of motor vehicles and heavy equipment. The District also faces the risk of loss or diminished serviceability of buildings, plant, and equipment. Another risk is the loss of an employee's production due to illness or injury. The District addresses these risks through insurance, as denoted below.

The District is a member of the Public Utility Risk Management Services Joint Self-Insurance Fund ("PURMS"), known formerly as Washington Public Utility Districts' Utilities System Joint Self-Insurance Fund, which was organized as of December 30, 1976. The program's general objectives are to formulate, develop, and administer, on behalf of the member public utilities, a program of insurance, to obtain lower costs for that coverage, and to develop a comprehensive loss control program.

Claims are filed by members with the administrator, Pacific Underwriters Corporation, Seattle, Washington, which has been contracted to perform claims adjustment and loss prevention services.

PURMS is governed by a board of directors, comprised of one designated representative from each participating member. The administrator and an elected administrative committee are responsible for conducting the day to day business affairs of PURMS.

The District participates in three pools as follows:

A. Liability Pool

The members, through PURMS, provide liability self-insurance for the first \$1,000,000 per occurrence with a \$250 deductible. The risks shared by the members are defined in the members' Self-Insurance Agreement. PURMS maintains assets from which liability claims against the members are paid and, through assessments of the members to replenish these assets, the members share joint liability among themselves for losses incurred. PURMS purchases excess insurance for losses above \$1,000,000 (up to \$35,000,000) for the liability pool.

The member districts are obligated to replenish the liability pool to a level of \$3,000,000 through annual assessments. Interim assessments are levied whenever the level of the liability pool is reduced to an amount less than \$2,500,000.

B. Property Pool

The member districts, through PURMS, provide property self-insurance for the first \$250,000 of individual loss claims with a \$250 deductible. The risks shared by the members are defined in the members' Self-Insurance Agreement. PURMS maintains assets from which property losses of members are paid and, through assessments of the members to replenish these assets, the members share joint liability among themselves for losses incurred. PURMS also purchases excess insurance for losses above \$250,000 (up to \$200,000,000) for the property pool. The members are obligated to replenish the property pool to a level of \$750,000 through annual assessments. Interim assessments are levied whenever the level of the property pool is reduced to an amount less than \$500,000.

C. Health & Welfare Pool

The pool provides a cooperative program to fund health and medical claims for the employees of the members. As a result, there are lowered costs associated with the administration of claims and the procurement of excess or stop-loss insurance.

The members' assessments are based upon an agreed formula whose elements include, claims paid, number of covered employees, and basic fees. The assessments include amounts for excess insurance premiums, claims experience, network fees, and operating costs.

NOTE 15 - OTHER POST EMPLOYMENT BENEFIT (OPEB) PLANS

The District provides post-employment health care benefits, in accordance with Resolution No. 2-2010 to retired employees and commissioners who meet the eligibility requirements as stated in the Resolution.

Plan Description:

The Stevens P.U.D. Post-Retirement Medical Plan, a single-employer plan, is administered by the District.

For eligible retirees and former commissioners, post-employment health insurance coverage is available following retirement or leaving office. For eligible retirees and former commissioners, for the first twelve months following separation from service the District will pay between 50% and 90% of the premium, depending on the number of years the retired employee or past Commissioner was covered by District medical insurance before retirement or before the last day in office. After the first twelve months, the retiree or former commissioner may continue coverage by paying 100% of the premium.

As of December 31, 2013, two former commissioners are purchasing insurance through the District, and one retiree is currently being paid this benefit.

The Stevens P.U.D. Post-Retirement Medical Plan does not issue a standalone report.

Funding Policy:

The funding of the plan is established in Resolution 2-2010 and future funding modifications, if any, would be implemented by board resolution. The District funds its OPEB costs on a pay-as you-go basis.

Annual OPEB Cost and Net OPEB Obligation:

Annual Required Contribution:		
a. Annual Normal Cost	\$ 4,272	
b. Amortization of Unfunded Actuarial Accrued Liability	5,324	
c. Amortization of Prior Actuarial Gains and Losses	1,592	
d. Interest	171	
Total Annual Required Contribution		\$ 11,359
Interest on Net OPEB Obligation		802
Adjustment to Net OPEB Obligation		(4,723)
Annual OPEB Cost		\$ 7,438
Employer Contributions		(16,045)
Change in Net OPEB Obligation		(8,607)
Net OPEB Obligation at Beginning of Year		27,828
Net OPEB Obligation at End of Year		\$ 19,221

Three-year Trend Information:

Fiscal Year End	Annual OPEB Cost	Contribution as % of OPEB Cost	Net OPEB Obligation
12/31/2011	\$5,830	0.00%	\$17,337
12/31/2012	\$4,548	40.54%	\$20,041
12/31/2013	\$7,438	111.03%	\$19,221

Actuarial Methods and Assumptions:

The District contracted with Lynn Hurley, E.A., of the firm Randall & Hurley to prepare the Actuarial Valuation of the District's Post-Retirement Medical Plan. The actuarial cost method chosen was the Projected Unit Credit Cost Method.

This method determines a current year's cost or "normal cost" as the portion of the present value of benefits at retirement attributed to the current year. The actuarial liability is the present value of benefits assigned to the pro-rata portion of the projected benefits attributable to past service. Also, under this method the initial liability and subsequent changes or actuarial gain or losses (i.e., deviation of Plan's experience from actuarial assumptions) are amortized over a specified period.

The actuarial assumptions used are as follows:

- Investment Return (Interest Rate) – Pre- and post-retirement interest rates were assumed at 4.0% per year.
- Medical Inflation Rate – 10% reduced by 0.5% per year until a level 6.0%.
- Expenses – No assumptions of asset expenses were made.
- Mortality Rates – RP 2000 Unisex Mortality Table.
- Turnover Rates – T2 Turnover Table.
- Disability Rates – None Assumed.
- Early Retirement Rates – None assumed.
- Actuarial Value of Assets – Same as market value of assets.
- Retirement Age – Minimum age is 65 or if greater age with 10 years of service.
- Spousal Coverage – No outside coverage and will elect benefit.

OTHER DISCLOSURES

Subsequent Events

On February 4, 2014, the District executed two Drinking Water State Revolving Fund loan contracts: DM13-952-141 in the amount of \$27,775 for Echo Estates Water Improvements, and DM13-952-142 in the amount of \$18,100 for River Park Estates Water Improvements.

On April 28, 2014, the District executed contract CD14-965-020 for a direct appropriation grant from the State of Washington and administered by the Washington State Department of Commerce. The contract amount of \$516,040 will be used for improvements to the Clayton Sewer System, and the Clayton, Suncrest, and Halfmoon Ranchos Water Systems. Approximately \$190,000 in costs incurred through December 31, 2013 are expected to be reimbursed under this grant.

Accounting Changes

In 2013, the District implemented GASB 65, *Items Previously Reported as Assets and Liabilities*.

Other Items

In accordance with implementing GASB 65, the District expensed \$108,283 of prepaid bond issuance expense in 2013. This amount was showing on the balance sheet as an asset as of 12/31/2012. Prior to implementing GASB 65, the District had expensed a portion of bond issuance expense annually, prorated over the life of the debt. In 2012, the amount expensed was \$9,024. For the specific accounting treatment of this expense in 2013, see Prior Period Adjustments below.

Prior Period Adjustments

The District elected to adjust beginning net position to account for two items: \$108,283 of prepaid bond issuance expense (noted in Other Items above) and \$24,583 in previously misclassified cash.

Contingent Liabilities and Litigation

The District has no contingent liabilities at this time, and is not involved in any litigation.

Pledges and Sales of Future Revenues

Other than the repayment of the Septage revenue bonds listed in the long-term debt section of this statement, the District has made no pledges of future revenues.

PUBLIC UTILITY DISTRICT NO. 1 OF STEVENS COUNTY
Other Post Employment Benefits

Required Supplementary Information
Retiree Medical Benefits
Schedule of Funding Progress

The District funds its OPEB costs on a pay-as-you-go basis and only pays a benefit in the first year of separation from employment.

Below is the funding status of assets to benefit obligations:

Valuation Date Fiscal Year Ended	Actuarial Value of Assets	Accrued Liabilities PUC Method	Unfunded Actuarial Accrued Liabilities (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
12/31/2008	\$0	\$44,633	\$44,633	0%	\$0	N/A
12/31/2009	\$0	\$43,496	\$43,496	0%	\$0	N/A
12/31/2010	\$0	\$46,324	\$46,324	0%	\$0	N/A
12/31/2011	\$0	\$49,035	\$49,035	0%	\$0	N/A
12/31/2012	\$0	\$49,009	\$49,009	0%	\$0	N/A
12/31/2013	\$0	\$54,078	\$54,078	0%	\$0	N/A

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

MCAG NO.
1802
Public Utility District No 1 of Stevens County
Schedule 16

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended December 31, 2013

Federal Agency Name/Pass-Through Agency Name	Federal Program Name	CFDA Number	Other Award Number	Expenditures			Footnote Ref
				From Pass-Through Awards	From Direct Awards	Total Amount	
National Telecommunications And Information Administration, Department Of Commerce/NoaNet	ARRA - Broadband Technology Opportunities Program (BTOP)	11.557	NT10BIX5570111	789,863		789,863	4
Office Of Water, Environmental Protection Agency/WA State Dept of Commerce	Capitalization Grants for Drinking Water State Revolving Funds	66.468	DM12-952-123	315,000		315,000	3
Total Federal Awards Expended:				1,104,863	0	1,104,863	

The accompanying notes to the Schedule of Expenditures are an integral part of this schedule

PUBLIC UTILITY DISTRICT NO. 1 OF STEVENS COUNTY

Notes to the Schedule of Expenditures of Federal Awards:

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

NOTE 2 - PROGRAM COSTS

The amounts shown as current year expenditures represent only the federal grant portion of the program costs. Entire program costs, including the district's local portion, are more than shown. Loan draws are generally reflected in the year loan proceeds are received by the District.

NOTE 3 - FEDERAL LOANS

The District was approved by the Environmental Protection Agency and the Washington State Public Works Board to receive a loan totaling \$350,000 (with 50% loan forgiveness, for a net loan of \$175,000) to connect the Chattaroy Springs Water System to the Riverside Water System, thereby improving the water quality for the Chattaroy Springs Water System. The amount listed for this loan includes the proceeds used during the year.

NOTE 4 – AMERICAN RECOVERY AND REINVESTMENT ACT (ARRA) OF 2009

Expenditures for this program were funded by ARRA at 73.8% of costs.

Corrective Action Plan for Findings Reported Under OMB Circular A-133

Public Utility District No. 1 of Stevens County January 1, 2013 through December 31, 2013

This schedule presents the corrective action planned by the auditee for findings reported in this report in accordance with OMB Circular A-133. The information in this schedule is the representation of the Public Utility District No. 1 of Stevens County. The State Auditor's Office has reviewed the information as presented by the District.

Finding ref number: 1	Finding caption: The District did not have adequate internal controls to ensure compliance with federal requirements for its Drinking Water State Revolving Fund loan program.
Name, address, and telephone of auditee contact person: Darrel Hawes, Financial Manager P.O. Box 592 Loon Lake, WA 99148 (509) 233-8704	
Corrective action the auditee plans to take in response to the finding: <i>Prior to billing the first pay request for any federally-funded project, the Stevens P.U.D. staff person responsible for preparing the pay request will review the grant or loan contract and will review the most current version of any other applicable governing documents including Circulars A-133 and A-87.</i> <i>Specifically, in regards to charging payroll benefits to these programs, we will charge actual costs or a rate established by an approved cost allocation plan.</i> <i>In addition, prior to submitting each pay request, a second staff person, knowledgeable of the general federal grant and loan requirements, may review the pay request before it is sent.</i>	
Anticipated date to complete the corrective action: 9/10/2014	

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