



Office of the Washington State Auditor
Pat McCarthy

Financial Statements and Federal Single Audit Report

Spokane County Water District No. 3

For the period January 1, 2018 through December 31, 2019

Published December 21, 2020

Report No. 1027419





**Office of the Washington State Auditor
Pat McCarthy**

December 21, 2020

Board of Commissioners
Spokane County Water District No. 3
Spokane Valley, Washington

Report on Financial Statements and Federal Single Audit

Please find attached our report on Spokane County Water District No. 3'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,

Pat McCarthy
State Auditor
Olympia, WA

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Spokane County Water District No. 3 January 1, 2019 through December 31, 2019

SECTION I – SUMMARY OF AUDITOR’S RESULTS

The results of our audit of Spokane County Water District No. 3 are summarized below in accordance with Title 2 *U.S. Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

Financial Statements

We issued an unmodified opinion on the fair presentation of the District’s financial statements in accordance with its regulatory basis of accounting. Separately, we issued an adverse opinion on the fair presentation with regard to accounting principles generally accepted in the United States of America (GAAP) because the financial statements are prepared using a basis of accounting other than GAAP.

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 unmodified opinion on the District's compliance with requirements applicable to its major federal program.

We reported no findings that are required to be disclosed in accordance with 2 CFR 200.516(a).

Identification of Major Federal Programs

The following program was selected as a major program in our audit of compliance in accordance with the Uniform Guidance.

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

The dollar threshold used to distinguish between Type A and Type B programs, as prescribed by the Uniform Guidance, was \$750,000.

The District did not qualify as a low-risk auditee under the Uniform Guidance.

SECTION II – FINANCIAL STATEMENT FINDINGS

See Finding 2019-001.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None reported.

SCHEDULE OF AUDIT FINDINGS AND RESPONSES

Spokane County Water District No. 3 January 1, 2018 through December 31, 2019

2019-001 The District did not have adequate internal controls over financial statement preparation to ensure accurate and reliable financial reporting.

Background

District management is responsible for designing, implementing, and maintaining internal controls to ensure the financial statements are fairly presented, and to provide reasonable assurance regarding the reliability of financial reporting. The District prepares its financial statements using the cash basis of accounting, under the *Budgeting, Accounting and Reporting System (BARS)* manual.

Government Accounting Standards requires the auditor to communicate material weaknesses in internal controls, as defined in the Applicable Laws and Regulations section below, as a finding.

Description of Condition

We noted the following deficiencies in internal controls over accounting and financial reporting that, when taken together, represent a material weakness:

- District management contracted with and relied solely on a third party consultant to prepare accurate financial statements, notes and schedules.
- The District lacked an effective monitoring and review process to ensure annual financial reports were accurate and complete and met new reporting requirements.

Cause of Condition

District management did not dedicate the time and resources necessary to develop technical knowledge needed to monitor and review the financial statements, notes and schedules that the consultant prepared. As a result, the District staff lacked awareness of financial statement reporting requirements and did not use the most current reporting guidance available during their review to detect and correct errors.

Effect of Condition

Because of these deficiencies, the annual financial report contained the following errors that management did not detect:

- The District understated ending cash and investments in the 2018 financial statements by at least \$4,169 as compared to the auditor's reconciliation of ending bank balances. Management did not correct this error.
- In the Notes to the Financial Statements, the District omitted Other Post-Employment Benefits (OPEB) liability disclosures for both 2018 and 2019.
- In the Schedule of Liabilities, the District omitted its OPEB liability of \$812,507 for 2019.
- In the Schedule of Liabilities and Notes to the Financial Statements, the District understated its pension liability by \$244,605 for 2018.

Except as noted above, management corrected these errors. We also identified other, less significant errors in the District's annual financial report that management corrected.

Recommendations

We recommend the District strengthen internal controls and dedicate the resources necessary to ensure it can:

- Provide staff responsible for reviewing the annual financial report the necessary resources and training to adequately monitor the third party consultant's preparation of the financial statements, notes and schedules in accordance with the BARS Manual
- Conduct an effective, independent financial statement review that ensures the required financial statement package is accurate and meets current reporting requirements

District's Response

Spokane County Water District No. 3 has hired an outside organization to ensure accurate reporting of our financial statement.

The same organization is going to provide internal training to staff to ensure complete understanding of the financial report and what is required.

Auditor's Remarks

We appreciate the steps the District is taking to resolve this issue and thank the District for its communication, cooperation and assistance during the audit. We will review the condition during our next audit.

Applicable Laws and Regulations

Government Auditing Standards, December 2011 Revision, paragraph 4.23 establishes reporting requirements related to significant deficiencies or material weaknesses in internal control, instances of fraud or abuse, and noncompliance with provisions of law, regulations, contracts, or grant agreements.

The American Institute of Certified Public Accountants defines significant deficiencies and material weaknesses in its Codification of Statements on Auditing Standards, section 265, Communicating Internal Control Related Matters Identified in an Audit, paragraph 7.

RCW 43.09.200 Local government accounting – Uniform system of accounting, requires the state auditor to prescribe the system of accounting and reporting for all local governments.

The *Budgeting, Accounting, and Reporting System* (BARS) manual, 3.1.3, Internal Control, Internal Control, requires each local government to establish and maintain an effective system of internal controls that provides reasonable assurance that the government will achieve its objectives.

**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**

**Spokane County Water District No. 3
January 1, 2018 through December 31, 2019**

Board of Commissioners
Spokane County Water District No. 3
Spokane Valley, 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 Spokane County Water District No. 3, as of and for the years ended December 31, 2019 and 2018, and the related notes to the financial statements, which collectively comprise the District's financial statements, and have issued our report thereon dated November 30, 2020.

We issued an unmodified opinion on the fair presentation of the District's financial statements in accordance with its regulatory basis of accounting. We issued an adverse opinion on the fair presentation with regard to accounting principles generally accepted in the United States of America (GAAP) because the financial statements are prepared by the District using accounting practices prescribed by state law and the State Auditor's *Budgeting, Accounting and Reporting System* (BARS) manual described in Note 1, which is a basis of accounting other than GAAP. The effects on the financial statements of the variances between the basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

As discussed in Note 8 to the financial statements, during the fiscal year ended December 31, 2019, the District adopted new accounting guidance for presentation and disclosure of postemployment benefits other than pensions, as required by the BARS manual.

As discussed in Note 9 to the 2019 financial statements, in February 2020, a state of emergency was declared that could have a negative financial effect on the District. Management's plans in response to this matter are also described in Note 9.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audits 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 opinions 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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Audit Findings and Responses, we identified certain deficiencies in internal control 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. 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. We consider the deficiencies described in the accompanying Schedule of Audit Findings and Responses as Finding 2019-001 to be a material weakness.

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*.

DISTRICT'S RESPONSE TO FINDINGS

The District's response to the findings identified in our audit is described in the accompanying Schedule of Audit Findings and Responses. The District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

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.

A handwritten signature in black ink, reading "Pat McCarthy". The signature is written in a cursive, flowing style.

Pat McCarthy

State Auditor

Olympia, WA

November 30, 2020

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR
EACH MAJOR FEDERAL PROGRAM AND REPORT ON
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE
WITH THE UNIFORM GUIDANCE**

**Spokane County Water District No. 3
January 1, 2019 through December 31, 2019**

Board of Commissioners
Spokane County Water District No. 3
Spokane Valley, Washington

**REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL
PROGRAM**

We have audited the compliance of Spokane County Water District No. 3, with the types of compliance requirements described in the U.S. *Office of Management and Budget (OMB) Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended December 31, 2019. The District's major federal programs are identified in the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards 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 the audit requirements of Title 2 *U.S. Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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, 2019.

Other Matters

We noted certain matters that we will report to the management of the District in a separate letter dated December 14, 2020.

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 the Uniform Guidance, 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 that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

We noted certain matters that we will report to the management of the District in a separate letter dated December 14, 2020.

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 the Uniform Guidance. 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 black ink that reads "Pat McCarthy". The signature is written in a cursive, flowing style.

Pat McCarthy
State Auditor
Olympia, WA

November 30, 2020

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Spokane County Water District No. 3 January 1, 2018 through December 31, 2019

Board of Commissioners
Spokane County Water District No. 3
Spokane Valley, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of Spokane County Water District No. 3, for the years ended December 31, 2019 and 2018, and the related notes to the financial statements, which collectively comprise the District's financial statements, as listed on page 19.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the financial reporting provisions of state law and the *Budgeting, Accounting and Reporting System* (BARS) manual prescribed by the State Auditor described in Note 1. This includes determining that the basis of accounting is acceptable for the presentation of the financial statements in the circumstances. Management is also responsible for 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 opinions on these financial statements based on our audits. We conducted our audits 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 opinions.

Unmodified Opinion on Regulatory Basis of Accounting (BARS Manual)

As described in Note 1, Spokane County Water District No. 3 has prepared these financial statements to meet the financial reporting requirements of state law using accounting practices prescribed by the State Auditor's *Budgeting, Accounting and Reporting System* (BARS) manual. Those accounting practices differ from accounting principles generally accepted in the United States of America (GAAP). The differences in these accounting practices are also described in Note 1.

In our opinion, the financial statements referred to above present fairly, in all material respects, the cash and investments of Spokane County Water District No. 3, and its changes in cash and investments, for the years ended December 31, 2019 and 2018, on the basis of accounting described in Note 1.

Basis for Adverse Opinion on U.S. GAAP

Auditing standards issued by the American Institute of Certified Public Accountants (AICPA) require auditors to formally acknowledge when governments do not prepare their financial statements, intended for general use, in accordance with GAAP. The effects on the financial statements of the variances between GAAP and the accounting practices the District used, as described in Note 1, although not reasonably determinable, are presumed to be material. As a result, we are required to issue an adverse opinion on whether the financial statements are presented fairly, in all material respects, in accordance with GAAP.

Adverse Opinion on U.S. GAAP

The financial statements referred to above were not intended to, and in our opinion they do not, present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of Spokane County Water District No. 3, as of December 31, 2019 and 2018, or the changes in financial position or cash flows thereof for the years then ended, due to the significance of the matter discussed in the above “Basis for Adverse Opinion on U.S. GAAP” paragraph.

Matters of Emphasis

As discussed in Note 8 to the financial statements, in 2019, the District adopted new accounting guidance for presentation and disclosure of postemployment benefits other than pensions, as required by the BARS manual. Our opinion is not modified with respect to this matter.

As discussed in Note 9 to the 2019 financial statements, in February 2020, a state of emergency was declared that could have a negative financial effect on the District. Management’s plans in response to this matter are also described in Note 9. Our opinion is not modified with respect to this matter.

Other Matters

Supplementary and Other Information

Our audits were conducted for the purpose of forming opinions on the financial statements taken as a whole. The Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by Title 2 *U.S. Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). The Schedules of Liabilities are 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 is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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 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 November 30, 2020 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.



Pat McCarthy
State Auditor
Olympia, WA

November 30, 2020

FINANCIAL SECTION

Spokane County Water District No. 3 January 1, 2018 through December 31, 2019

FINANCIAL STATEMENTS

Fund Resources and Uses Arising from Cash Transactions – 2019
Fund Resources and Uses Arising from Cash Transactions – 2018
Notes to Financial Statements – 2019
Notes to Financial Statements – 2018

SUPPLEMENTARY AND OTHER INFORMATION

Schedule of Liabilities – 2019
Schedule of Liabilities – 2018
Schedule of Expenditures of Federal Awards – 2019
Notes to the Schedule of Expenditures of Federal Awards – 2019

Spokane County Water District No. 3
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2019

Beginning Cash and Investments

30810	Reserved	-
30880	Unreserved	3,178,210
388 / 588	Net Adjustments	-

Revenues

310	Taxes	-
320	Licenses and Permits	-
330	Intergovernmental Revenues	664,356
340	Charges for Goods and Services	4,551,151
350	Fines and Penalties	-
360	Miscellaneous Revenues	903,943
Total Revenues:		6,119,450

Expenditures

530	Utilities	2,736,404
Total Expenditures:		2,736,404
Excess (Deficiency) Revenues over Expenditures:		3,383,046

Other Increases in Fund Resources

391-393, 596	Debt Proceeds	3,695,868
397	Transfers-In	-
385	Special or Extraordinary Items	-
386 / 389	Custodial Activities	-
381, 382, 395, 398	Other Resources	1,155
Total Other Increases in Fund Resources:		3,697,023

Other Decreases in Fund Resources

594-595	Capital Expenditures	5,354,709
591-593, 599	Debt Service	664,356
597	Transfers-Out	-
585	Special or Extraordinary Items	-
586 / 589	Custodial Activities	-
581, 582	Other Uses	-
Total Other Decreases in Fund Resources:		6,019,065

Increase (Decrease) in Cash and Investments:	1,061,004
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Ending Cash and Investments

5081000	Reserved	-
5088000	Unreserved	4,239,212
Total Ending Cash and Investments		4,239,212

Spokane County Water District No. 3
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2018

Beginning Cash and Investments

30810	Reserved	-
30880	Unreserved	2,693,041
388 / 588	Net Adjustments	(3,562)

Revenues

310	Taxes	-
320	Licenses and Permits	-
330	Intergovernmental Revenues	-
340	Charges for Goods and Services	3,899,772
350	Fines and Penalties	-
360	Miscellaneous Revenues	400,875
Total Revenues:		4,300,648

Expenditures

530	Utilities	2,615,380
Total Expenditures:		2,615,380
Excess (Deficiency) Revenues over Expenditures:		1,685,267

Other Increases in Fund Resources

391-393, 596	Debt Proceeds	-
397	Transfers-In	-
385	Special or Extraordinary Items	-
386 / 389	Custodial Activities	-
381, 382, 395, 398	Other Resources	14,009
Total Other Increases in Fund Resources:		14,009

Other Decreases in Fund Resources

594-595	Capital Expenditures	1,210,547
591-593, 599	Debt Service	-
597	Transfers-Out	-
585	Special or Extraordinary Items	-
586 / 589	Custodial Activities	-
Total Other Decreases in Fund Resources:		1,210,547

Increase (Decrease) in Cash and Investments: 488,729

Ending Cash and Investments

5081000	Reserved	-
5088000	Unreserved	3,178,210
Total Ending Cash and Investments		3,178,210

SPOKANE COUNTY WATER DISTRICT NO. 3
NOTES TO FINANCIAL STATEMENTS
JANUARY 1, 2019 THROUGH DECEMBER 31, 2019

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Spokane County Water District #3 was incorporated in 1986 assumed water system operations in August, 1988 and operates under the laws of the state of Washington applicable to water and sewer districts under Chapter 57 RCW. The district is a proprietary special purpose district that provides water services to the general public and is supported primarily through user fees and utility limited improvement assessments.

The Spokane County Water District #3 reports financial activity in accordance with the *Cash Basis Budgeting, Accounting and Reporting System* (BARS) Manual prescribed by the State Auditor's Office under the authority of Washington State law, Chapter 43.09 RCW. This manual prescribes a financial reporting framework that differs from generally accepted accounting principles (GAAP) in the following manner:

- Financial transactions are recognized on a cash basis of accounting as described below.
- Component units are required to be disclosed, but are not included in the financial statements.
- Government-wide statements, as defined in GAAP, are not presented.
- All funds are presented, rather than a focus on major funds.
- The *Schedule of Liabilities* is required to be presented with the financial statements as supplementary information.
- Supplementary information required by GAAP is not presented.
- Ending balances are not presented using the classifications defined in GAAP.

A. Fund Accounting

Financial transactions of the government are reported in individual funds. Each fund uses a separate set of self-balancing accounts that comprises its cash and investments, revenues and expenditures. The government's resources are allocated to and accounted for in individual funds depending on their intended purpose, except for fiduciary funds, which are presented by fund types. The following fund types are used:

PROPRIETARY FUND TYPES:

Enterprise Funds

These funds account for operations that provide goods or services to the general public and are supported primarily through user charges.

B. Basis of Accounting and Measurement Focus

Financial statements are prepared using the cash basis method of accounting and measurement focus. Revenues are recognized when cash is received and expenditures are recognized when paid.

C. Cash and Investments

See Note 3, Deposits and Investments

D. Capital Assets

Capital assets are assets with an initial individual cost of more than \$5,000.00 and an estimated useful life in excess of 10 years. Capital assets and inventory are recorded as capital expenditures when purchased.

E. Compensated Absences

Vacation leave may be accumulated up to the total amount that the employee is capable of earning in two years; the earning rate is dependent upon years of service. The maximum earnings rate is 4 weeks per year. Vacation leave balances are payable upon separation or retirement.

Sick leave may be accumulated up to a total of 130 days. Upon separation from employment, any unused sick leave is forfeited and is not paid as separation pay, except that for separation due to death, retirement or termination after twenty (20) years. The employee will be paid twenty-five percent (25%) of their accumulated sick leave up to 130 days at their permanent rate of pay. This amount may be paid to the employee over a 3 month period.

F. Long-term Debt

See Note 4 – Debt Service Requirements

NOTE 2 – BUDGET COMPLIANCE

The District is not required by State law to adopt an annual appropriations budget however it is the Districts practice to adopt an annual appropriations budget as a fiscal management tool.

NOTE 3 – DEPOSITS AND INVESTMENTS

Investments are reported at original cost. Investments by type at December 31, 2019 are as follows:

Type of Deposit or Investment	District's own deposits and Investments	Total
Bank deposits	\$ 1,185,387.98	\$ 1,185,387.98
		\$ -
Local Government Investment Pool (LGIP)	\$ 3,053,824.32	\$ 3,053,824.32
Total	\$ 4,239,212.30	\$ 4,239,212.30

It is the District's policy to invest all temporary cash surpluses.

Investments in the State Local Government Investment Pool (LGIP)

The district is a voluntary participant in the Local Government Investment Pool, an external investment pool operated by the Washington State Treasurer. The pool is not rated and not registered with the SEC. Rather, oversight is provided by the State Finance Committee in accordance with [Chapter 43.250 RCW](#). Investments in the LGIP are reported at amortized cost, which is the same as the value of the pool per share. The LGIP does not impose any restrictions on participant withdrawals.

The Office of the State Treasurer prepares a stand-alone financial report for the pool. A copy of the report is available from the Office of the State Treasurer, PO Box 40200, Olympia, Washington 98504-0200, online at www.tre.wa.gov.

All investments are insured, registered or held by the District or its agent in the government's name.

NOTE 4 – DEBT SERVICE REQUIREMENTS

Debt Service

The accompanying Schedule of Liabilities (09) provides more details of the outstanding debt and liabilities of the district and summarizes the district's debt transactions for year ended December 31, 2019.

The debt service requirements for a revenue note are as follows:

Year	Principal	Interest	Total
2020	134,181.01	30,861.63	165,042.64
2021	134,181.01	29,519.82	163,700.83
2022	134,181.01	28,178.01	162,359.02
2023	134,181.01	26,836.20	161,017.21
2024	134,181.01	25,494.39	159,675.40
2025-2029	670,905.05	107,344.80	778,249.85
2030-2034	670,905.05	73,799.55	744,704.60
2035-2039	670,905.05	40,254.30	711,159.35
2040-2042	402,543.00	8,037.57	410,580.57
Totals	3,086,163.20	370,326.27	3,456,489.47

The district secured a note with the Washington State Department of Health (DOH) through its Drinking Water State Revolving Fund program (DOH/DWSRF) that furthers the goals and objectives of the district and the DOH DWSRF program. The loan was initially awarded in 2018 and subsequently amended in 2019 with a maximum loan award of \$4,180,573.45 of which 18% is forgiven under the terms and conditions of the loan program. As of December 31, 2019 the district's loan balance is \$3,031,511.40 with project close out to be completed in 2020. The amortization schedule shown above is an estimate for 2019 based upon the DOH Amortization worksheet provided in February 2020.

NOTE 5 – PENSION PLANS

A. State Sponsored Pension Plans

Substantially all District full-time and qualifying part-time employees participate in the following statewide retirement systems administered by the Washington State Department of Retirement Systems (DRS), under cost-sharing, multiple-employer public employee defined benefit and defined contribution retirement plans PERS 2/3.

The State Legislature establishes, and amends, laws pertaining to the creation and administration of all public retirement systems.

The Department of Retirement Systems, 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 98540-8380

Also, the DRS CAFR may be downloaded from the DRS website at www.drs.wa.gov.

At June 30, 2019 (the measurement date of the plans), the District's proportionate share of the collective net pension liabilities, as reported on the Schedule 09, was as follows:

	Employer Contributions	Allocation %	Liability (Asset)
PERS 1 UAAL	\$41,465	0.005783	\$222,377
PERS 2/3	\$61,023	0.007472	\$ 72,579
TOTALS	\$102,487		\$294,955

NOTE 6 – RISK MANAGEMENT

Property, Liability and Crime Protection

Spokane County Water District #3 is a member of Enduris. Chapter 48.62 RCW provides the exclusive source of local government entity authority to individually or jointly self-insure risks, jointly purchase insurance or reinsurance, and to contract for risk management, claims, and administrative services. Enduris was formed July 10, 1987 pursuant to the provisions of Chapter 48.62 RCW, Chapter 200-100 WAC, and Chapter 39.34 RCW. Two counties and two (2) cities in the State of Washington joined together by signing an interlocal governmental agreement to fund their self-insured losses and jointly purchase insurance and administrative services. As of August 31, 2019, there are 547 Enduris members representing a broad array of special purpose districts throughout the state. Enduris provides property and liability coverage as well as risk management services and other related administrative services.

Members make an annual contribution to fund Enduris and share in the self-insured retention of the jointly purchased excess and/or reinsurance coverage. The self-insured retention is:

- \$1,000,000 self-insured retention on liability loss - the member is responsible for the first \$1,000 of the amount of each claim, while Enduris is responsible for the remaining \$999,000 on a liability loss.

- \$250,000 self-insured retention on property loss - the member is responsible for the first \$1,000 of the amount of each claim, while Enduris is responsible for the remaining \$249,000 on a property loss. For property losses related to boiler and machinery Enduris is responsible for the first \$4,000 of the claim.

Enduris acquires reinsurance from unrelated insurance companies on a "per occurrence" basis to cover all losses over the self-insured retentions as shown on the policy maximum limits. Liability coverage is for all lines of liability coverage including Public Official's Liability. The Property coverage is written on an "all **risk**", blanket basis using current Statement of Values. The Property coverage includes but is not limited to mobile equipment, boiler and machinery, electronic data processing equipment, business interruption, course of construction and additions, property in transit, fine arts, cyber and automobile physical damage to insured vehicles. Liability coverage limit is \$20 million per occurrence and property coverage limit is \$1 billion per occurrence. Enduris offers crime coverage up to a limit of \$1 million per occurrence.

Since Enduris is a cooperative program, there is a joint liability among the participating members.

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

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

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

Enduris did not have any claim settlements that exceeded limits in the last three years.

Unemployment Compensation

The district has entered into a 'reimbursable' agreement with the WA State Department of Employment Security (ESD) for unemployment compensation. This is considered a form of self-insurance. The district utilizes the ESD for all claims activity. See Schedule 21 for claims activity incurred during fiscal year 2019.

NOTE 7– OTHER DISCLOSURES

Water Systems 1 and 2 Intertie Project

In September of 2018, the district signed an agreement with the Washington State Department of Health and its funding program known as the Drinking Water State Revolving Fund (DWSRF) for a loan totaling \$3,675,573.45 with an amendment in May of 2019 that increased the loan award to \$4,180,573.

The project known as the WSA 1-2 Intertie includes construction of a new water main to connect and consolidate SCWD#3's two largest water systems: Water Service Area 1 (WSA 1) and Water Service Area 2 (WSA 2). These two water service areas serve an estimated 5,600 connections. The water main project consists of approximately 16,500 lineal feet of water main and associated valves and hydrants that will consolidate the SCWD#3 system into a single system.

The loan consists of both state and federal funds and the district will have a federal single audit as a result. Construction began in the summer of 2019 with loan proceeds being drawn (see Debt Service Note #4). As of December 31, 2019 the project had met substantial completion but had not been closed out.

Construction Commitment

At year-end the district's commitments with contractors are as follows:

Construction Commitment		
Project	Spent to Date	Remaining Commitment
WSA 1-2 Interie	\$3,690,868.00	\$118,229

Of the committed balance of \$118,229 the district has loan funds available from the DOH/DWSRF loan.

NOTE 8 – OTHER POST EMPLOYMENT BENEFITS (OPEB)

During the year ended 12/31/2019, the district adopted guidance for the presentation and disclosure of post-employment benefits other than pensions, as required by the BARS manual. This requirement resulted in the addition of a post-employment benefit liability reported on the Schedule of Liabilities.

The district is a participating employer in the state's Public Employees Benefits Board (PEBB) program, a defined benefit plan administered by the Washington State Health Care Authority. The plan provides medical, dental, and life insurance benefits for public employees and retirees and their dependents on a pay-as-you-go basis. The plan provides OPEB benefits through both explicit and implicit subsidies. The explicit subsidy is a set dollar amount that lowers the monthly premium paid by members over the age of 65 enrolled in Medicare Parts A and B. PEBB determines the amount of the explicit subsidy annually. The implicit subsidy results from the inclusion of active and non-Medicare eligible retirees in the same pool when determining premiums. There is an implicit subsidy from active employees since the premiums paid by retirees are lower than they would have been if the retirees were insured separately. The district had 15 active plan members and 4 retired plan members as of December 31, 2019. As of December 31, 2019, the district's total OPEB liability was \$812,507 as calculated using the alternative measurement method. The district contributed \$218,236., to the plan for the year ended December 31, 2019.

NOTE 9 – SUBSEQUENT EVENTS

In February 2020, the Governor of the state of Washington declared a state of emergency in response to the spread of a deadly new virus. In the weeks following the declaration, precautionary measures to slow the spread of the virus have been ordered. These measures include closing schools, colleges and

universities, cancelling public events, prohibiting public and private gatherings, and requiring people to stay home unless they are leaving for an essential function.

The district is considered an essential service and has implemented a staff rotation program to allow for continued operations as well as to safe guard the employees and maintain safe social distancing. The Governor's proclamation 20-23.3 prohibits the district from disconnecting services for non-payment, and additionally prohibits the application of late fees, interest or penalties for those customers impacted by the COVID-19 pandemic. The district has sufficient reserves to manage the deferred payments of those customers impacted by the Coronavirus pandemic and does not anticipate a significant fiscal impact. However, the length of time these measures will be in place, and the full extent of the financial impact on the district is unknown at this time.

SPOKANE COUNTY WATER DISTRICT NO. 3
NOTES TO FINANCIAL STATEMENTS
JANUARY 1, 2018 THROUGH DECEMBER 31, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Spokane County Water District #3 was incorporated in 1986 assumed water system operations in August, 1988 and operates under the laws of the state of Washington applicable to water and sewer districts under Chapter 57 RCW. The district is a proprietary special purpose district that provides water services to the general public and is supported primarily through user fees and utility limited improvement assessments.

The Spokane County Water District #3 reports financial activity in accordance with the *Cash Basis Budgeting, Accounting and Reporting System* (BARS) Manual prescribed by the State Auditor's Office under the authority of Washington State law, Chapter 43.09 RCW. This manual prescribes a financial reporting framework that differs from generally accepted accounting principles (GAAP) in the following manner:

- Financial transactions are recognized on a cash basis of accounting as described below.
- Component units are required to be disclosed, but are not included in the financial statements.
- Government-wide statements, as defined in GAAP, are not presented.
- All funds are presented, rather than a focus on major funds.
- The *Schedule of Liabilities* is required to be presented with the financial statements as supplementary information.
- Supplementary information required by GAAP is not presented.
- Ending balances are not presented using the classifications defined in GAAP.

A. Fund Accounting

Financial transactions of the government are reported in individual funds. Each fund uses a separate set of self-balancing accounts that comprises its cash and investments, revenues and expenditures. The government's resources are allocated to and accounted for in individual funds depending on their intended purpose, except for fiduciary funds, which are presented by fund types. The following fund types are used:

PROPRIETARY FUND TYPES:

Enterprise Funds

These funds account for operations that provide goods or services to the general public and are supported primarily through user charges.

B. Basis of Accounting and Measurement Focus

Financial statements are prepared using the cash basis method of accounting and measurement focus. Revenues are recognized when cash is received and expenditures are recognized when paid.

C. Cash and Investments

See Note 3, Deposits and Investments

D. Capital Assets

Capital assets are assets with an initial individual cost of more than \$5,000.00 and an estimated useful life in excess of 10 years. Capital assets and inventory are recorded as capital expenditures when purchased.

E. Compensated Absences

Vacation leave may be accumulated up to the total amount that the employee is capable of earning in two years; the earning rate is dependent upon years of service. The maximum earnings rate is 4 weeks per year. Vacation leave balances are payable upon separation or retirement.

Sick leave may be accumulated up to a total of 130 days. Upon separation from employment, any unused sick leave is forfeited and is not paid as separation pay, except that for separation due to death, retirement or termination after twenty (20) years. The employee will be paid twenty-five percent (25%) of their accumulated sick leave up to 130 days at their permanent rate of pay. This amount may be paid to the employee over a 3 month period.

NOTE 2 – BUDGET COMPLIANCE

The District is not required by State law to adopt an annual appropriations budget, however it is the District's practice to adopt an annual appropriations budget as a fiscal management tool.

NOTE 3 – DEPOSITS AND INVESTMENTS

It is the District's policy to invest all temporary cash surpluses.

All deposits and certificates of deposit are covered by the Federal Deposit Insurance Corporation and/or the Washington Public Deposit Protection Commission. All investments are insured, registered or held by the District or its agent in the government's name.

Investments are reported at original cost. Investments by type at December 31, 2018 are as follows:

Type of Investment	District's Own investments	Investments held by District as an agent for other local governments, individuals or private organizations	Total
L.G.I.P.	\$1,807,371.81	\$0.00	\$1,807,371.81
Banner Bank	\$ 250,000.00	\$0.00	\$ 250,000.00
Other			
Total	\$2,057,371.81	\$0.00	\$2,057,371.81

NOTE 4 – PENSION PLANS

A. State Sponsored Pension Plans

Substantially all District full-time and qualifying part-time employees participate in the following statewide retirement systems administered by the Washington State Department of Retirement Systems (DRS), under cost-sharing, multiple-employer public employee defined benefit and defined contribution retirement plans PERS 1 and PERS 2/3.

The State Legislature establishes, and amends, laws pertaining to the creation and administration of all public retirement systems.

The Department of Retirement Systems, 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 98540-8380

Also, the DRS CAFR may be downloaded from the DRS website at www.drs.wa.gov.

At June 30, 2018 (the measurement date of the plans), the District's proportionate share of the collective net pension liabilities, as reported on the Schedule 09, was as follows:

	Employer Contributions	Allocation %	Liability (Asset)
PERS 1	\$47,609	0.007123%	\$318,116
PERS 2/3	\$53,980	0.006996%	\$119,450
TOTALS	\$101,589		\$437,566

NOTE 5 – RISK MANAGEMENT

Property, Liability and Crime Protection

Spokane County Water District #3 is a member of Enduris. Chapter 48.62 RCW provides the exclusive source of local government entity authority to individually or jointly self-insure risks, jointly purchase insurance or reinsurance, and to contract for risk management, claims, and administrative services. Enduris was formed July 10, 1987 pursuant to the provisions of Chapter 48.62 RCW, Chapter 200-100 WAC, and Chapter 39.34 RCW. Two counties and two (2) cities in the State of Washington joined together by signing an interlocal governmental agreement to fund their self-insured losses and jointly purchase insurance and administrative services. As of August 31, 2018, there are 549 Enduris members representing a broad array of special purpose districts throughout the state. Enduris provides property and liability coverage as well as risk management services and other related administrative services.

Members make an annual contribution to fund Enduris and share in the self-insured retention of the jointly purchased excess and/or reinsurance coverage. The self-insured retention is:

- \$1,000,000 self-insured retention on liability loss - the member is responsible for the first \$1,000 of the amount of each claim, while Enduris is responsible for the remaining \$999,000

on a liability loss.

- \$250,000 self-insured retention on property loss - the member is responsible for the first \$1,000 of the amount of each claim, while Enduris is responsible for the remaining \$249,000 on a property loss. For property losses related to boiler and machinery Enduris is responsible for the first \$4,000 of the claim.

Enduris acquires reinsurance from unrelated insurance companies on a "per occurrence" basis to cover all losses over the self-insured retentions as shown on the policy maximum limits. Liability coverage is for all lines of liability coverage including Public Official's Liability. The Property coverage is written on an "all **risk**", blanket basis using current Statement of Values. The Property coverage includes but is not limited to mobile equipment, boiler and machinery, electronic data processing equipment, business interruption, course of construction and additions, property in transit, fine arts, cyber and automobile physical damage to insured vehicles. Liability coverage limit is \$20 million per occurrence and property coverage limit is \$1 billion per occurrence. Enduris offers crime coverage up to a limit of \$1 million per occurrence.

Since Enduris is a cooperative program, there is a joint liability among the participating members.

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

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

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

Enduris did not have any claim settlements that exceeded limits in the last three years.

Unemployment Compensation

The district has entered into a 'reimbursable' agreement with the WA State Department of Employment Security (ESD) for unemployment compensation. This is considered a form of self-insurance. The district utilizes the ESD for all claims activity. See Schedule 21 for claims activity incurred during fiscal year 2018.

NOTE 6 – OTHER DISCLOSURES

Water Systems 1 and 2 Intertie Project

In September of 2018, the district signed an agreement with the Washington State Department of Health and its funding program known as the Drinking Water State Revolving Fund (DWSRF) for a loan totaling \$4,180,573. The project known as the WSA 1-2 Intertie includes construction of a new water main to connect and consolidate SCWD#3's two largest water systems: Water Service Area 1 (WSA 1) and Water Service Area 2 (WSA 2). These two water service areas serve an estimated 5,600 connections. The water main project consists of approximately 16,500 lineal feet of water main and associated valves and hydrants that will consolidate the SCWD#3 system into a single system.

The loan consists of both state and federal funds and the district anticipates that it will have a federal single audit as a result. Construction is anticipated to begin in the summer of 2019 with loan proceeds being drawn at that time.

NOTE 7 – OTHER POST-EMPLOYMENT BENEFITS (OPEB)

The district is a participating employer in the state's Public Employees Benefits Board (PEBB) program, a defined benefit plan administered by the Washington State Health Care Authority. The plan provides medical, dental, and life insurance benefits for public employees and retirees and their dependents on a pay-as-you-go basis. The plan provides OPEB benefits through both explicit and implicit subsidies. The explicit subsidy is a set dollar amount that lowers the monthly premium paid by members over the age of 65 enrolled in Medicare parts A and B. PEBB determines the amount of the explicit subsidy annually. The implicit subsidy results from the inclusion of active and non-Medicare eligible retirees in the same pool when determining premiums. There is an implicit subsidy from active employees since the premiums paid by retirees are lower than they would have been if the retirees were insured separately. The district had 12 active plan members and 4 retired plan members as of December 31, 2018. The district contributed \$203,907., to the plan for the year ended December 31, 2018.

Spokane County Water District No. 3
Schedule of Liabilities
For the Year Ended December 31, 2019

ID. No.	Description	Due Date	Beginning Balance	Additions	Reductions	Ending Balance
Revenue and Other (non G.O.) Debt/Liabilities						
263.84	DWSRF Loan #DWL23477	10/1/2042	-	3,695,868	664,356	3,031,512
264.30	Pension Liability	6/30/2019	437,566	-	142,611	294,955
259.12	Compensated Absences	12/31/2019	65,072	-	10,056	55,016
264.40	OPEB Liability (PEBB)	6/30/2019	-	812,507	-	812,507
Total Revenue and Other (non G.O.) Debt/Liabilities:			502,638	4,508,375	817,023	4,193,990
Total Liabilities:			502,638	4,508,375	817,023	4,193,990

Spokane County Water District No. 3
Schedule of Liabilities
For the Year Ended December 31, 2018

ID. No.	Description	Due Date	Beginning Balance	Additions	Reductions	Ending Balance
Revenue and Other (non G.O.) Debt/Liabilities						
264.30	Pension Liability	6/30/2018	593,673	-	156,107	437,566
259.12	Compensated Absences	12/31/2018	71,315	-	6,243	65,072
Total Revenue and Other (non G.O.) Debt/Liabilities:			664,988	-	162,350	502,638
Total Liabilities:			664,988	-	162,350	502,638

Spokane County Water District No. 3
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2019

		Expenditures					Passed through to Subrecipients	Note
		Federal Agency (Pass-Through Agency)	Federal Program	CFDA Number	Other Award Number	From Pass- Through Awards	From Direct Awards	Total
Drinking Water State Revolving Fund Cluster								
ENVIRONMENTAL PROTECTION AGENCY, ENVIRONMENTAL PROTECTION AGENCY (via Department of Health)		Capitalization Grants for Drinking Water State Revolving Funds	66.468	DWL23477	2,569,608	-	-	2,569,608
Total Drinking Water State Revolving Fund Cluster:						2,569,608	-	2,569,608
Total Federal Awards Expended:						2,569,608	-	2,569,608

Spokane County Water District #3
(District)

Notes to the Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2019

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 method of accounting as prescribed by the WA State Auditor's Office (SAO) through its Budgeting, Accounting and Reporting System (BARS).

Note 2 – Program Costs

The amounts shown as current year expenditures represent only the federal assistance portion of the program costs. Entire program costs, including the district's portion, are more than shown. Such expenditures are recognized following, as applicable, either the cost principles in the OMB Circular A-87, Cost Principles for State, Local, and Indian Tribal Governments, or the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Note 3 – Federal Loans

- a. The district was approved by the EPA and the WA State Department of Health to receive a loan totaling \$4,180,573.45 to improve its drinking water system. The amount listed for this loan includes the proceeds used during the year plus the 2018 engineering fees authorized by the DOH subsequent to the project start date and included in Amendment #1 approved in May, 2019.

Both the current and prior year loans are reported on the district's Schedule of Liabilities.

Note 4 – Indirect Cost Rate

The district has not elected to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.



SPOKANE COUNTY WATER DISTRICT No. 3

1225 N. Yardley St. • Spokane Valley, WA 99212-7001 • (509) 536-0121 • FAX (509) 534-3760

CORRECTIVE ACTION PLAN FOR FINDINGS REPORTED UNDER UNIFORM GUIDANCE

Spokane County Water District No. 3 January 1, 2018 through December 31, 2019

This schedule presents the corrective action planned by the District for findings reported in this report in accordance with Title 2 *U.S. Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

Finding ref number: 2019-001	Finding caption: The District did not have adequate internal controls over financial statement preparation to ensure accurate and reliable financial reporting.
Name, address, and telephone of District contact person: Cindy Johnson, Administrative Supervisor 1225 N. Yardley Street Spokane Valley, WA 99212 (509) 536-0121	
Corrective action the auditee plans to take in response to the finding: <i>Spokane County Water District No. 3 has hired an outside organization to ensure accurate reporting of our financial statement.</i> <i>The same organization is going to provide internal training to staff to ensure complete understanding of the financial report and what is required.</i>	
Anticipated date to complete the corrective action: May 2021	

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.

We work with our audit clients and citizens to achieve our vision of government that works for citizens, by helping governments work better, cost less, deliver higher value, and earn greater public trust.

In fulfilling our mission to hold state and local governments accountable for the use of public resources, we also hold ourselves accountable by continually improving our audit quality and operational efficiency and developing highly engaged and committed employees.

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.

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 as well as [fraud](#), state [whistleblower](#) and [citizen hotline](#) investigations.

The results of our work are widely distributed through a variety of reports, which are available on our [website](#) and through our free, electronic [subscription](#) service.

We take our role as partners in accountability seriously, and provide training and technical assistance to governments, and have an extensive quality assurance program.

Contact information for the State Auditor's Office	
Public Records requests	PublicRecords@sao.wa.gov
Main telephone	(564) 999-0950
Toll-free Citizen Hotline	(866) 902-3900
Website	www.sao.wa.gov