



Office of the Washington State Auditor
Pat McCarthy

Financial Statements Audit Report

Public Utility District No. 1 of Stevens County

**(Stevens County Public Utility District
No. 1)**

For the period January 1, 2022 through December 31, 2023

Published November 25, 2024

Report No. 1035963



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

November 25, 2024

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

Report on Financial Statements

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

Americans with Disabilities

In accordance with the Americans with Disabilities Act, we will make this document available in alternative formats. For more information, please contact our Office at (564) 999-0950, TDD Relay at (800) 833-6388, or email our webmaster at webmaster@sao.wa.gov.

TABLE OF CONTENTS

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 <i>Government Auditing Standards</i>	4
Independent Auditor's Report on the Financial Statements.....	7
Financial Section.....	11
About the State Auditor's Office.....	30

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*

Stevens County Public Utility District No. 1 January 1, 2022 through December 31, 2023

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Stevens County Public Utility District No. 1, as of and for the years ended December 31, 2022 and 2023, and the related notes to the financial statements, which collectively comprise the District's financial statements, and have issued our report thereon dated November 5, 2024.

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 style with a large initial "P" and "M".

Pat McCarthy, State Auditor

Olympia, WA

November 5, 2024

INDEPENDENT AUDITOR'S REPORT

Report on the Audit of the Financial Statements

Stevens County Public Utility District No. 1 January 1, 2022 through December 31, 2023

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

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Unmodified and Adverse Opinions

We have audited the financial statements of Stevens County Public Utility District No. 1, as of and for the years ended December 31, 2022 and 2023, 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 Stevens County Public Utility District No. 1, and its changes in cash and investments, for the years ended December 31, 2022 and 2023, 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 Stevens County Public Utility District No. 1, as of December 31, 2022 and 2023, 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.

Matters of Emphasis

As discussed in Note 7 to the financial statements, in 2023, the District adopted new accounting guidance for the presentation and disclosure of Subscription Based Information Technology Arrangements (SBITAs), as required by the BARS Manual. Our opinion is not modified with respect to this matter.

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 November 5, 2024 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.



Pat McCarthy, State Auditor

Olympia, WA

November 5, 2024

FINANCIAL SECTION

Stevens County Public Utility District No. 1 January 1, 2022 through December 31, 2023

FINANCIAL STATEMENTS

Fund Resources and Uses Arising from Cash Transactions – 2022

Fund Resources and Uses Arising from Cash Transactions – 2023

Notes to the Financial Statements – 2022

Notes to the Financial Statements – 2023

SUPPLEMENTARY AND OTHER INFORMATION

Schedule of Liabilities – 2022

Schedule of Liabilities – 2023

**Public Utility District No. 1 of Stevens County
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2023**

Beginning Cash and Investments

308	Beginning Cash and Investments	4,671,314
388 / 588	Net Adjustments	-

Revenues

310	Taxes	-
320	Licenses and Permits	-
330	Intergovernmental Revenues	50,000
340	Charges for Goods and Services	4,806,166
350	Fines and Penalties	34,251
360	Miscellaneous Revenues	430,755
Total Revenues:		5,321,172

Expenditures

510	General Government	-
520	Public Safety	-
530	Utilities	3,819,769
540	Transportation	-
550	Natural/Economic Environment	-
560	Social Services	-
570	Culture and Recreation	-
Total Expenditures:		3,819,769
Excess (Deficiency) Revenues over Expenditures:		1,501,403

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	40,748
Total Other Increases in Fund Resources:		40,748

Other Decreases in Fund Resources

594-595	Capital Expenditures	1,062,381
591-593, 599	Debt Service	131,599
597	Transfers-Out	-
585	Special or Extraordinary Items	-
581, 582, 589	Other Uses	40,360
Total Other Decreases in Fund Resources:		1,234,340

Increase (Decrease) in Cash and Investments: 307,811

Ending Cash and Investments

50821	Nonspendable	-
50831	Restricted	230,971
50841	Committed	4,341,977
50851	Assigned	406,177
50891	Unassigned	-
Total Ending Cash and Investments		4,979,125

The accompanying notes are an integral part of this statement.

**Public Utility District No. 1 of Stevens County
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2022**

Beginning Cash and Investments

308	Beginning Cash and Investments	7,362,921
388 / 588	Net Adjustments	-

Revenues

310	Taxes	-
320	Licenses and Permits	-
330	Intergovernmental Revenues	-
340	Charges for Goods and Services	4,423,414
350	Fines and Penalties	38,275
360	Miscellaneous Revenues	518,714
Total Revenues:		4,980,403

Expenditures

510	General Government	-
520	Public Safety	-
530	Utilities	3,670,439
540	Transportation	-
550	Natural/Economic Environment	-
560	Social Services	-
570	Culture and Recreation	-
Total Expenditures:		3,670,439
Excess (Deficiency) Revenues over Expenditures:		1,309,964

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	52,362
Total Other Increases in Fund Resources:		52,362

Other Decreases in Fund Resources

594-595	Capital Expenditures	3,770,644
591-593, 599	Debt Service	243,638
597	Transfers-Out	-
585	Special or Extraordinary Items	-
581, 582, 589	Other Uses	39,651
Total Other Decreases in Fund Resources:		4,053,933

Increase (Decrease) in Cash and Investments: (2,691,607)

Ending Cash and Investments

50821	Nonspendable	-
50831	Restricted	189,972
50841	Committed	3,522,224
50851	Assigned	959,118
50891	Unassigned	-
Total Ending Cash and Investments		4,671,314

The accompanying notes are an integral part of this statement.

STEVENS COUNTY PUBLIC UTILITY DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2023

Note 1 Summary of Significant Accounting Policies

Stevens County Public Utility District No. 1 was incorporated on November 3, 1936, and operates under the laws of the state of Washington applicable to a Public Utility District. The District is a special purpose local government and provides water supply and distribution and sewer services.

The District 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 for proprietary and fiduciary funds are presented using classifications that are different from the ending net position classifications 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. Each fund is reported as a separate column in the financial statements, except for fiduciary funds, which are presented by fund types. The total column is presented as “memo only” because any interfund activities are not eliminated. The following fund type is used:

Proprietary Fund Type:

Enterprise Fund

The District only has one fund. This fund accounts 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 of accounting and measurement focus. Revenues are recognized when cash is received, and expenditures are recognized when paid.

C. Cash and Investments

See Note 2 – 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 2 years. Capital assets and inventory are recorded as capital expenditures when purchased.

E. Compensated Absences

Compensated absences are absences for which employees will be paid, such as vacation, holidays, and sick leave, which are all combined into "Personal Leave." Personal Leave, which may accumulate up to 800 hours measured each calendar year-end, is payable upon separation or retirement. Additionally, employees may request to have some of their personal leave cashed out at any time during the year, up to 160 hours. However, the cash out of leave cannot reduce the employee's leave bank balance amount below 200 hours.

F. Long-term Debt

See Note 3 – Long-term Debt.

G. Restricted and Committed Portion of Ending Cash and Investments

Beginning and Ending Cash and Investments are reported as restricted or committed when it is subject to restrictions on use imposed by external parties or due to internal commitments established by resolution of the Board. When expenditures that meet restrictions are incurred, the District intends to use the most restricted resources first.

Restrictions and commitments of Ending Cash and Investments consist of the following:

<u>Committed</u>	
Water Operating Reserve	\$ 448,352
Water Debt Reserve	219,405
Water Capital Reserve	2,553,671
Water Emergency Reserve	421,709
Sewer Operating Reserve	188,796
Sewer Capital Reserve	201,272
Sewer Emergency Reserve	308,772
	<u>\$ 4,341,977</u>
 <u>Restricted</u>	
Customer Prepayments	\$ 222,306
Retiree Premiums	8,665
	<u>\$ 230,971</u>

Accounting and Reporting Changes

H. Subscription Based Information Technology Arrangements (SBITA)

For the year ended December 31, 2023, the District implemented guidance for the presentation and disclosure of Subscription Based Information Technology Arrangements (SBITA), as required by the BARS manual. These changes were in response to the provisions of GASB Statement No. 96. The District reports a SBITA as a liability if it has an individual cost of more than \$5,000. Information regarding the District's SBITA liabilities is presented in Note 7 – Subscription Based Information Technology Arrangements (SBITA).

Note 2 Deposits and Investments

Investments are reported at amortized cost. Deposits and investments by type at December 31, 2023 are as follows:

Type of Deposit or Investment	Amount
Bank Deposits	\$ 831,091
Local Government Investment Pool	3,411,842
Spokane County Investment Pool	736,192
Total	\$ 4,979,125

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.

Investments in Spokane County Investment Pool (SCIP)

The District is a voluntary participant in the SCIP, an external investment pool operated by the County Treasurer. The pool is not rated or registered with the SEC. Rather, oversight is provided by the County Finance Committee in accordance with [RCW 36.48.070](#). The District reports its investment in the pool at amortized cost, which is the same as the value of the pool per share. The pool does not impose liquidity fees or redemption gates on participant withdrawals.

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in event of a failure of a depository financial institution, the District would not be able to recover deposits or would not be able to recover collateral securities that are in possession of an outside party. The District’s deposits and certificates of deposit are mostly covered by federal depository insurance (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (PDPC).

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

Note 3 Long-term Debt

The accompanying Schedule of Liabilities provides more details of the outstanding debt and liabilities of the District and summarizes the District’s debt transactions for year ended December 31, 2023.

The debt service requirements for loans and notes payable are as follows:

Year Ending Dec 31,	DEBT SERVICE		
	Principal	Interest	Total
2024	\$ 104,192	\$ 5,998	\$ 110,190
2025	104,192	5,024	109,216
2026	90,626	4,049	94,675
2027	90,626	3,143	93,769
2028	90,626	2,237	92,863
2029-2033	99,575	4,662	104,237
2034-2036	33,494	670	34,164
TOTALS	<u>\$ 613,331</u>	<u>\$ 25,783</u>	<u>\$ 639,114</u>

Note 4 Pension Plans

A. State Sponsored Pension Plans

Substantially all of the District’s 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 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 (ACFR) that includes financial statements and required supplementary information for each plan.

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

At June 30, 2023 (*the measurement date of the plans*), the District’s proportionate share of the collective net pension liabilities (assets), was as follows:

	Employer Contributions	Allocation Percentage	Liability (Asset)
PERS 1	\$ 44,159	0.006480%	147,921
PERS 2/3	\$ 73,381	0.008346%	(342,076)

Only the net pension liabilities are reported on the Schedule of Liabilities.

Note 5 Risk Management

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

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

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

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

The PURMS financial statement may be downloaded from the PURMS website at www.purms.org.

The District participates in three pools as follows:

A. Liability Pool

The members, through PURMS, provide liability self-insurance for the first \$1,000,000 per occurrence with a \$250 deductible. The risks shared by the members are defined in the members’ Self-Insurance Agreement. PURMS maintains assets from which liability claims against the members are paid and, through assessments of the members to replenish these assets, the members share joint liability among themselves for losses incurred. PURMS purchases excess insurance for losses above \$1,000,000 (up to \$100,000,000) for the liability pool.

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

B. Property Pool

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

C. Health & Welfare Pool

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

The members' assessments are based upon an agreed formula whose elements include claims paid, number of covered employees, and basic fees. The assessments include amounts for excess insurance premiums, claims experience, network fees, and operating costs. The liability for assessments due to the pool is presented as claims liability on the Schedule of Liabilities.

Note 6 Environmental and Certain Asset Retirement Liabilities

The District has two wells requiring decommissioning in the foreseeable future. In order to be in compliance with WAC 173-160-381 the District will incur estimated costs of \$8,000 per well related to the decommissioning. An inflationary adjustment of \$259 per well was added to the engineer's estimate and was included in 2023 to the estimated decommissioning costs. These liabilities are reported on the Schedule of Liabilities. The District does not have an estimated retirement date at this time. The obligation will be paid from operating income; no assets have been set aside to fund this obligation. During 2023 the District paid \$0 for the related work.

The District has a wastewater dosing tank required to be retired. In order to be in compliance with WAC 246-272A-0300 the District will incur estimated costs of \$10,000 related to the project. An inflationary adjustment of \$324 was added to the engineer's estimate and was included in 2023 to the estimated retirement costs. These liabilities are reported on the Schedule of Liabilities. Retirement of the dosing tank includes having the septage removed by an approved pumper, demolition of the tank, and removing and disposing of the tank at an approved facility. The District estimates that the dosing tank will be retired in the next 2 years. The obligation will be paid from operating income; no assets have been set aside to fund this obligation. During 2023 the District paid \$0 for the related work.

Note 7 Subscription Based Information Technology Arrangements (SBITA)

During the year ended 2023, the District adopted guidance for the presentation and disclosure of Subscription Based Information Technology Arrangements (SBITA), as required by the BARS manual. This requirement resulted in the addition of a subscription liability reported on the Schedule of Liabilities.

The District makes subscription payments of \$5,435 per year for SCADA software. The SBITA contract is for three years and began in 2021.

The District makes annual subscription payments for asset management software beginning at \$10,000 the first year, increasing yearly with the final payment being \$15,000. The SBITA contract is for three years and began in 2021.

The total amount paid for SBITAs in 2023 was \$20,435. The SBITA liabilities were paid in full and no SBITA liability remained as of December 31, 2023.

Note 8 Other Disclosures

A. Significant Commitments or Obligations

The District has active projects as of December 31, 2023. The projects include the construction of a new septage dewatering system and a consolidation feasibility study for potential water system upgrades.

At year-end the District’s commitments are as follows:

Project	Spent to Date	Remaining Commitment
Septage Dewatering System	\$ -	\$ 75,000
Consolidation Feasibility Study	-	50,000
Total	\$ -	\$ 125,000

Of the committed balance of \$125,000 the District will be required to raise \$0 in future financing. The septage dewatering system will be funded by a Federal grant from the United States Environmental Protection Agency. The grant is rolled out in phases, and as of year-end, the District has been approved for \$75,000 of the \$1,680,000. The consolidation feasibility study will be funded by a State grant from the Washington Department of Health.

STEVENS COUNTY PUBLIC UTILITY DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2022

Note 1 Summary of Significant Accounting Policies

Stevens County Public Utility District No. 1 was incorporated on November 3, 1936, and operates under the laws of the state of Washington applicable to a Public Utility District. The District is a special purpose local government and provides water supply and distribution and sewer services.

The District 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 for proprietary and fiduciary funds are presented using classifications that are different from the ending net position classifications 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. Each fund is reported as a separate column in the financial statements, except for fiduciary funds, which are presented by fund types. The total column is presented as "memo only" because any interfund activities are not eliminated. The following fund type is used:

Proprietary Fund Type:

Enterprise Fund

The District only has one fund. This fund accounts 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 of accounting and measurement focus. Revenues are recognized when cash is received, and expenditures are recognized when paid.

C. Cash and Investments

See Note 2 – 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 2 years. Capital assets and inventory are recorded as capital expenditures when purchased.

E. Compensated Absences

Compensated absences are absences for which employees will be paid, such as vacation, holidays, and sick leave, which are all combined into "Personal Leave", except for Sick Leave Reserve. The Sick Leave Reserve account is comprised of excess sick leave remaining when the Personal Leave program was established on April 1, 2005.

Personal Leave, which may accumulate up to 800 hours measured each calendar year-end, is payable upon separation or retirement. Additionally, employees who have accrued 200 hours or more in Personal Leave may cash out up to 160 hours of Personal Leave by submitting a written request to that effect.

Employees' Sick Leave Reserve, comprised of a portion of employee sick leave balance as of April 1, 2005, is payable at a rate of 25% upon voluntary separation or retirement. Payments are recognized as expenditures when paid.

F. Long-term Debt

See Note 3 – Long-term Debt.

G. Restricted and Committed Portion of Ending Cash and Investments

Beginning and Ending Cash and Investments are reported as restricted or committed when it is subject to restrictions on use imposed by external parties or due to internal commitments established by resolution of the Board. When expenditures that meet restrictions are incurred, the District intends to use the most restricted resources first.

Restrictions and commitments of Ending Cash and Investments consist of the following:

Committed	
Water Operating Reserve	\$ 399,000
Water Debt Reserve	221,353
Water Capital Reserve	1,511,933
Water Emergency Reserve	459,310
Sewer Operating Reserve	190,739
Sewer Capital Reserve	414,325
Sewer Emergency Reserve	325,564
	<u>\$ 3,522,224</u>

Restricted	
Customer Prepayments	\$ 181,694
Retiree Premiums	8,278
	<u>\$ 189,972</u>

Note 2 Deposits and Investments

Investments are reported at amortized cost. Deposits and investments by type at December 31, 2022 are as follows:

Type of Deposit or Investment	Amount
Bank Deposits	\$ 524,613
Local Government Investment Pool	404,760
Spokane County Investment Pool	3,741,941
Total	\$ 4,671,314

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.

Investments in Spokane County Investment Pool (SCIP)

The District is a voluntary participant in the SCIP, an external investment pool operated by the County Treasurer. The pool is not rated or registered with the SEC. Rather, oversight is provided by the County Finance Committee in accordance with [RCW 36.48.070](#). The District reports its investment in the pool at

amortized cost, which is the same as the value of the pool per share. The pool does not impose liquidity fees or redemption gates on participant withdrawals.

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in event of a failure of a depository financial institution, the District would not be able to recover deposits or would not be able to recover collateral securities that are in possession of an outside party. The District’s deposits and certificates of deposit are mostly covered by federal depository insurance (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (PDPC).

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

Note 3 Long-term Debt

The accompanying Schedule of Liabilities 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 loans and notes payable are as follows:

Year Ending Dec 31,	DEBT SERVICE		
	Principal	Interest	Total
2023	\$ 104,192	\$ 6,972	\$ 111,164
2024	104,192	5,998	110,190
2025	104,192	5,024	109,216
2026	90,626	4,049	94,675
2027	90,626	3,143	93,769
2028-2032	170,286	6,365	176,651
2033-2036	53,409	1,204	54,613
TOTALS	<u>\$ 717,523</u>	<u>\$ 32,755</u>	<u>\$ 750,278</u>

Note 4 Other Postemployment Benefits

In 2022 the District passed Resolution No. 5-2022 to change the post-employment health care benefits to a single-employer defined contribution OPEB plan. The Stevens P.U.D. Post-Retirement Medical Plan is administered by the District. The Plan is offered to retired employees and commissioners who meet the eligibility requirements as stated in the Resolution.

For eligible retirees and former commissioners (and spouses, as applicable), post-employment health insurance coverage is available following retirement or leaving office. The retiree or former commissioner may continue coverage by paying 100% of the premium. Below is the membership information for 2022.

	<u>Total</u>
Inactive employees or beneficiaries (spouses) currently receiving benefits	11
Inactive employees entitled to but not yet receiving benefits	-
Active employees and beneficiaries (spouses)	<u>32</u>
Total	<u><u>43</u></u>

The District does not contribute any funds to the plan.

With the change of the Plan, the liability has been removed from Schedule 09, Schedule of Liabilities.

Note 5 Pension Plans

A. State Sponsored Pension Plans

Substantially all District’s 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 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 (ACFR) that includes financial statements and required supplementary information for each plan.

The DRS ACFR 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), was as follows:

	Employer Contributions	Allocation Percentage	Liability (Asset)
PERS 1	\$ 37,964	0.006194%	172,464
PERS 2/3	\$ 65,081	0.008101%	(300,448)

Only the net pension liabilities are reported on the Schedule of Liabilities.

Note 6 Risk Management

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

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

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

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

The PURMS financial statement may be downloaded from the PURMS website at www.purms.org.

The District participates in three pools as follows:

A. Liability Pool

The members, through PURMS, provide liability self-insurance for the first \$1,000,000 per occurrence with a \$250 deductible. The risks shared by the members are defined in the members' Self-Insurance Agreement. PURMS maintains assets from which liability claims against the members are paid and, through assessments of the members to replenish these assets, the members share joint liability among themselves for losses incurred. PURMS purchases excess insurance for losses above \$1,000,000 (up to \$100,000,000) for the liability pool.

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

B. Property Pool

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

C. Health & Welfare Pool

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

The members' assessments are based upon an agreed formula whose elements include claims paid, number of covered employees, and basic fees. The assessments include amounts for excess insurance premiums, claims experience, network fees, and operating costs. The liability for assessments due to the pool is presented as claims liability on the Schedule of Liabilities.

Note 7 Environmental and Certain Asset Retirement Liabilities

The District has two wells requiring decommissioning in the foreseeable future. In order to be in compliance with WAC 173-160-381 the District will incur estimated costs of \$7,741 per well related to the decommissioning. These liabilities are reported on the Schedule of Liabilities. The District does not have an estimated retirement date at this time. The obligation will be paid from operating income; no assets have been set aside to fund this obligation. During 2022 the District paid \$0 for the related work.

The District has a wastewater dosing tank required to be retired. In order to be in compliance with WAC 246-272A-0300 the District will incur estimated costs of \$9,676 related to the project. These liabilities are reported on the Schedule of Liabilities. Retirement of the dosing tank includes having the septage removed by an approved pumper, demolition of the tank, and removing and disposing of the tank at an approved facility. The District estimates that the dosing tank will be retired in the next 3 years. The obligation will be paid from operating income; no assets have been set aside to fund this obligation. During 2022 the District paid \$0 for the related work.

Note 8 Other Disclosures

A. Significant Commitments or Obligations

The District has active projects as of December 31, 2022. The projects include the construction of a new administrative building and a consolidation feasibility study for potential system upgrades and the possible acquisition of the Hunters Water System.

At year-end the District's commitments are as follows:

Project	Spent to Date	Remaining Commitment
Administrative Building	\$ 3,668,039	\$ 288,617
Hunters Water System	495	50,000
Total	\$ 3,668,534	\$ 338,617

Of the committed balance of \$338,617 the District will be required to raise \$0 in future financing. The Hunters Water System project will be funded by a State grant from the Washington Department of Health.

**Public Utility District No. 1 of Stevens County
Schedule of Liabilities
For the Year Ended December 31, 2023**

ID. No.	Description	Due Date	Beginning Balance	Additions	Reductions	Ending Balance
Revenue and Other (non G.O.) Debt/Liabilities						
263.84	04-65104-033	10/1/2025	40,698	-	13,566	27,132
263.84	DM07-952-008	10/1/2028	88,753	-	14,792	73,961
263.84	DM07-952-019	10/1/2028	54,221	-	9,037	45,184
263.84	DM07-952-020	10/1/2028	116,474	-	19,412	97,062
263.84	DM07-952-022	10/1/2028	89,067	-	14,845	74,222
263.84	DM07-952-046	10/1/2028	75,750	-	12,625	63,125
263.84	DM12-952-123	10/1/2033	96,250	-	8,750	87,500
263.84	DM15-952-047	10/1/2036	156,310	-	11,165	145,145
259.12	Compensated Absences		213,753	18,551	-	232,304
264.30	Net Pension Liability		172,464	-	24,543	147,921
263.12	Claims Liability		71,305	4,710	-	76,015
263.57	SBITA		20,435	-	20,435	-
263.93	Dosing Tank		9,676	324	-	10,000
263.93	Well #1		7,741	259	-	8,000
263.93	Well #2		7,741	259	-	8,000
Total Revenue and Other (non G.O.) Debt/Liabilities:			1,220,638	24,103	149,170	1,095,571
Total Liabilities:			1,220,638	24,103	149,170	1,095,571

**Public Utility District No. 1 of Stevens County
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	01-65101-034	10/1/2022	129,557	-	129,557	-
263.84	04-65104-033	10/1/2025	54,264	-	13,566	40,698
263.84	DM07-952-008	10/1/2028	103,545	-	14,792	88,753
263.84	DM07-952-019	10/1/2028	63,258	-	9,037	54,221
263.84	DM07-952-020	10/1/2028	135,886	-	19,412	116,474
263.84	DM07-952-022	10/1/2028	103,912	-	14,845	89,067
263.84	DM07-952-046	10/1/2028	88,375	-	12,625	75,750
263.84	DM12-952-123	10/1/2033	105,000	-	8,750	96,250
263.84	DM15-952-047	10/1/2036	167,475	-	11,165	156,310
259.12	Compensated Absences		191,031	22,722	-	213,753
264.30	Net Pension Liability		74,288	98,176	-	172,464
263.12	Claims Liability		87,475	-	16,170	71,305
264.40	OPEB		136,331	-	136,331	-
263.93	Dosing Tank		-	9,676	-	9,676
263.93	Well #1		-	7,741	-	7,741
263.93	Well #2		-	7,741	-	7,741
Total Revenue and Other (non G.O.) Debt/Liabilities:			1,440,397	146,056	386,250	1,200,203
Total Liabilities:			1,440,397	146,056	386,250	1,200,203

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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