



Office of the Washington State Auditor
Pat McCarthy

Financial Statements Audit Report

Spokane County Water District No. 3

For the period January 1, 2020 through December 31, 2022

Published December 26, 2023

Report No. 1033749



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

December 26, 2023

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

Report on Financial Statements

Please find attached our report on Spokane County Water District No. 3's financial statements.

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

Sincerely,

Pat McCarthy, State Auditor
Olympia, WA

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SPOKANE COUNTY WATER DISTRICT No. 3

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(509) 534-5760

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Spokane County Water District No. 3 January 1, 2020 through December 31, 2022

This schedule presents the status of findings reported in prior audit periods.

Audit Period: January 1, 2018 through December 31, 2019	Report Ref. No.: 1027419	Finding Ref. No.: 2019-001
Finding Caption: The District did not have adequate internal controls over financial statement preparation to ensure accurate and reliable financial reporting.		
Background: The prior audit finding identified the following deficiencies in internal controls over accounting and financial reporting, that when taken together represent a material weakness: <ul style="list-style-type: none">• 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.		
Status of Corrective Action: (check one) <input checked="" type="checkbox"/> Fully Corrected <input type="checkbox"/> Partially Corrected <input type="checkbox"/> Not Corrected <input type="checkbox"/> Finding is considered no longer valid		
Corrective Action Taken: <i>Additional training of staff provided.</i>		

INDEPENDENT AUDITOR'S REPORT

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, 2020 through December 31, 2022

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, 2022, 2021 and 2020, and the related notes to the financial statements, which collectively comprise the District's financial statements, and have issued our report thereon dated December 19, 2023.

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.

REPORT ON 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) as a basis for designing 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.

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 above 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.

Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses.

REPORT ON 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 its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. 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.

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

December 19, 2023

INDEPENDENT AUDITOR'S REPORT

Report on the Audit of the Financial Statements

Spokane County Water District No. 3 January 1, 2020 through December 31, 2022

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

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Unmodified and Adverse Opinions

We have audited the financial statements of Spokane County Water District No. 3, as of and for the years ended December 31, 2022, 2021 and 2020, and the related notes to the financial statements, as listed in the financial section of our report.

Unmodified Opinion on the Regulatory Basis of Accounting (BARS Manual)

As described in Note 1, the District has prepared these financial statements to meet the financial reporting requirements of state law and 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 accompanying 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, 2022, 2021 and 2020, on the basis of accounting described in Note 1.

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, 2022, 2021 and 2020, or the changes in financial position or cash flows thereof for the years then ended, because of the significance of the matter discussed below.

Basis for Unmodified and Adverse Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and *Government Auditing Standards*. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the District, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit unmodified and adverse opinions.

Matter Giving Rise to 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. As described in Note 1 of the financial statements, the financial statements are prepared by the District in accordance with state law using accounting practices prescribed by the BARS Manual, which is a basis of accounting other than accounting principles generally accepted in the United States of America. The effects on the financial statements of the variances between the regulatory basis of accounting and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material and pervasive.

Responsibilities of Management 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 BARS Manual 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and

Government Auditing Standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

Performing an audit in accordance with GAAS and *Government Auditing Standards* includes the following responsibilities:

- Exercise professional judgment and maintain professional skepticism throughout the audit;
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements;
- Obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed;
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements;
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for a reasonable period of time; and
- We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Supplementary Information

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's financial statements. 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 as a whole.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated December 19, 2023 on our consideration of the District's internal control over financial reporting and on the tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's 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, reading "Pat McCarthy". The signature is written in a cursive, flowing style.

Pat McCarthy, State Auditor

Olympia, WA

December 19, 2023

FINANCIAL SECTION

Spokane County Water District No. 3 January 1, 2020 through December 31, 2022

FINANCIAL STATEMENTS

Fund Resources and Uses Arising from Cash Transactions – 2022

Fund Resources and Uses Arising from Cash Transactions – 2021

Fund Resources and Uses Arising from Cash Transactions – 2020

Notes to Financial Statements – 2022

Notes to Financial Statements – 2021

Notes to Financial Statements – 2020

SUPPLEMENTARY AND OTHER INFORMATION

Schedule of Liabilities – 2022

Schedule of Liabilities – 2021

Schedule of Liabilities – 2020

Spokane County Water District No. 3
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2022

Beginning Cash and Investments

308	Beginning Cash and Investments	5,954,780
388 / 588	Net Adjustments	-

Revenues

310	Taxes	-
320	Licenses and Permits	-
330	Intergovernmental Revenues	-
340	Charges for Goods and Services	4,938,666
350	Fines and Penalties	-
360	Miscellaneous Revenues	642,436
Total Revenues:		5,581,102

Expenditures

510	General Government	-
520	Public Safety	-
530	Utilities	3,264,415
540	Transportation	-
550	Natural/Economic Environment	-
560	Social Services	-
570	Culture and Recreation	-
Total Expenditures:		3,264,415
Excess (Deficiency) Revenues over Expenditures:		2,316,687

Other Increases in Fund Resources

391-393, 596	Debt Proceeds	-
397	Transfers-In	-
385	Special or Extraordinary Items	-
381, 382, 389, 395, 398	Other Resources	6,150
Total Other Increases in Fund Resources:		6,150

Other Decreases in Fund Resources

594-595	Capital Expenditures	3,147,363
591-593, 599	Debt Service	181,439
597	Transfers-Out	-
585	Special or Extraordinary Items	-
581, 582, 589	Other Uses	-
Total Other Decreases in Fund Resources:		3,328,802

Increase (Decrease) in Cash and Investments: (1,005,965)

Ending Cash and Investments

50821	Nonspendable	-
50831	Restricted	-
50841	Committed	-
50851	Assigned	4,948,816
50891	Unassigned	-
Total Ending Cash and Investments		4,948,816

Spokane County Water District No. 3
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2021

Beginning Cash and Investments

308	Beginning Cash and Investments	4,504,478
388 / 588	Net Adjustments	-

Revenues

310	Taxes	-
320	Licenses and Permits	-
330	Intergovernmental Revenues	76,150
340	Charges for Goods and Services	5,114,765
350	Fines and Penalties	-
360	Miscellaneous Revenues	308,458
Total Revenues:		5,499,373

Expenditures

510	General Government	-
520	Public Safety	-
530	Utilities	3,008,665
540	Transportation	-
550	Natural/Economic Environment	-
560	Social Services	-
570	Culture and Recreation	-
Total Expenditures:		3,008,665
Excess (Deficiency) Revenues over Expenditures:		2,490,708

Other Increases in Fund Resources

391-393, 596	Debt Proceeds	346,907
397	Transfers-In	-
385	Special or Extraordinary Items	-
381, 382, 389, 395, 398	Other Resources	15,656
Total Other Increases in Fund Resources:		362,563

Other Decreases in Fund Resources

594-595	Capital Expenditures	1,220,030
591-593, 599	Debt Service	182,939
597	Transfers-Out	-
585	Special or Extraordinary Items	-
581, 582, 589	Other Uses	-
Total Other Decreases in Fund Resources:		1,402,969

Increase (Decrease) in Cash and Investments: 1,450,302

Ending Cash and Investments

50821	Nonspendable	-
50831	Restricted	-
50841	Committed	-
50851	Assigned	5,954,780
50891	Unassigned	-
Total Ending Cash and Investments		5,954,780

Spokane County Water District No. 3
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2020

Beginning Cash and Investments

308	Beginning Cash and Investments	4,239,212
388 / 588	Net Adjustments	-

Revenues

310	Taxes	-
320	Licenses and Permits	-
330	Intergovernmental Revenues	11,997
340	Charges for Goods and Services	4,344,893
350	Fines and Penalties	-
360	Miscellaneous Revenues	380,498
Total Revenues:		4,737,388

Expenditures

510	General Government	-
520	Public Safety	-
530	Utilities	2,771,349
540	Transportation	-
550	Natural/Economic Environment	-
560	Social Services	-
570	Culture and Recreation	-
Total Expenditures:		2,771,349
Excess (Deficiency) Revenues over Expenditures:		1,966,039

Other Increases in Fund Resources

391-393, 596	Debt Proceeds	54,652
397	Transfers-In	-
385	Special or Extraordinary Items	-
381, 382, 389, 395, 398	Other Resources	12,767
Total Other Increases in Fund Resources:		67,419

Other Decreases in Fund Resources

594-595	Capital Expenditures	1,603,153
591-593, 599	Debt Service	165,043
597	Transfers-Out	-
585	Special or Extraordinary Items	-
581, 582, 589	Other Uses	-
Total Other Decreases in Fund Resources:		1,768,196

Increase (Decrease) in Cash and Investments: 265,262

Ending Cash and Investments

50821	Nonspendable	-
50831	Restricted	-
50841	Committed	-
50851	Assigned	4,504,478
50891	Unassigned	-
Total Ending Cash and Investments		4,504,478

SPOKANE COUNTY WATER DISTRICT NO. 3
NOTES TO FINANCIAL STATEMENTS
JANUARY 1, 2022, THROUGH DECEMBER 31, 2022

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 presented using classifications that are different from the ending net position classification 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 4, Deposits and Investments

D. Capital Assets

Capital assets are assets with an initial individual cost of more than \$5,000 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 5 – Debt Service Requirements

NOTE 2 – BUDGET COMPLIANCE

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

The annual budget is adopted on the same basis of accounting as used for financial reporting.

NOTE 3 – DEPOSITS AND INVESTMENTS

Investments are reported at original cost. Investments by type at December 31, 2022 are as follows:

Type of Deposit or Investment	District's own deposits & investments	Total
Bank deposits	\$1,412,466	\$1,412,466
Local Government Investment Pool (LGIP)	\$3,536,350	\$3,536,350
Total	\$4,948,816	\$4,948,816

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, 2022.

The debt service requirements for notes payable are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2023	149,950	29,990	179,939
2024	149,950	28,490	178,440
2025	149,950	26,991	176,941
2026	149,950	25,491	175,441
2027	149,950	23,992	173,941
2028-2032	749,748	97,467	847,215
2033-2037	749,748	59,980	809,727
2038-2042	749,748	22,478	772,225
Total	2,998,990	314,879	3,313,869

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 for a final loan commitment of \$3,428,070.23. The project was completed in 2020 and the final draw on the loan was received in 2021.

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 annual comprehensive financial report that includes financial statements and required supplementary information for each plan. The DRS financial report

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

At June 30, 2022 (the measurement date of the plans), the District's proportionate share of the collective net pension liabilities (assets) is as follows:

Plan	Employer Contributions	Allocation Percentage	Liability (Asset)
PERS 1 UAAL	\$40,265	.006570%	\$182,933
PERS 2/3	\$68,665	.008547%	(\$316,990)

NOTE 6 – RISK MANAGEMENT

Property, Liability and Crime Protection

Spokane County Water District #3 is a member of the Enduris Washington Pool. 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. The Pool was formed July 10, 1987 pursuant to the provisions of Chapter 48.62 RCW, Chapter 200-100 WAC, and Chapter 39.34 RCW when two counties and two 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. For the Pool's fiscal year ending August 31, 2022, there were 527 Enduris members representing a broad array of special purpose districts throughout the state.

The Enduris' program provides for various forms of joint self-insurance and reinsurance coverage for its members: Liability coverage, which includes: General Liability, Automobile Liability, Public Officials' Errors and Omissions liability, Terrorism liability and Employment Practices liability; Property coverage, which includes: Building and Contents, Mobile Equipment, Boiler and Machinery, and Business Interruption/Extra Expense; Automobile Physical Damage coverage; Cyber coverage; Crime blanket coverage; Named Position coverage; and an Identity Fraud reimbursement program. Pollution and Cyber coverage are provided on a "claims made" coverage form. Crime coverage is provided on a discovery form. All other coverage is provided on an "occurrence" coverage form.

Members are responsible for a coverage deductible or co-pay on each covered loss. Each policy year members receive a Memorandum of Coverage (MOC) outlining the specific coverage, limits, and deductibles/co-pays that are applicable to them. In certain cases the Pool may allow members to elect to participate in the programs at limits, coverage, deductibles, and co-pays that are specific to their needs. Enduris is responsible for payment of all covered losses above the member retention, up to the Pool self-insured retention (SIR). Enduris acquires excess/reinsurance from unrelated insurance companies to cover losses above the Pool's SIR up to the coverage maximum limit of liability. The tables below reflect the Pool's SIR, reinsurance limits and member deductibles/co-pays by coverage type.

Coverage	Coverage Type	Pool Self-Insured Retention	Excess/ Reinsurance Limits	Member Deductibles/ Co-Pays ⁽¹⁾
Liability:				
Comprehensive General Liability	Per Occurrence	\$1 million	\$20 million	\$1,000 - \$100,000
Automobile Liability	Per Occurrence	\$1 million	\$20 million	\$1,000 - \$100,000
Public Officials Errors and Omissions Liability	Each Wrongful Act Member Aggregate	\$1 million	\$20 million \$20 million	\$1,000 - \$100,000
Terrorism Liability ⁽²⁾	Per Occurrence	\$500,000	\$0	\$1,000 - \$100,000
	Pool Aggregate	\$1 million	Fully funded by Pool	
Employment Practices Liability	Per Occurrence	\$1 million	\$20 million	20% Copay ⁽³⁾
	Member Aggregate		\$20 million	

(1) Members may request or be required to pay a higher deductible than the minimum for certain coverage and certain types of losses require a specific co-pay or deductible

(2) Terrorism liability is fully funded by the Pool i.e. no excess/reinsurance is procured.

(3) Members pay a 20% co-pay of costs. By meeting established guidelines, the co-pay may be waived.

Coverage	Coverage Type	Pool Self-Insured Retention	Excess/ Reinsurance Limits	Member Deductibles/ Co-Pays ⁽¹⁾
Property ⁽²⁾:				
Buildings and Contents	Per Occurrence	\$250,000	\$1 billion	\$1,000 - \$250,000
Mobile Equipment	Per Occurrence	\$250,000	\$1 billion	\$1,000 - \$250,000
Boiler and Machinery ⁽³⁾	Per Occurrence	Varies	\$100 million	Varies
Business Interruption (BI)/ Extra Expense (EE) ⁽⁴⁾	Per Occurrence	\$250,000	\$100 million (BI)/ \$50 million (EE)	\$1,000 - \$250,000
Sublimit ⁽⁵⁾:				
Flood	Per Occurrence	\$250,000	\$50 million (shared by Pool members)	\$1,000 - \$250,000
Earthquake	Per Occurrence	5% of indemnity, subject to \$250,000 minimum	\$10 million (shared by Pool members)	\$1,000 - \$250,000
Terrorism Primary	Per Occurrence Pool Aggregate	\$250,000	\$100 million per occurrence \$200 million aggregate	\$1,000 - \$250,000
Terrorism Excess	Per Occurrence APIP Per Occurrence APIP Aggregate	\$500,000	\$600 million/ Pool aggregate \$1.1 billion/ per occurrence APIP program \$1.4 billion/ APIP program aggregate	\$0
Automobile Physical Damage ⁽⁶⁾	Per Occurrence	\$25,000; \$100,000 for Emergency Vehicles; \$250,000 for Emergency Vehicles valued >\$750,000	\$1 billion	\$250 - \$1,000
Crime Blanket ⁽⁷⁾	Per Occurrence	\$50,000	\$1 million	\$1,000
Named Position ⁽⁸⁾	Per Occurrence	\$50,000	\$1 million	\$1,000
Cyber ⁽⁹⁾	Each Claim	\$100,000	\$2 million	20% Copay
	APIP Aggregate		\$40 million	
Identity Fraud Expense Reimbursement ⁽¹⁰⁾	Member Aggregate	\$0	\$25,000	\$0

- (1) Members may request or be required to pay a higher deductible than the minimum for certain coverage and certain types of losses require a specific co-pay or deductible.
- (2) Property coverage for each member is based on detailed property schedule. Scheduled items are covered to the extent of the cost of repair or replacement pursuant to the excess/reinsurance policy terms. Under the Aliant Property Insurance Program (APIP) Reinsurance carriers cover insured losses over \$250,000 to the limit of \$1 billion except for certain types of sub-limited property losses such as flood, earthquake, and terrorism.
- (3) Boiler and Machinery self-insured retention for the Pool varies depending on motor horsepower.
- (4) Business Interruption/ Extra expense coverage is based on scheduled revenue generating locations/operations. A limited number of members schedule and the rest are limited to \$500,000 of coverage with a \$2.5 million Pool maximum for undeclared exposure. The waiting period (deductible) is typically 24 hours but there are exceptions specific to the type of exposure covered.
- (5) This sublimit list is simplified and is not all-inclusive. In addition, sub-limits are often shared or aggregated by all pool members and, in a few cases, are shared by all APIP members. Deductibles often vary by coverage sub-limit.
- (6) Auto Physical Damage coverage includes comprehensive, named perils and collision. Coverage for each member is based on a detail vehicle schedule.
- (7) Crime Blanket coverage (also referred to as "Employee Dishonesty Coverage with Faithful Performance" of \$2,500 is provided to each member. Member's may elect to "buy-up" the level of coverage from \$5,000 to \$2 million.
- (8) Named Position coverage is optional. Members may elect to schedule various employees, directors, and commissioners, with individual limits of between \$5,000 and \$1 million.
- (9) Cyber coverage is included under the Pool's Property program. Members are subject to a 20% co-pay per loss and the Pool's SIR is tiered between \$50,000 and \$100,000 depending on the insured/members property TIV with an 8 hour waiting period. By meeting established guidelines, the co-pay may be waived. The reinsurance maximum limit of liability is \$2 million, with various declared sub-limits.
- (10) Identity Fraud Expense Reimbursement coverage is purchased by Enduris. Member claims do not have a deductible. There is a \$25,000 limit per member.

Members make an annual contribution to fund the Pool. Since Enduris is a cooperative program, there is joint liability among the participating members. There were no claim settlements in excess of the insurance coverage in any of the last three policy years.

Upon joining the Pool, members are contractually obligated to remain in the Pool for a minimum of one year and must give notice 60 days before renewal in order to terminate participation. The Interlocal Governmental Agreement (formerly known as the Master Agreement) is automatically renewed each year unless provisions for withdrawal or termination are applied. 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 Interlocal Governmental Agreement.

Enduris is fully funded by its member participants. Claims are filed by members with the Pool who determines coverage and administers the claims.

The Pool is governed by a Board of Directors which is comprised of seven board members. The Pool's members elect the Board, and the positions are filled on a rotating basis. The Board meets quarterly and is responsible for overseeing the business affairs of Enduris and providing policy direction to the Pool's Executive Director.

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 2022.

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 18 active plan members and 5 retired plan members as of June 30, 2022. As of June 30, 2022, the district's total OPEB liability was \$800,318 as calculated using the alternative measurement method. The district contributed \$219,490 to the plan for the year ended June 30, 2022.

SPOKANE COUNTY WATER DISTRICT NO. 3
NOTES TO FINANCIAL STATEMENTS
JANUARY 1, 2021 THROUGH DECEMBER 31, 2021

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 presented using classifications that are different from the ending net position classification 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 4, Deposits and Investments

D. Capital Assets

Capital assets are assets with an initial individual cost of more than \$5,000 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 5 – Debt Service Requirements

NOTE 2 – BUDGET COMPLIANCE

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

The annual budget is adopted on the same basis of accounting as used for financial reporting.

NOTE 3 – COVID-19

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 known as COVID-19. In the months following the declaration, precautionary measures to slow the spread of the virus have been ordered. These measures include closing schools, cancelling public events, limiting public and private gatherings, and restricting business operations, travel and non-essential activities.

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.

The length of time these measures will continue to be in place, and the full extent of the financial impact on the district is unknown at this time.

NOTE 4 – DEPOSITS AND INVESTMENTS

Investments are reported at original cost. Investments by type at December 31, 2021 are as follows:

Type of Deposit or Investment	District's own deposits & investments	Total
Bank deposits	\$2,476,787	\$2,476,787
Local Government Investment Pool (LGIP)	\$3,477,993	\$3,477,993
Total	\$5,954,780	\$5,954,780

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 5 – 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, 2021.

The debt service requirements for notes payable are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2022	149,949.51	31,489.40	181,438.91
2023	149,949.51	29,989.90	179,939.41
2024	149,949.51	28,490.41	178,439.92
2025	149,949.51	26,990.91	176,940.42
2026	149,949.51	25,491.42	175,440.93
2027-2031	749,747.55	104,964.66	854,712.21
2032-2036	749,747.55	67,477.29	817,224.84
2037-2041	749,747.55	29,989.91	779,737.46
2042	149,949.51	1,484.65	151,434.16
Total	3,148,939.71	346,368.55	3,495,308.26

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 for a final loan commitment of \$3,428,070.23. The project was completed in 2020 and the final draw on the loan was received in 2021. As of December 31, 2021, the district's loan balance was \$3,148,940. The amortization schedule reflected above is the final revised schedule for the term of the loan.

NOTE 6 – 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 annual comprehensive financial report that includes financial statements and required supplementary information for each plan. The DRS financial report may be obtained by writing to:

Department of Retirement Systems
Communications Unit
P.O. Box 48380
Olympia, WA 98540-8380

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

At June 30, 2021 (the measurement date of the plans), the District's proportionate share of the collective net pension liabilities (assets) is as follows:

Plan	Employer Contributions	Allocation Percentage	Liability (Asset)
PERS 1 UUAL	\$42,313	.005680%	\$69,366
PERS 2/3	\$69,193	.007304%	(\$727,596)

NOTE 7 – RISK MANAGEMENT

Property, Liability and Crime Protection

Spokane County Water District #3 is a member of the Enduris Washington Pool. 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. The Pool was formed July 10, 1987 pursuant to the provisions of Chapter 48.62 RCW, Chapter 200-100 WAC, and Chapter 39.34 RCW when two counties and two 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. For the Pool's fiscal year ending August 31, 2021, there were 539 Enduris members representing a broad array of special purpose districts throughout the state.

The Enduris' program provides for various forms of joint self-insurance and reinsurance coverage for its members: Liability coverage, which includes: General Liability, Automobile Liability, Public Officials' Errors and Omissions liability, Terrorism liability and Employment Practices liability; Property coverage, which includes: Building and Contents, Mobile Equipment, Boiler and Machinery, and Business Interruption/Extra Expense; Automobile Physical Damage coverage; Cyber coverage; Crime blanket coverage; Named Position coverage; and an Identity Fraud reimbursement program. Pollution coverage is provided on a "claims made" coverage form. All other coverage is provided on an "occurrence" coverage form.

Members are responsible for a coverage deductible or co-pay on each covered loss. Each policy year members receive a Memorandum of Coverage (MOC) outlining the specific coverage, limits, and deductibles/co-pays that are applicable to them. In certain cases the Pool may allow members to elect to participate in the programs at limits, coverage, deductibles, and co-pays that are specific to their needs. Enduris is responsible for payment of all covered losses above the member retention, up to the Pool self-insured retention (SIR). Enduris acquires excess/reinsurance from unrelated insurance companies to cover losses above the Pool's SIR up to the coverage maximum limit of liability. The tables below reflect the Pool's SIR, reinsurance limits and member deductibles/co-pays by coverage type.

Coverage	Coverage Type	Pool Self-Insured Retention	Excess/ Reinsurance Limits	Member Deductibles/ Co-Pays ⁽¹⁾
Liability:				
Comprehensive General Liability	Per Occurrence	\$1 million	\$20 million	\$1,000 - \$100,000
Automobile Liability	Per Occurrence	\$1 million	\$20 million	\$1,000 - \$100,000
Public Officials Errors and Omissions Liability	Each Wrongful Act Member Aggregate	\$1 million	\$20 million \$20 million	\$1,000 - \$100,000
Terrorism Liability ⁽²⁾	Per Occurrence Pool Aggregate	\$500,000 \$1 million	\$0 Fully funded by Pool	\$1,000 - \$100,000
Employment Practices Liability	Per Occurrence Member Aggregate	\$1 million	\$20 million \$20 million	20% Copay ⁽³⁾

(1) Members may request or be required to pay a higher deductible than the minimum for certain coverage and certain types of losses require a specific co-pay or deductible

(2) Terrorism liability is fully funded by the Pool i.e. no excess/reinsurance is procured.

(3) Members pay a 20% co-pay of costs up to a maximum of \$100,000. By meeting established guidelines, the co-pay may be waived.

Property ⁽²⁾:

Buildings and Contents	Per Occurrence	\$250,000	\$800 million	\$1,000 - \$250,000
Mobile Equipment	Per Occurrence	\$250,000	\$800 million	\$1,000 - \$250,000
Boiler and Machinery ⁽³⁾	Per Occurrence	Varies	\$100 million	Varies
Business Interruption (BI)/ Extra Expense(EE) ⁽⁴⁾	Per Occurrence	\$250,000	\$100 million (BI)/ \$50 million (EE)	\$1,000 - \$250,000
Sublimit ⁽⁵⁾:				
Flood	Per Occurrence	\$250,000	\$50 million (shared by Pool members)	\$1,000 - \$250,000
Earthquake	Per Occurrence	5%; \$500,000 maximum	\$10 million (shared by Pool members)	\$1,000 - \$250,000

Coverage	Coverage Type	Pool Self-Insured Retention	Excess/ Reinsurance Limits	Member Deductibles/ Co-Pays ⁽¹⁾
Terrorism Primary	Per Occurrence Pool Aggregate	\$250,000	\$100 million/ Pool member \$200 million	\$1,000 - \$250,000
Terrorism Excess	Per Occurrence APIP Per Occurrence APIP Aggregate	\$500,000	\$600 million/Pool member \$1.2 billion/APIP \$1.4 billion/APIP	\$0
Automobile Physical Damage⁽⁶⁾	Per Occurrence	\$25,000; \$100,000 for Emergency Vehicles	\$800 million	\$250 - \$1,000
Crime Blanket⁽⁷⁾	Per Occurrence	\$50,000	\$1 million	\$1,000
Named Position⁽⁸⁾	Per Occurrence	\$50,000	\$1 million	\$1,000
Cyber⁽⁹⁾	Each Claim APIP Aggregate	\$100,000	\$2 million \$25 million	20% Copay
Identity Fraud Expense Reimbursement⁽¹⁰⁾	Member Aggregate	\$0	\$25,000	\$0

- (1) Members may request or be required to pay a higher deductible than the minimum for certain coverage and certain types of losses require a specific co-pay or deductible.
- (2) Property coverage for each member is based on detailed property schedule. Scheduled items are covered to the extent of the cost of repair or replacement pursuant to the excess/reinsurance policy terms. Under the Alliant Property Insurance Program (APIP) Reinsurance carriers cover insured losses over \$250,000 to the limit of \$800 million except for certain types of sub-limited property losses such as flood, earthquake, and terrorism.
- (3) Boiler and Machinery self-insured retention for the Pool varies depending on motor horsepower.
- (4) Business Interruption/ Extra expense coverage is based on scheduled revenue generating locations/operations. A limited number of members schedule and the rest are limited to \$500,000 of coverage with a \$2.5 million Pool maximum for undeclared exposure. The waiting period (deductible) is typically 24 hours but there are exceptions specific to the type of exposure covered.
- (5) This sublimit list is simplified and is not all-inclusive. In addition, sub-limits are often shared or aggregated by all pool members and, in a few cases, are shared by all APIP members. Deductibles often vary by coverage sub-limit.
- (6) Auto Physical Damage coverage includes comprehensive, named perils and collision. Coverage for each member is based on a detail vehicle schedule.
- (7) Crime Blanket coverage (also referred to as "Employee Dishonesty Coverage with Faithful Performance" of \$2,500 is provided to each member. Member's may elect to "buy-up" the level of coverage from \$5,000 to \$1 million.
- (8) Named Position coverage is optional. Members may elect to schedule various employees, directors, and commissioners, with individual limits of between \$5,000 and \$1 million.
- (9) Cyber coverage is included under the Pool's Property program. Members are subject to a 20% co-pay per loss and the Pool's SIR is tiered between \$50,000 and \$100,000 depending on the insured/members property TIV with an 8 hour waiting period. By meeting established guidelines, the co-pay may be waived. The reinsurance maximum limit of liability is \$2 million, with various declared sub-limits.
- (10) Identity Fraud Expense Reimbursement coverage is purchased by Enduris. Member claims do not have a deductible. There is a \$25,000 limit per member.

Members make an annual contribution to fund the Pool. Since Enduris is a cooperative program, there is joint liability among the participating members. There were no claim settlements in excess of the insurance coverage in any of the last three policy years.

Upon joining the Pool, members are contractually obligated to remain in the Pool for a minimum of one year and must give notice 60 days before renewal in order to terminate participation. The Interlocal Governmental Agreement (formerly known as the Master Agreement) is automatically renewed each year unless provisions for withdrawal or termination are applied. 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 Interlocal Governmental Agreement.

Enduris is fully funded by its member participants. Claims are filed by members with the Pool who determines coverage and administers the claims.

The Pool is governed by a Board of Directors which is comprised of seven board members. The Pool's members elect the Board, and the positions are filled on a rotating basis. The Board meets quarterly and is responsible for overseeing the business affairs of Enduris and providing policy direction to the Pool's Executive Director.

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 2021.

NOTE 8 – 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 16 active plan members and 5 retired plan members as of June 30, 2021. As of June 30, 2021, the district's total OPEB liability was \$842,735 as calculated using the alternative measurement method. The district contributed \$219,305 to the plan for the year ended June 30, 2021.

SPOKANE COUNTY WATER DISTRICT NO. 3
NOTES TO FINANCIAL STATEMENTS
JANUARY 1, 2020 THROUGH DECEMBER 31, 2020

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 presented using classifications that are similar to the ending balance classification 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 4, 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 5 – Debt Service Requirements

NOTE 2 – BUDGET COMPLIANCE

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

The annual budget is adopted on the same basis of accounting as used for financial reporting.

NOTE 3 – COVID-19

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 known as COVID-19. In the months following the declaration, precautionary measures to slow the spread of the virus have been ordered. These measures include closing schools, cancelling public events, limiting public and private gatherings, and restricting business operations, travel and non-essential activities.

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.

The length of time these measures will continue to be in place, and the full extent of the financial impact on the district is unknown at this time.

NOTE 4 – DEPOSITS AND INVESTMENTS

Investments are reported at original cost. Investments by type at December 31, 2020 are as follows:

Type of Deposit or Investment	District's own deposits & investments	Total
Bank deposits	\$1,030,123	\$1,030,123
Local Government Investment Pool (LGIP)	\$3,474,355	\$3,474,355
Total	\$4,504,478	\$4,504,478

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 5 – 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
2021	149,949.51	32,988.89	182,938.40
2022	149,949.51	31,489.40	181,438.91
2023	149,949.51	29,989.90	179,939.41
2024	149,949.51	28,490.41	178,439.92
2025	149,949.51	26,990.91	176,940.42
2025-2029	749,747.55	112,462.14	862,209.69
2030-2034	749,747.55	74,974.76	824,722.31
2035-2039	749,747.55	37,487.39	787,234.94
2040-2042	299,899.02	4,483.64	304,382.66
Totals	3,298,889.22	379,357.44	3,678,246.66

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 for a final loan commitment of \$3,428,070.23. The project was completed in 2020 with loan close out scheduled for 2021. As of December 31, 2020 the district's loan balance was \$2,951,982.19 with a remaining loan commitment of \$346,907.03 to be made by DOH/DWSRF in the first quarter of 2021. The amortization schedule reflected above is the final revised schedule for the term of the loan.

NOTE 6 – 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, 2020 (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 Percentage*	Liability
PERS 1 UAAL	\$ 41,367	0.005708%	201,523
PERS 2/3	\$ 68,103	0.007393%	94,552
Totals	109,470.00	<i>Total Net Pension Liability (Schedule 09)</i>	296,075

NOTE 7 – 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, 2020, 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 2020.

NOTE 8 – 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 16 active plan members and 5 retired plan members as of December 31, 2020. As of June 30, 2020, the district’s total OPEB liability was \$1,029,576 as calculated using the alternative measurement method. The district contributed \$231,094 to the plan for the year ended June 30, 2020.

Spokane County Water District No. 3
Schedule of Liabilities
For the Year Ended December 31, 2022

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	3,148,940	-	149,950	2,998,990
264.30	Pension Liability		69,366	113,567	-	182,933
259.12	Compensated absences		85,772	5,908	-	91,680
264.40	OPEB Liability		842,735	-	42,417	800,318
Total Revenue and Other (non G.O.) Debt/Liabilities:			4,146,813	119,475	192,367	4,073,921
Total Liabilities:			4,146,813	119,475	192,367	4,073,921

Spokane County Water District No. 3
Schedule of Liabilities
For the Year Ended December 31, 2021

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	2,951,983	346,907	149,950	3,148,940
264.30	Pension Liability		296,075	-	226,709	69,366
259.12	Compensated absences		69,967	15,805	-	85,772
264.40	OPEB Liability		1,029,576	-	186,841	842,735
Total Revenue and Other (non G.O.) Debt/Liabilities:			4,347,601	362,712	563,500	4,146,813
Total Liabilities:			4,347,601	362,712	563,500	4,146,813

Spokane County Water District No. 3
Schedule of Liabilities
For the Year Ended December 31, 2020

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	3,031,512	54,652	134,181	2,951,983
264.30	Pension Liability	6/30/2020	294,955	1,120	-	296,075
264.40	OPEB Liability (PEBB)	6/30/2020	812,507	217,069	-	1,029,576
259.12	Compensated Absence	12/31/2020	55,016	14,951	-	69,967
Total Revenue and Other (non G.O.) Debt/Liabilities:			4,193,990	287,792	134,181	4,347,601
Total Liabilities:			4,193,990	287,792	134,181	4,347,601

ABOUT THE STATE AUDITOR'S OFFICE

The State Auditor's Office is established in the Washington State Constitution and is part of the executive branch of state government. The State Auditor is elected by the people of Washington and serves four-year terms.

We work with state agencies, local governments and the public to achieve our vision of increasing trust in government by helping governments work better and deliver higher value.

In fulfilling our mission to provide citizens with independent and transparent examinations of how state and local governments use public funds, we hold ourselves to those same standards by continually improving our audit quality and operational efficiency, and by developing highly engaged and committed employees.

As an agency, the State Auditor's Office has the independence necessary to objectively perform audits, attestation engagements and investigations. Our work is designed to comply with professional standards as well as to satisfy the requirements of federal, state and local laws. The Office also has an extensive quality control program and undergoes regular external peer review to ensure our work meets the highest possible standards of accuracy, objectivity and clarity.

Our audits look at financial information and compliance with federal, state and local laws for all local governments, including schools, and all state agencies, including institutions of higher education. In addition, we conduct performance audits and cybersecurity audits of state agencies and local governments, as well as state whistleblower, fraud and citizen hotline investigations.

The results of our work are available to everyone through the more than 2,000 reports we publish each year on our website, www.sao.wa.gov. Additionally, we share regular news and other information via an email subscription service and social media channels.

We take our role as partners in accountability seriously. The Office provides training and technical assistance to governments both directly and through partnerships with other governmental support organizations.

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