# HAYDEN AREA REGIONAL SEWER BOARD

FINANCIAL STATEMENT
SEPTEMBER 30, 2024

# HAYDEN AREA REGIONAL SEWER BOARD
**September 30, 2024**

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# FINANCIAL SECTION

## INDEPENDENT AUDITOR'S REPORT

MAGNUSON • McHUGH • DOUGHERTY
CERTIFIED PUBLIC ACCOUNTANTS

# INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Hayden Area Regional Sewer Board
Hayden, ID 83835

**Report on the Audit of the Financial Statements**

***Opinions***

We have audited the financial statements of the business type activities of Hayden Area Regional Sewer Board as of and for the year ended September 30, 2024, and the related notes to the financial statements, which collectively comprise the Board's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements present fairly, in all material respects, the respective financial position of the business-type activities of Hayden Area Regional Sewer Board, as of September 30, 2024, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

***Basis for Opinions***

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in Government Auditing Standards (GAS), issued by the Comptroller General of the United States. 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 Hayden Area Regional Sewer Board 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 opinions.

***Responsibilities of Management for the Financial Statements***

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and 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 Hayden Area Regional Sewer Board'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 as a whole 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 GAS 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.



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**INDEPENDENT AUDITOR'S REPORT (CONCLUDED)**

***Auditor's Responsibilities for the Audit of the Financial Statements (Concluded)***

In performing an audit in accordance with GAAS and GAS, we:

- 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 Hayden Area Regional Sewer Board'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 Hayden Area Regional Sewer Board's ability to continue as a going concern for a reasonable period of time.

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.

***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, and certain GASB No. 68 pension information as listed in the table of contents, be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated December 9, 2024, on our consideration of Hayden Area Regional Sewer Board's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely 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 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 Hayden Area Regional Sewer Board's internal control over financial reporting and compliance.



Magnuson, McHugh, Dougherty CPAs

December 9, 2024



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# FINANCIAL SECTION

## MANAGEMENT'S DISCUSSION AND ANALYSIS

# Hayden Area Regional Sewer Board

## MANAGEMENT'S DISCUSSION AND ANALYSIS
## For the Year Ended September 30, 2024

The management of the Hayden Area Regional Sewer Board (the "Board"), a joint powers Idaho public entity, offers readers of the Board's financial statements this narrative overview and analysis of the financial activities of the Board for the fiscal year ended September 30, 2024.

### FINANCIAL HIGHLIGHTS

The Board's total net position for its Operating Fund for the fiscal year ending September 30, 2024, is $50,631,588 of which $42,840,332 is invested in capital assets (excluding debt). Hayden Area Regional Sewer Board (HARSB) was created as a joint power's entity, separate and apart from any of its members. As a joint power's entity, Hayden Area Regional Sewer Board does not have the authority to tax, bond for debt or to form an LID. The members of the entity have the obligation to fund the operations of HARSB. They can satisfy that obligation using whatever mechanisms are available to them, which include user fees, bonding and formation of an LID. It is at the sole discretion of the individual members what funding mechanism they will use to satisfy their obligations. If a member elects to incur debt to fund that obligation, the debt service is the obligation of the member and not HARSB.

- Revenue received from the three entities and expense reimbursement in the Operating Fund for operations and maintenance consisted of $2,516,187 accounting for 62% of all fiscal year 2024 operating revenues. Revenue replacement assessment consisted of $1,500,000, accounting for approximately 37%. The remaining revenues received in the Operating Fund were received from farm income.
- Revenue in the Construction Fund from WU's (connection fees) of $2,187,840 accounts for the total Construction Fund Operating revenues for the 2024 fiscal year end.
- By Board action, Unrestricted Funds in the Operating Fund are approved for designated system repairs and other Board approved expenses.
- Operating and maintenance expenses (net of depreciation, replacement reserve, change in net pension liability, and gain on disposal of asset expenses, Replacement Return) increased by $370,794 in the Operating Fund from the previous year. This year's budget was in line with the anticipated expenses for the year, the facility is still in the start-up phase of construction bringing on the Tertiary Treatment, Solids Contact Clarifier and Solar Dryer.

### THE BOARD'S OPERATIONS – AN OVERVIEW

The activities of the Board are accounted for much like that of a private business and use the full accrual method of accounting for transactions.

The Board was created by nature of a Joint Powers Agreement among the City of Hayden, Hayden Lake Recreational Water and Sewer District, now known as Hayden Lake Sewer District, and Kootenai County (Coeur d'Alene Airport, Pappy Boyington Field). The Board's purpose is to operate, maintain and construct the facilities sewage collection, treatment and disposal systems. The sewer treatment system serves the Coeur d'Alene Airport, Hayden Lake Sewer District and the City of Hayden. The major activities include: operations/maintenance of the treatment facility, reuse farm, influent and effluent force mains; administrative and financial functions; and overall responsibility for the Idaho Department of Environmental Quality IPDES (Idaho Pollution Discharge Elimination System) permit for discharge into the Spokane River and the Idaho Department of Environmental Quality Reuse Permit for discharge over the Rathdrum Prairie Aquifer. The members of HARSB are each responsible for the operations/maintenance of their own collection systems and lift stations. Some of the members pay HARSB to perform those services on behalf of the member.

## BASIC FINANCIAL STATEMENTS

In accordance with the Governmental Accounting Standards Board (GASB) Statement No. 34, the Board's basic financial statements include a Statement of Net Position, Statement of Revenues, Expenses and Changes in Net Position, and a Statement of Cash Flows.

The Statement of Net Position includes the Board's assets and deferred outflows of resources, and liabilities and deferred inflows of resources, and provides information about the nature and amounts of investments in resources (assets) and the obligations to the Board's creditors (liabilities). The difference between the assets and deferred outflows of resources, and liabilities and deferred inflows of resources, is shown as net position. This statement also provides the basis of evaluating the capital structure of the Board and assessing its liquidity and financial flexibility. Increases or decreases in the Board's net position are one indicator of whether its financial position is improving or deteriorating, respectively. To assess the overall financial condition of the Board, additional non-financial factors, such as changes in capacity of the service area and the condition of its equipment, buildings, and other facilities should be considered.

The Statement of Revenues, Expenses and Changes in Net Position accounts for the current year's revenues and expenses. This statement measures the success of the Board's operations over the past year and determines whether the Board has recovered its costs through user fees and other charges.

The final required financial statement is the Statement of Cash Flows. This statement reports cash receipts, cash disbursements, and net changes in cash resulting from operations and investment activity during the reporting period.

The notes to the financial statements provide a description of the accounting policies used to prepare the financial statements and present disclosures required by generally accepted accounting principles that are not otherwise present in the financial statements. They also provide further explanation of some of the information in the statements so that readers of the financial statements have a complete picture of the Board's financial activities and position. The notes to financial statements can be found beginning on page 12.

The Board has two funds, the Operating Fund, and the Construction Fund. Funds are accounting devices the Board uses to keep track of sources of funding and spending on particular programs and to demonstrate compliance with various regulatory requirements.
The two funds are described below:

- Operating Fund (Operations and Maintenance) — All of the Board's basic services are included in the Operating Fund, which generally focus on: (1) how cash and other financial assets, which can readily be converted to cash, flow in and out and (2) how the actual costs are covered by reimbursements from the three entities (City of Hayden, Hayden Lake Sewer District, and Kootenai County) based on percentages of billable WU's (Wastewater Units) in each entity. Operating Fund activities are mostly supported by reimbursements from the entities of the Board. The Designated Replacement funds are also located within the Operating Fund and are covered by reimbursements from the three entities.

- Construction Fund — All construction activity needed due to increased treatment and capacity is included in the Construction Fund. Construction Fund activities are mostly supported by monies generated by connection fees (WU's). Entity Capital Contributions are also needed to fund regulatory updates and large construction projects.

## FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of financial position. The Board's current year Operating Fund total assets exceeded its liabilities on September 30, 2024, by $50,631,588 (net position). The Operating Fund net positions decreased by $98,396 in 2023 and increased by $24,757,668 in 2024. Construction Fund total assets exceeded its liabilities on September 30, 2024, by $4,408,038 (net position). The Construction Fund net position increased by $3,253,146 in 2023 and decreased by $20,919,636 in 2024. The Board has closed the Phase 2 ITT BNR Upgrade as of June 30, 2024. Table 1 presents a summary of the combined Operating and Construction funds for the Board's net position as of September 30, 2024, and 2023.

**TABLE 1**

**STATEMENTS OF NET POSITION**
**September 30, 2024 and 2023**

| | 2024 | 2023 |
|---|---|---|
| **ASSETS** | | |
| Current assets | $ 13,175,148 | $ 9,469,272 |
| Capital assets | 42,974,890 | 43,792,318 |
| Total assets | 56,150,038 | 53,261,590 |
| **DEFERRED OUTFLOWS OF RESOURCES** | 148,203 | 263,322 |
| **LIABILITIES** | | |
| Current liabilities | 460,391 | 1,039,899 |
| Long-term liabilities | 199,164 | 622,190 |
| Net pension liability | 599,060 | 656,739 |
| Total liabilities | 1,258,615 | 2,318,828 |
| **DEFERRED INFLOWS OF RESOURCES** | - | 4,490 |
| **NET POSITION** | | |
| Net investment in capital assets | 42,974,890 | 43,792,318 |
| Nonspendable | 3,042,123 | 68,730 |
| Unrestricted | 9,022,613 | 7,340,546 |
| Total net position | $ 55,039,626 | $ 51,201,594 |

By far, the largest portion of the Board's net positions reflects its investment in capital assets (e.g., buildings and real property, operating equipment, plant equipment, furniture, and fixtures).

## FINANCIAL ANALYSIS (CONCLUDED)

Table 2 shows the summary changes in net position for the fiscal years ended September 30, 2024, and 2023.

**TABLE 2**

**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION**
**For the Years Ended September 30, 2024 and 2023**

| | 2024 | 2023 |
|---|---|---|
| **REVENUES** | | |
| Charges and fees | $ 2,516,187 | $ 2,390,808 |
| Replacement assessments | 1,500,000 | 1,400,000 |
| Discharge/hookup fees | 2,187,840 | 664,780 |
| Interest | 516,306 | 381,084 |
| Miscellaneous | 18,412 | 18,410 |
| Entity capital contribution | 953,628 | 2,515,200 |
| Unrealized gain (loss) on investments | 29,068 | (37,298) |
| Gain (loss) on disposal of asset | 8,326 | (17,735) |
| Total revenue | 7,729,767 | 7,315,249 |
| **EXPENSES** | | |
| Administration | 480,736 | 397,727 |
| Treatment plant operation | 1,720,543 | 1,609,117 |
| Interceptor operation | 5,465 | 774 |
| Collector operation | 12,258 | 11,493 |
| Land application | 195,598 | 133,524 |
| Designated replacement expenses | 3,019 | 823,166 |
| Depreciation | 1,330,612 | 1,010,981 |
| Change in net pension liability | 143,504 | 173,717 |
| Total expenses | 3,891,735 | 4,160,499 |
| Change in net position | 3,838,032 | 3,154,750 |
| Net position- beginning | 51,201,594 | 48,046,844 |
| Net position- ending | $ 55,039,626 | $ 51,201,594 |

As shown in table 2, the Board relies on income from the entities in the form of charges and fees in the Operating Fund for approximately 62% of the revenues received; and relies on the income from discharge/hookup fees in the Construction Fund for the revenue received. The Board has closed the Construction project but is still in start-up for the Phase 2 Tertiary Treatment and Biosolids Project Upgrade. Entity Capital Contribution was for the construction costs on the Tertiary Treatment and Biosolids Project Upgrade.

## CAPITAL ASSET AND DEBT ADMINISTRATION

### Capital Assets and Related Debt

The Board has invested approximately $59.98 million in a broad range of capital assets, including buildings, land, equipped apparatus, plant equipment and furniture and fixtures. Total accumulated depreciation on these assets amounts to $17.01 million as of September 30, 2024.

Asset acquisitions for the Board totaled $518,401 for the year ending September 30, 2024. The construction still in progress for the year is $303,403. Asset acquisitions and replacements include Eco-belt flow meter, '24 F150, RAS 1 and RAS 2 4" Pumps, and closure of the Tertiary Treatment and Biosolids Project.

See Note 3 on page 17 in the notes to the financial statements for detail changes in capital assets. See financial Note 5 on pages 22 thru 24 for full Tertiary Treatment and Biosolids Project construction disclosure.

## ECONOMIC FACTORS AND CONDITIONS CONSIDERATION

Many factors were considered by the Board's administration during the process of developing the fiscal year 2024 budget. The primary factors were: The Board's IPDES permit requirements and resulting compliance schedule to meet the stricter water quality permit standard and the new IPDES permit which started 6-1-2024; Spokane River Dissolved Oxygen TMDL; the Idaho Department of Environmental Quality 401 water quality certification; and the Idaho Department of Environmental Quality Reuse Permit. The Board has approved a facility plan to meet the compliance schedule. As of November 1, 2012, after receiving public comment and holding a public hearing, the Board determined to move forward with Alternative 2 with an estimated $53.35 million-dollar twenty-year cost to HARSB and its entities, the final facility plan was submitted and approved by the Idaho Department of Environmental Quality (IDEQ). The Board authorized J-U-B Engineering to update the facility plan, and it was completed in December 2018.

The Board started construction, October 2021 for Phase 2 Tertiary Treatment and Biosolids Project Upgrade of the Facilities. The Phase 2 ITT BNR Upgrade includes Tertiary Ultrafiltration, Tertiary Clarification, replacement Dewatering Building, and a Solar Dryer System. This Project is now closed as of 6-30-2024. We are still in start up to meet the phosphorus effluent requirements in the IPDES compliance schedule by November 30, 2025 (November 30, 2014, permit).

FCS updated our Financial Plan in accordance with the approved methodology discussed by the courts in the (North Idaho Building Contractors Association) NIBCA vs. City of Hayden capitalization fee lawsuit. In December of 2016, upon receiving the FCS financial plan recommendations, the Board lowered capitalization fees. The FCS updated financial plan is on file at the HARSB office.

Based on an analysis of historical usage and recommendation by the engineering firm in the spring of 2020, the equivalent gallonage for a residential unit was adjusted from 200 gallons to 172.50 gallons per day. FCS updated our capitalization fee to reflect this change, and the Board lowered the capitalization fees. The updated information is on file at the HARSB office.

The Board has hired FCS to update the capitalization fee in October 2024 with the closure of the Phase 2 Tertiary Treatment and Biosolids Project Upgrade.

## FACTORS BEARING ON THE BOARD'S FUTURE

Current circumstances that could impact the Board's financial status in the future are:

- The construction in Hayden had seen significant growth but is slowing down.
- The Board has an IPDES permit, the permit still requires HARSB to meet upcoming standards. The current IPDES permit was issued April 29, 2024 to become effective June 1-2024. HARSB has appealed some permit standards, and Idaho Department of Environmental Quality has stayed certain contested permit conditions. Contested permit conditions include: methylmercury fish tissue testing, monitoring for per-and polyfluoroalkyl substances (PFA's), WET Testing during the third quarter, some chlorine sampling and narrative limits.
- The Board has a continuing need for capital investments to meet the standards presented in the IPDES permit, and to keep pace with the anticipated 10-20-year growth and development expected within the Board's boundaries, for more information see the facility and financial plans.
- The City of Hayden and Kootenai County issued to the Hayden Lake Sewer District and Board a joint notice of termination. The notice of termination provides notice to the District and Board of the City and County's intention to terminate the Agreement (4$^{th}$ Amended Joint Powers Agreement) effective one hundred and eighty days from the date hereof. (September 13, 2024).

## CONTACTING THE BOARD'S FINANCIAL MANAGEMENT

This financial report is designed to provide the Entities and their citizens and taxpayers with a general overview of the Board's finances and to demonstrate the Board's accountability for the resources it receives. If you have questions about this report or need additional information, contact Hayden Area Regional Sewer Board at 10789 N Atlas Road, Hayden ID, 83835.

# FINANCIAL SECTION

## BASIC FINANCIAL STATEMENTS

## Hayden Area Regional Sewer Board

### STATEMENT OF NET POSITION
**September 30, 2024**

| | Operating Fund | Construction Fund | Total |
|---|---|---|---|
| **ASSETS** | | | |
| Cash and cash equivalents | $ 5,342,993 | $ 3,940,211 | $ 9,283,204 |
| Investments | 185,747 | - | 185,747 |
| Accounts receivable (trade) | 34,783 | 50,318 | 85,101 |
| Construction receivable (entity payable) | - | 496,205 | 496,205 |
| Interfund receivable | 82,768 | - | 82,768 |
| Prepaid expenses | 3,042,123 | - | 3,042,123 |
| Total current assets | 8,688,414 | 4,486,734 | 13,175,148 |
| Capital assets: | | | |
| Land | 1,873,060 | - | 1,873,060 |
| Construction in progress | 168,845 | 134,558 | 303,403 |
| Buildings and facilities | 55,942,755 | - | 55,942,755 |
| Equipment | 1,869,426 | - | 1,869,426 |
| Less: accumulated depreciation | (17,013,754) | - | (17,013,754) |
| Net capital assets | 42,840,332 | 134,558 | 42,974,890 |
| Total assets | 51,528,746 | 4,621,292 | 56,150,038 |
| **DEFERRED OUTFLOWS OF RESOURCES** | | | |
| Proportionate share of collective deferred outflows of resources | 148,203 | - | 148,203 |
| Total deferred outflows of resources | 148,203 | - | 148,203 |
| **LIABILITIES** | | | |
| Current liabilities: | | | |
| Accounts payable | 329,115 | - | 329,115 |
| Interfund payable | - | 82,768 | 82,768 |
| Accrued payroll and related expenses | 47,008 | - | 47,008 |
| Deferred income | 1,500 | - | 1,500 |
| Total current liabilities | 377,623 | 82,768 | 460,391 |
| Long-term liabilities: | | | |
| Construction payable (entity receivable) | - | 130,486 | 130,486 |
| Compensated absences | 68,678 | - | 68,678 |
| Net pension liability | 599,060 | - | 599,060 |
| Total long-term liabilities | 667,738 | 130,486 | 798,224 |
| Total liabilities | 1,045,361 | 213,254 | 1,258,615 |
| **NET POSITION** | | | |
| Net investment in capital assets | 42,840,332 | 134,558 | 42,974,890 |
| Nonspendable | 3,042,123 | - | 3,042,123 |
| Unrestricted | 4,749,133 | 4,273,480 | 9,022,613 |
| Total net position | $ 50,631,588 | $ 4,408,038 | $ 55,039,626 |

The accompanying "Notes to the Financial Statements"
are an integral part of this statement.

# Hayden Area Regional Sewer Board

## STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
## For the Year Ended September 30, 2024

| | Operating Fund | Construction Fund | Total |
|---|---|---|---|
| Operating revenues: | | | |
| Charges and fees | $ 2,516,187 | $ - | $ 2,516,187 |
| Replacement assessments | 1,500,000 | - | 1,500,000 |
| Discharge/hookup fees | - | 2,187,840 | 2,187,840 |
| Miscellaneous | 18,412 | - | 18,412 |
| Total operating revenues | 4,034,599 | 2,187,840 | 6,222,439 |
| Operating expenses: | | | |
| Administration | 480,736 | - | 480,736 |
| Treatment plant operation | 1,720,543 | - | 1,720,543 |
| Interceptor operation | 5,465 | - | 5,465 |
| Collector operation | 12,258 | - | 12,258 |
| Land application | 195,598 | - | 195,598 |
| Designated replacement expenses | 3,019 | - | 3,019 |
| Depreciation | 1,330,612 | - | 1,330,612 |
| Change in net pension liability | 143,504 | - | 143,504 |
| Total operating expenses | 3,891,735 | - | 3,891,735 |
| Operating income (loss) | 142,864 | 2,187,840 | 2,330,704 |
| Nonoperating revenues (expenses): | | | |
| Interest | 381,551 | 134,755 | 516,306 |
| Transfer to (from) other funds | 24,121,025 | (24,121,025) | - |
| Unrealized gain (loss) | 21,134 | 7,934 | 29,068 |
| Entity capital contribution | - | 953,628 | 953,628 |
| Gain on disposal of asset | 8,326 | - | 8,326 |
| Replacement return | 82,768 | (82,768) | - |
| Total nonoperating revenues (expenses) | 24,614,804 | (23,107,476) | 1,507,328 |
| Change in net position | 24,757,668 | (20,919,636) | 3,838,032 |
| Net position - beginning | 25,873,920 | 25,327,674 | 51,201,594 |
| Net position - ending | $ 50,631,588 | $ 4,408,038 | $ 55,039,626 |

The accompanying "Notes to the Financial Statements" are an integral part of this statement.

## Hayden Area Regional Sewer Board

### STATEMENT OF CASH FLOWS
### For the Year Ended September 30, 2024

| | Operating Fund | Construction Fund | Total |
|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Receipts from customers | $ 4,049,739 | $ 2,540,490 | $ 6,590,229 |
| Other receipts | 18,412 | - | 18,412 |
| Payments to suppliers | (5,179,994) | - | (5,179,994) |
| Payments to employees | (916,232) | - | (916,232) |
| Net cash provided (used) by operating activities | (2,028,075) | 2,540,490 | 512,415 |
| **CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES** | | | |
| Transfers to (from) other funds | (13,544) | 13,544 | - |
| Net cash provided (used) by non-capital financing activities | (13,544) | 13,544 | - |
| **CASH FLOWS FROM CAPITAL AND RELATED FINANCING** | | | |
| Capital contributions | - | 531,955 | 531,955 |
| Proceeds on sale of assets | 8,326 | - | 8,326 |
| Payments made for construction in progress | (237,987) | (322,666) | (560,653) |
| Net cash provided (used) by capital and related financing | (229,661) | 209,289 | (20,372) |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Interest income/change in fair value of investments | 402,685 | 142,689 | 545,374 |
| Net cash provided (used) by investing activities | 402,685 | 142,689 | 545,374 |
| Net increase (decrease) in cash and cash equivalents | (1,868,595) | 2,906,012 | 1,037,417 |
| Cash and cash equivalents, beginning | 7,397,335 | 1,034,199 | 8,431,534 |
| Cash and cash equivalents, ending | $ 5,528,740 | $ 3,940,211 | $ 9,468,951 |
| **Reconciliation of operating income (loss) to net cash provided (used) by operating activities:** | | | |
| Operating income (loss) | $ 142,864 | $ 2,187,840 | $ 2,330,704 |
| Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities: | | | |
| Depreciation expense | 1,330,612 | - | 1,330,612 |
| Decrease in accounts receivable | 35,052 | 352,650 | 387,702 |
| (Increase) in prepaid expenses | (2,973,393) | - | (2,973,393) |
| (Decrease) in accounts payable | (624,736) | - | (624,736) |
| (Decrease) in deferred revenue | (1,500) | - | (1,500) |
| Increase in compensated absences | 10,076 | - | 10,076 |
| Change in net pension liability or asset | 52,950 | - | 52,950.00 |
| Total adjustments | (2,170,939) | 352,650 | (1,818,289) |
| Net cash provided (used) by operating activities | $ (2,028,075) | $ 2,540,490 | $ 512,415 |
| **Reconciliations of cash to the Statement of Net Position:** | | | |
| Cash | $ 5,342,993 | $ 3,940,211 | $ 9,283,204 |
| Investments | 185,747 | - | 185,747 |
| Total cash and cash equivalents | $ 5,528,740 | $ 3,940,211 | $ 9,468,951 |

The accompanying "Notes to the Financial Statements" are an integral part of this statement.

## NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity – These statements include all funds of Hayden Area Regional Sewer Board ("HARSB" or the "Board'). HARSB was created by nature of a Joint Powers Agreement between the City of Hayden, Hayden Lake Recreational Water and Sewer District, now known as Hayden Lake Sewer District, and Kootenai County airport. HARSB was formed to construct and operate the sewage collection and treatment system. The sewer treatment system serves the County airport, Hayden Lake Sewer District, and the City of Hayden. The City, District and County each appoint representatives to the Board of Directors of HARSB.

HARSB performs administrative, billing, maintenance, etc. of the system. Expenses paid by HARSB are reimbursed by the entities when they are billed. Individual audited financial statements are available from each entity.

Basis of Presentation and Accounting – The Board's basic financial statements are presented on the full accrual basis of accounting and conform to accounting principles generally accepted in the United States of America. The Board has elected under GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Fund and Other Governmental Activities That Use Proprietary Fund Accounting*, to apply all applicable GASB pronouncements as well as any applicable pronouncements of the Financial Accounting Standards Board, the Accounting Principles Board, or any Accounting Research Bulletins issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements.

The accounts of HARSB are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance, revenues, and expenditures. HARSB uses the following enterprise funds to report activity:

*Operating Fund* – This fund is established to account for operations that are financed and operated in a manner similar to private business enterprises where the intent is that costs of providing goods or services to the sewer users on a continuing basis be financed or recovered through user charges.

*Construction Fund* – This fund is used to account for projects in process of construction. Revenues are recorded as received in the form of hookup fees.

The accounting and financial reporting treatment applied to the Board is determined by its measurement focus. The transactions of the Board are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operations are included on the statements of net positions. Net position (i.e., total assets net of total liabilities) are segregated into invested in capital assets, net of related debt; restricted for debt service; and unrestricted components.

Receivables – All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible. There are no amounts considered uncollectible at September 30, 2024.

(Continued)

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Cash and Cash Equivalents – The Board invests in one 2a-7-like pool, the Idaho State Investment Pool. The advisory board of the Idaho State Investment Pool is composed of members appointed pursuant to the requirements of the Public Funds Investment Act. The Idaho State Investment Pool is duly chartered and administered by the State Treasurer's office and consists of US Treasury bills and notes, collateralized certificates of deposit and repurchase agreements.

The Board considers funds held in the Idaho State Investment Pool to be cash equivalents, as the Board is able to liquidate their account at any time.

For presentation on the financial statements, investments in the cash management pool and investments with an original maturity of three months or less at the time they are purchased by the Board are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

Capital Assets – Property and equipment purchased or acquired with an original cost of $5,000 or more are stated at cost when purchased or constructed or where historical records are available and at an estimated cost where no historical records exist. The Board's capitalization policy is based on an estimated useful life of greater than one year. Routine repairs and maintenance are charged to operating expense in the period in which the expense was incurred.

Depreciation has been provided over estimated useful lives of the assets using the straight-line method. The estimated useful lives are as follows:

| | |
|---|---|
| System | 5 - 50 years |
| Equipment | 5 - 50 years |
| Automotive | 5 years |
| Office equipment | 5 - 8 years |
| Office building | 20 - 40 years |

Operating Revenues and Expenses – Operating revenues and expenses consist of those revenues and expenses that result from the ongoing principal operations of the Board. Operating revenues consist primarily of activities that have the characteristics of exchange transactions such as sewer charges, net of refunds. Nonoperating revenues and expenses consist of those revenues and expenses that are related to financing and investing type activities and result from non-exchange transactions or ancillary activities such as gains and losses from disposal of assets. When an expense is incurred for purposes for which there are both restricted and unrestricted net positions available, it is the Board's policy to apply those expenses to restricted net positions to the extent such are available and then to the unrestricted net positions.

(Continued)

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Net Position – Net position comprises the various net earnings from operating income, non-operating revenues and expenses, and capital contributions. Net position is classified into the following three components:

Net Investment in Capital Assets – This consists of capital assets, net of accumulated depreciation and reduced by the outstanding balance of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of "net investment in capital assets". Rather, that portion of the debt is included in the same net positions component as the unspent proceeds.

Restricted Net Position – This consists of constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions of enabling legislation.

Unrestricted Net Position – This consists of net positions that do not meet the definition of "restricted" or "net investment in capital assets".

Income Taxes – The Board is a joint powers entity, with all of its members being political subdivisions or special purpose taxing districts of the State of Idaho and is not subject to taxation of its earnings.

Statement of Cash Flows – For the purposes of the Statement of Cash Flows, the Board considers all highly-liquid investments with a maturity of three months or less, restricted deposits, and deposits with the State of Idaho Local Government Investment Pool to be cash equivalents.

Use of Estimates – The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Compensated Absences – Board employees are entitled to certain compensated absences based on their length of employment. Compensated absences vest or accumulate and are recorded as expenditures when they are earned.

Deferred Outflows/Inflows of Resources – In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/ expenditure) until then. The Board only has one item that qualifies for reporting in this category. It is the deferred outflows relating to the accounting for the net pension obligation on the government-wide statement of net position, in accordance with GASB 68, Accounting and Financial Reporting for Pensions.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

(Continued)

## NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONCLUDED)

Deferred Outflows/Inflows of Resources (Concluded) – The Board has one type of item, which arises under full accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, proportionate share of collective deferred inflows of resources, is reported only on the government-wide statement of net position. The government-wide statement of net position reports proportionate share of collective deferred inflows of resources from one source: accounting for the net pension obligation, in accordance with GASB 68, Accounting and Financial Reporting for Pensions.

Pensions – For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Public Employee Retirement Board of Idaho Base Plan (Base Plan) and additions to/deductions from Base Plan fiduciary net position have been determined on the same basis as they are reported by the Base Plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

The financial statements of the Board have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

## NOTE 2: CASH AND INVESTMENTS

General:

State statutes authorize the Board's investments and deposits. The Board is authorized to invest in demand deposits, savings accounts, U.S. Government obligations and its agencies, obligations of the State of Idaho and its agencies, fully collateralized repurchase agreements, prime domestic commercial paper, prime domestic bankers acceptances, bonds, debentures or notes of any corporation organized, controlled and operating within the U.S. which have at their purchase an "A" rating or higher, government pool and money market funds consisting of any of these securities listed. No violations of these categories have occurred during the year.

(Continued)

## NOTE 2: CASH AND INVESTMENTS (CONTINUED)

Custodial credit risk:

Custodial credit risk is the risk that in the event of a failure of a financial institution, the Board's deposits and investments may not be returned to it. The Board does not have a deposit policy for custodial credit risk. As of September 30, 2024, the Board's deposits were exposed to custodial credit risk as follows:

Deposits and investments without exposure to custodial credit risk:

| | |
|---|---|
| *Deposits:* | |
| Insured deposits | $ 260,419 |
| Funds held in the Board's name by the Idaho State Investment Pool | 8,440,241 |
| Total deposits | 8,700,660 |
| *Investments:* | |
| Amount registered in the name of the Board | 185,747 |
| Total deposits and investments without exposure to custodial credit risk: | $ 8,886,407 |

Deposits and investments with exposure to custodial credit risk:

| | |
|---|---|
| Uninsured deposits | $ 3,647,436 |
| Total deposits and investments with exposure to custodial credit risk | $ 3,647,436 |

The carrying amount is displayed in the financial statements as follows:

| | |
|---|---|
| Cash and cash equivalents | $ 9,283,204 |
| Investments | 185,747 |
| Total carrying value of cash and investments | $ 9,468,951 |

Credit risk:

The Idaho State Investment Pool does not have an established credit rating but invests in entities with a minimum credit rating of "A" as stipulated by Idaho code. The Board does not have a formal policy for credit risk. Financial information on the investment pool can be obtained by contacting the Idaho State Treasurer.

Interest rate risk and concentration of credit risk:

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Concentration of credit risk as defined by GASB exists when more than 5% of an investment portfolio is allocated to one security. There were no securities that were 5% of the investment portfolio at September 30, 2024.

(Continued)

## NOTE 2: CASH AND INVESTMENTS (CONCLUDED)

Interest rate risk and concentration of credit risk (concluded):

As of September 30, 2024, the Board had the following investments (and associated maturities) in its internal investment portfolio:

| Investment | Fair Value | Less than 2 years | 2-5 Years | 6-10 Years | 10 years or more |
|---|---|---|---|---|---|
| Corporate / Gov Bonds | $ 185,747 | $ - | $ - | $ - | $ 185,747 |
| Total | $ 185,747 | $ - | $ - | $ - | $ 185,747 |

## NOTE 3: CAPITAL ASSETS

Following is a recap of capital assets for the fiscal year ended September 30, 2024:

| | Beginning Balance | Additions | Disposals | Transfers | Ending Balance |
|---|---|---|---|---|---|
| Capital assets, not being depreciated: | | | | | |
| Land | $ 1,874,420 | $ - | $ (1,360) | $ - | $ 1,873,060 |
| Construction in process - Construction | 23,993,930 | 275,197 | - | (24,134,569) | 134,558 |
| Construction in process - O&M | - | 168,845 | - | - | 168,845 |
| Total capital assets, not being depreciated | 25,868,350 | 444,042 | (1,360) | (24,134,569) | 2,176,463 |
| Capital assets, being depreciated: | | | | | |
| Buildings and facilities | 31,792,593 | 15,593 | - | 24,134,569 | 55,942,755 |
| Equipment | 1,825,979 | 58,766 | (15,319) | - | 1,869,426 |
| Total capital assets, being depreciated | 33,618,572 | 74,359 | (15,319) | 24,134,569 | 57,812,181 |
| Less accumulated depreciation for: | | | | | |
| Buildings and facilities | (14,215,639) | (1,267,711) | - | - | (15,483,350) |
| Equipment | (1,478,965) | (62,901) | 11,462 | - | (1,530,404) |
| Total accumulated depreciation: | (15,694,604) | (1,330,612) | 11,462 | - | (17,013,754) |
| Total capital assets, being depreciated, net | 17,923,968 | (1,256,253) | (3,857) | 24,134,569 | 40,798,427 |
| Governmental activities capital assets, net | $ 43,792,318 | $ (812,211) | $ (5,217) | $ - | $ 42,974,890 |

## NOTE 4: DEFINED BENEFIT PENSION PLAN

*Plan Description*

The Hayden Area Regional Sewer Board contributes to the Base Plan which is a cost-sharing multiple-employer defined benefit pension plan administered by Public Employee Retirement Board of Idaho (PERSI or System) that covers substantially all employees of the State of Idaho, its agencies and various participating political subdivisions. The cost to administer the plan is financed through the contributions and investment earnings of the plan. PERSI issues a publicly available financial report that includes financial statements and the required supplementary information for PERSI. That report may be obtained on the PERSI website at www.persi.idaho.gov.

(Continued)

**NOTE 4: DEFINED BENEFIT PENSION PLAN (CONTINUED)**

*Plan Description (Concluded)*

Responsibility for administration of the Base Plan is assigned to the System comprised of five members appointed by the Governor and confirmed by the Idaho Senate. State law requires that two members of the System be active Base Plan members with at least ten years of service and three members who are Idaho citizens not members of the Base Plan except by reason of having served on the System.

*Pension Benefits*

The Base Plan provides retirement, disability, death and survivor benefits of eligible members or beneficiaries. Benefits are based on members' years of service, age, and highest average salary. Members become fully vested in their retirement benefits with five years of credited service (5 months for elected or appointed officials). Members are eligible for retirement benefits upon attainment of the ages specified for their employment classification. The annual service retirement allowance for each month of credited service is 2.0% (2.3% for police/firefighters) of the average monthly salary for the highest consecutive 42 months.

The benefit payments for the Base Plan are calculated using a benefit formula adopted by the Idaho Legislature. The Base Plan is required to provide a 1% minimum cost of living increase per year provided the Consumer Price Index increases 1% or more. The PERSI Board has the authority to provide higher cost of living increases to a maximum of the Consumer Price Index movement or 6%, whichever is less; however, any amount above the 1% minimum is subject to review by the Idaho Legislature.

*Member and Employer Contributions*

Member and employer contributions paid to the Base Plan are set by statute and are established as a percent of covered compensation. Contribution rates are determined by the PERSI Board within limitations, as defined by state law. The Board may make periodic changes to employer and employee contribution rates (expressed as percentages of annual covered payroll) that are adequate to accumulate sufficient assets to pay benefits when due.

The contribution rates for employees are set by statute at 60% of the employer rate for general employees and 74% for public safety. As of June 30, 2024, it was 6.71% for general employees and 9.83% for public safety. The employer contribution rate as a percent of covered payroll is set by the Retirement Board and was 11.18% general employees and 13.26% for police and firefighters. The Hayden Area Regional Sewer Board's contributions were $90,553 for the year ended September 30, 2024.

*Pension Liabilities, Pension Expense (Revenue), and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions*

At September 30, 2024, the Hayden Area Regional Sewer Board reported a liability for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2024, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Board's proportion of the net pension liability was based on the Board's share of contributions in the Base Plan pension plan relative to the total contributions of all participating PERSI Base Plan employers. At June 30, 2024, the Board's proportion was 0.0001601488 percent.

(Continued)

**NOTE 4: DEFINED BENEFIT PENSION PLAN (CONTINUED)**

*Pension Liabilities, Pension Expense (Revenue), and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Concluded)*

For the year ended September 30, 2024, the Hayden Area Regional Sewer Board recognized pension expense (revenue) of $143,504. At September 30, 2024 the Board reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|---|
| Differences between expected and actual experience | $ 10,874 | $ - |
| Changes of assumptions | 23,732 | - |
| Net difference between projected and actual earnings on pension plan investments | 95,376 | - |
| Changes in the employer's proportion and differences between the employer's contributions and the employer's proportionate contributions | (8,664) | - |
| Hayden Area Regional Sewer Board's contributions subsequent to the measurement date | 26,885 | - |
| Total | $ 148,203 | $ - |

$26,885 was reported as deferred outflows of resources related to pensions resulting from Employer contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending September 30, 2025.

The average of the expected remaining service lives of all employees that are provided with pensions through the System (active and inactive employees) determined at July 1, 2022 the beginning of the measurement period ended June 30, 2023 is 4.6 and 4.4 for the measurement period June 30, 2024.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense (revenue) as follows:

| **Year ended September 30:** | |
|---|---|
| 2025 | $ 29,567 |
| 2026 | $ 111,696 |
| 2027 | $ (19,262) |
| 2028 | $ (13,768) |

(Continued)

## NOTE 4: DEFINED BENEFIT PENSION PLAN (CONTINUED)

*Actuarial Assumptions*

Valuations are based on actuarial assumptions, the benefit formulas, and employee groups. Level percentages of payroll normal costs are determined using the Entry Age Normal Cost Method. Under the Entry Age Normal Cost Method, the actuarial present value of the projected benefits of each individual included in the actuarial valuation is allocated as a level percentage of each year's earnings of the individual between entry age and assumed exit age. The Base Plan amortizes any unfunded actuarial accrued liability based on a level percentage of payroll. The maximum amortization period for the Base Plan permitted under Section 59-1322, Idaho Code, is 25 years.

The total pension liability in the June 30, 2024 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

| | |
|---|---|
| Inflation | 2.30% |
| Salary increases including inflation | 3.05% |
| Investment rate of return-net of investment fees | 6.35% |
| Cost-of-living (COLA) adjustments | 1.00% |

**Contributing Members, Service Retirement Members, and Beneficiaries**

- General Employees and All Beneficiaries - Males Pub-2010 General Tables, increased 11%.
- General Employees and All Beneficiaries-Females Pub-2010 General Tables, increased 21%.
- Teachers – Males Pub-2010 Teacher Tables, increased 12%.
- Teachers – Females Pub-2010 Teacher Tables, increased 21%.
- Fire & Police – Males Pub-2010 Safety Tables, increased 21%.
- Fire & Police – Females Pub-2010 Safety Tables, increased 26%.
- Disabled Members – Males Pub-2010 Disabled Tables, increased 38%.
- Disabled Members – Females Pub-2010 Disabled Tables, increased 36%.

An experience study was performed for the period July 1, 2015, through June 30, 2020, which reviewed all economic and demographic assumptions including mortality. The Total Pension Liability as of June 30, 2024, is based on the results of an actuarial valuation date July 1, 2024.

The long-term expected rate of return on pension plan investments was determined using the building block approach and a forward-looking model in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

(Continued)

## NOTE 4: DEFINED BENEFIT PENSION PLAN (CONTINUED)

Actuarial Assumptions (Concluded)

Even though history provides a valuable perspective for setting the investment return assumption, the System relies primarily on an approach which builds upon the latest capital market assumptions. Specifically, the System uses consultants, investment managers and trustees to develop capital market assumptions in analyzing the System's asset allocation. The assumptions and the System's formal policy for asset allocation are shown below. The formal asset allocation policy is somewhat more conservative than the current allocation of System's assets.

The best-estimate range for the long-term expected rate of return is determined by adding expected inflation to expected long-term real returns and reflecting expected volatility and correlation. The capital market assumptions are as of 2024.

| | 2024 | |
|---|---|---|
| Asset Class | DB Plans | Sick Leave |
| Fixed Income | 30.0% | 50.0% |
| US/Global Equity | 55.0% | 39.3% |
| International Equity | 15.0% | 10.7% |
| Cash | 0.0% | 0.0% |
| Total | 100% | 100% |

*Discount Rate*

The discount rate used to measure the total pension liability was 6.35%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate. Based on these assumptions, the pension plans' net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The long-term expected rate of return was determined net of pension plan investment expense but without reduction for pension plan administrative expense.

*Sensitivity of the Employer's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate*

The following presents the Employer's proportionate share of the net pension liability calculated using the discount rate of 6.35 percent, as well as what the Employer's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5.35 percent) or 1-percentage-point higher (7.35 percent) than the current rate:

| | 1% Decrease (5.35%) | Current Discount Rate (6.35%) | 1% Increase (7.35%) |
|---|---|---|---|
| Board's net pension liability (asset) | $ 1,138,400 | $ 599,060 | $ 158,556 |

(Continued)

## NOTE 4: DEFINED BENEFIT PENSION PLAN (CONCLUDED)

*Pension Plan Fiduciary Net Position*

Detailed information about the pension plan's fiduciary net position is available in the separately issued PERSI financial report.

PERSI issues a publicly available financial report that includes financial statements and the required supplementary information for PERSI. That report may be obtained on the PERSI website at www.persi.idaho.gov.

*Payables to the Pension Plan*

At September 30, 2024, the Hayden Area Regional Sewer Board reported payables to the defined benefit pension plan of $0 for legally required employer contributions and $0 for legally required employee contributions which had been withheld from employee wages but not yet remitted to PERSI.

## NOTE 5: COMMITMENTS AND CONTINGENCIES

*Legal Matters*

The Board is party to legal actions arising in the ordinary course of its business. In management's opinion, the Board has adequate legal defenses and/or insurance coverage respecting each of these actions.

*Wastewater Treatment Plant Upgrade and Expansion*

The Board has been engaged in an ongoing matter of the IPDES (NPDES) permit requirements and the IDEQ 401 certification. The NPDES has mandated significantly more stringent requirements related to the allowable Spokane River Dissolved Oxygen Total Maximum Daily Load (TMDL) so that the Board Treatment Facility may discharge into the Spokane River. Noncompliance with these water quality standards would result in substantial and unsustainable fines imposed by regulators and would have a detrimental impact on the Board’s finances and its ability to provide wastewater treatment services to its constituents. In order to meet the TMDL limits as set forth by regulators and avoid such unsustainable financial penalties, the Board began to move forward with major wastewater treatment plant improvement and expansion plans in fiscal 2013, with construction starting in fiscal 2014. Accordingly, in November of 2012, the Board adopted a Facility Master Plan, which has served as a roadmap to bring the Board into compliance with the cleaner water quality standards mandated by the new NPDES permit. The final permit was issued in December 2014 and contained specific measurable compliance milestones over a 10-year period that the Board must meet in order to comply with water quality standards as set forth in the permit. An updated facility Master Plan dated October 2018 was approved by the Board in December 2018. HARSB has completed the Construction project/redlines/O&M manuals for the compliance schedule effective June 30, 2024, and the facility needs to operate within standards by November 2025.

In addition to the regulatory treatment upgrades as discussed above, certain components of the existing treatment facility are in need of replacement due to obsolescence, wear, safety, and operating beyond the design life. A third component of the Facility Master Plan consists of expansion of existing capabilities to meet anticipated future needs due to growth.

(Continued)

**NOTE 5: COMMITMENTS AND CONTINGENCIES (CONTINUED)**

*Construction Commitments*

As of July 1, 2018, Idaho now has primacy and administers the IPDES (all previous USEPA NPDES permit requirements).

As of the fiscal year-ended September 30, 2019, costs incurred to date on Phase 1 were $14,305,896, which completes all Phase 1 BNR construction except the pilot study. Construction for Phase 1 was expected to span from fiscal years 2013 through 2018 and was completed in 2016.

Phase 2 of the Plan, which will complete the current IPDES (NPDES) permit regulatory and facility replacement requirements, is estimated to cost $24,444,322 (2022 estimate). Construction substantial completion was achieved for Ultrafiltration in March 2023, with the balance of the projects substantial completion happening in June 2023. We are currently in the start-up phase of the project, waiting on Operation and Maintenance Manuals, drawing redlines and staff training. HARSB has completed the Construction project/redlines/O&M manuals for final construction cost as of June 30, 2024 of $24,050,650.

*Financing of the Facility Master Plan*

Each member of the Joint Powers Board is responsible for financing its share of the replacement and regulatory upgrade portion of the construction project. Each member's share of the costs was determined based upon the proportionate share of committed equivalent residences as of January 1, 2013. At this time, the expansion portion of the costs are to be solely paid by HARSB and as agreed upon in the Second Amendment of the Financial Construction Agreement from 2013. The Restated Funding Agreement signed in November of 2020 was put into place due to the changing of the facility residential connections causing a reallocation of Phase 1 and 2 percentages, and to update the projected construction costs (see further explanation page 24). HARSB has completed the Construction project/redlines/O&M manuals for the project effective June 30, 2024.

*Accounting Treatment*

HARSB is responsible for paying construction costs as incurred, and subsequently invoices the members of the Joint Powers Board for their respective allocated share of the costs. Prior to the Second Amendment of the Financial Construction Agreement from 2013, the Board had combined net entity receivable of $3,792,225 received from the entities for reimbursement of Phase 1 costs expended. The amounts contributed by the Joint Powers Board members are being accounted for as a non-operating contribution of capital to HARSB. The amount of non-operating contributed capital recognized by HARSB related to the project for the year ended September 30, 2019, was $1,253,493 and is reflected in the accompanying statement of revenues, expenses, and changes in net position. Due to the Second Amendment of the Financial Construction Agreement from 2013, the non-operating contribution for FY2019 was a reallocation of the Phase 1 funds, resulting in a total net entity receivable of $5,045,718.

(Continued)

## NOTE 5: COMMITMENTS AND CONTINGENCIES (CONCLUDED)

*Accounting Treatment (Concluded)*

In 2020, based on an analysis of historical usage and a recommendation by the engineering firm, the equivalent gallonage for a residential unit was adjusted from 200 gallons per day to 172.50 gallons per day. As a result of that adjustment the plant could accommodate additional connections. Due to this change the Joint Powers Agreement and the construction funding agreements needed to be changed. The Joint Powers Agreement was updated April 8, 2020. The Restated Funding Agreement has been presented to the entities and is awaiting approval. The End of Year construction account for Phase 1 has not changed due to this updated agreement not being done, but the End of Year Phase 2 construction reimbursements did take into account the new percentages for 172.50. The Restated Funding Agreement will reflect: 1) the new estimated construction costs with a 20% contingency; 2) the updated percentages due to the change in available residential equivalent connections for payment from Phase 1 to estimated end of Phase 2; and 3) if HARSB has a shortfall in funds to pay for expansion the funding agreement provides a mechanism for the City of Hayden to provide that portion of the expansion funding that exceeds HARSB available funds and for the City to receive credits toward future connections. Effective November 19, 2020, the Restated Funding Agreement was approved by the entities.

During fiscal year 2021, the Restated Funding Agreement mentioned above was approved and the Phase 1 funds were again reallocated to reflect the agreement. Entity contributions occurred to reimburse HARSB for costs of engineering and owner provided equipment expenses.

During fiscal year 2023, since Construction was ending, the Board was looking at the areas that needed to have a true-up. The FCS Memorandum from September of 2021 had been looked at by the Board's Attorneys, and it was determined that a true-up needed to be made only with the 2013 Capacity Fee. This adjustment was made on the year-end statement for the City of Hayden.

As of the fiscal year-ended September 30, 2024, and final true-up of the project, costs incurred to date on Phase 2 are $24,050,650. The entity receivable (construction payable) for FY2024 ended with a balance of $130,486 to be returned to the District and HARSB Replacement Fund, and an entity payable (construction receivable) for FY2024 ended with a balance of $496,205 which will be paid by the City of Hayden and Kootenai County as follows:

| | |
|---|---|
| Hayden Lake Sewer District | $ 130,486 |
| Total construction payable | $ 130,486 |
| | |
| City of Hayden | $ 494,078 |
| Kootenai County | 2,127 |
| Total construction receivable | $ 496,205 |

An interfund payable from the Construction fund and an interfund receivable to the Operating fund in the amount of $82,768 was reported as a September 30, 2024, to replenish the Operating Replacement fund.

(Continued)

## NOTE 6: DESIGNATED FUNDS

The Board has designated the following amounts for specific purposes:

| | |
|---|---|
| Designated for Board replacement | $ 3,812,311 |
| Total | $ 3,812,311 |

## NOTE 7: RISK MANAGEMENT

HARSB is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets, errors and omissions, injuries to employees, wastewater spills and natural disasters. HARSB contracts with the Idaho Counties Risk Management Plan (ICRMP) insurance company for property insurance and general liability insurance.

HARSB is a member of ICRMP, which is a joint powers entity that provides insurance coverage for local governmental entities. ICRMP insurance company protects general liability, automobile liability, and errors and omissions with a $500,000 liability for claims pursuant to Title 6, Chapter 9 Idaho Code; for all other claims in the fore mentioned categories a $3,000,000 liability is in place, with a $2,000,000 limit on defense cost. Additionally, crime, boiler and machinery insurance is maintained. HARSB Wastewater Treatment Facility is located at 10789 N. Atlas Road, Hayden, Idaho with a Reuse farm located between Huetter, Atlas, Lancaster and Boekel roads. HARSB has a replacement policy value of $38,293,152, with an additional $750,371 for building contents.

HARSB pays the State Insurance Fund a premium based on a rate per $100 per salaries. The rate is calculated based on accident history and administrative costs.

HARSB requires encroachment permits for those that do construction related activities around our influent or effluent pressurized force main pipelines. The permits require the posting of a bond for one year, to help mitigate costs of an influent or effluent pressure force main pipeline break due to construction related activities.

(Concluded)

# FINANCIAL SECTION

## REQUIRED SUPPLEMENTARY INFORMATION

## Hayden Area Regional Sewer Board

**GASB 68 Required Supplementary Information**
**For the Year Ended September 30, 2024**

**Schedule of Employer's Share of Net Pension Liability**
**PERSI - Base Plan**
**Last 10 - Fiscal Years ***

| | 2024 | 2023 | 2022 |
|---|---|---|---|
| Employer's portion of the net pension liability | 0.01601488% | 0.0164569% | 0.0167511% |
| Employer's proportionate share of the net pension liability | $ 599,060 | $ 656,739 | $ 659,785 |
| Employer's covered-employee payroll | $ 801,219 | $ 734,991 | $ 657,146 |
| Employer's proportional share of the net pension liability as a percentage of its covered employee payroll | 74.77% | 89.35% | 100.40% |
| Plan fiduciary net position as a percentage of the total pension liability | 85.54% | 83.83% | 83.09% |

* GASB Statement No. 68 requires ten years of information to be presented in this table. However, until a full 10-year trend is compiled, the Board will present information for those years for which information is available.

Data reported is measured as of June 30, 2024 (measurement date).

**Schedule of Employer Contributions**
**PERSI - Base Plan**
**Last 10 - Fiscal Years ***

| | 2024 | 2023 | 2022 |
|---|---|---|---|
| Statutorily required contribution | $ 90,553 | $ 82,025 | $ 78,496 |
| Contributions in relation to the statutorily required contribution | 90,553 | 82,025 | 78,496 |
| Contribution deficiency (excess) | $ - | $ - | $ - |
| Employer's covered-employee payroll of its covered employee payroll | $ 801,219 | $ 734,991 | $ 657,146 |
| Contributions as a percentage of covered-employee payroll | 11.30% | 11.16% | 11.94% |

* GASB Statement No. 68 requires ten years of information to be presented in this table. However, until a full 10-year trend is compiled, the Board will present information for those years for which information is available.

Data reported is reported as of September 30, 2024.

| 2021 | 2020 | 2019 | 2018 | 2017 | 2016 | 2015 |
|---|---|---|---|---|---|---|
| 0.0168417% | 0.0173378% | 0.0191208% | 0.0193917% | 0.0195958% | 0.0195732% | 0.0192498% |
| $ (13,301) | $ 402,607 | $ 218,259 | $ 286,031 | $ 308,012 | $ 396,779 | $ 253,489 |
| $ 641,146 | $ 616,280 | $ 641,897 | $ 629,888 | $ 617,915 | $ 604,881 | $ 537,893 |
| -2.07% | 65.33% | 34.00% | 45.41% | 49.85% | 65.60% | 47.13% |
| 100.36% | 88.22% | 93.79% | 91.69% | 90.68% | 87.26% | 91.38% |

| 2021 | 2020 | 2019 | 2018 | 2017 | 2016 | 2015 |
|---|---|---|---|---|---|---|
| $ 76,553 | $ 73,583 | $ 73,386 | $ 71,303 | $ 69,948 | $ 68,472 | $ 60,899 |
| 76,553 | 73,583 | 73,386 | 71,303 | 69,948 | 68,472 | 60,899 |
| $ - | $ - | $ - | $ - | $ - | $ - | $ - |
| $ 641,146 | $ 616,280 | $ 641,897 | $ 629,888 | $ 617,915 | $ 604,881 | $ 537,893 |
| 11.94% | 11.94% | 11.43% | 11.32% | 11.32% | 11.32% | 11.32% |

# REPORT REQUIRED BY GAO

## 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*

### Independent Auditor's Report

To the Board of Directors of:
Hayden Area Regional Sewer Board
Hayden, ID 83835

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 (*Government Auditing Standards*), the financial statements of the business-type activities of Hayden Area Regional Sewer Board, as of and for the year ended September 30, 2024, and the related notes to the financial statements, which collectively comprise Hayden Area Regional Sewer Board's basic financial statements, and have issued our report thereon dated December 9, 2024.

***Report on Internal Control Over Financial Reporting***

In planning and performing our audit of the financial statements, we considered Hayden Area Regional Sewer Board's internal control over financial reporting (internal control) as a basis for designing the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Hayden Area Regional Sewer Board's internal control. Accordingly, we do not express an opinion on the effectiveness of Hayden Area Regional Sewer Board'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 entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

***Report on Compliance and Other Matters***

As part of obtaining reasonable assurance about whether Hayden Area Regional Sewer Board's financial statements are free of 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*.



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**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* (CONCLUDED)**

**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 Hayden Area Regional Sewer Board's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Hayden Area Regional Sewer Board's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Magnuson, McHugh, Dougherty CPAs

Magnuson, McHugh, Dougherty CPAs

December 9, 2024



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