KALISPELL BAY SEWER DISTRICT

FINANCIAL STATEMENT
NOVEMBER 30, 2024

KALISPELL BAY SEWER DISTRICT
November 30, 2024

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FINANCIAL SECTION

INDEPENDENT AUDITOR'S REPORT

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Kalispell Bay Sewer District
Priest River, Idaho 83856

Report on the Audit of the Financial Statements

Opinions

We have audited the financial statements of the business-type activities of Kalispell Bay Sewer District as of and for the year ended November 30, 2024, and the related notes to the financial statements, which collectively comprise Kalispell Bay Sewer District'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 Kalispell Bay Sewer District, as of November 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, issued by the Comptroller General of the United States. Our responsibilities under those standards (GAS) 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 Kalispell Bay Sewer 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 opinions.

Responsibilities of Management for the Financial Statements

Kalispell Bay Sewer District's 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 Kalispell Bay Sewer 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.

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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.

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 Kalispell Bay Sewer 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 Kalispell Bay Sewer District'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 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.

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Required Supplementary Information (Concluded)

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinions on the basic financial statements are not affected by this missing information.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 17, 2025, on our consideration of the Kalispell Bay Sewer District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 Kalispell Bay Sewer District's internal control over financial reporting and compliance.

Magnuson, McHugh, Dougherty CPAs

Magnuson, McHugh, Dougherty CPAs

March 17, 2025

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FINANCIAL SECTION

BASIC FINANCIAL STATEMENTS

Kalispell Bay Sewer District

STATEMENT OF NET POSITION
November 30, 2024

ASSETS	
Current assets:	
Cash and cash equivalents	$ 236,568
Accounts receivable	39,949
Prepaid expenses	20,603
Total current assets	297,120
Non-current assets:	
Capital assets:	
Land	90,667
Building	75,000
Sewer infrastructure, plant and equipment	2,415,212
Office equipment	9,213
Vehicles	59,327
	2,649,419
Less: accumulated depreciation	(2,014,812)
Net capital assets	634,607
Total non-current assets	634,607
Total assets	931,727
DEFERRED OUTFLOWS OF RESOURCES	
Proportionate share of collective deferred outflows of resources	14,750
Total deferred outflows of resources	14,750
LIABILITIES	
Current liabilities:	
Deferred revenue	1,917
Total current liabilities	1,917
Long-term liabilities:	
Net pension liability	62,969
Total long-term liabilities	62,969
Total liabilities	64,886
DEFERRED INFLOWS OF RESOURCES	
Proportionate share of collective deferred inflows of resources	1,108
Total deferred inflows of resources	1,108
NET POSITION	
Net investment in capital assets	634,607
Unrestricted	245,876
Total net position	$ 880,483

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

Kalispell Bay Sewer District

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

Operating revenues:		
User fees and charges	$	270,556
Other income		1,523
Total operating revenues		272,079
Operating expenses:		
Salaries, payroll tax and benefits		109,392
Depreciation		58,413
Utilities		10,790
Repairs and maintenance		93,355
Professional services		27,472
Vehicle operations		3,427
Insurance		6,104
Office and postage		7,771
Forest Service use fee		1,940
Travel and meals		654
Outside services		1,840
Change in net pension liability		13,495
Total operating expenses		334,653
Operating income (loss)		(62,574)
Nonoperating revenues (expenses):		
Interest income		12,217
Gain on disposal of asset		23,801
Total nonoperating revenues (expenses)		36,018
Change in net position		(26,556)
Net position - beginning		907,039
Net position - ending	$	880,483

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

Kalispell Bay Sewer District

STATEMENT OF CASH FLOWS
For the Year Ended November 30, 2024

CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers	$ 235,222
Payments to suppliers	(171,211)
Payments to employees	(118,615)
Net cash provided (used) by operating activities	(54,604)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Proceeds from sale of assets	33,043
Payments for purchase of assets	(655)
Net cash provided (used) by capital and related financing activities	32,388
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest income	12,217
Net cash provided (used) by investing activities	12,217
Net increase in cash and cash equivalents	(9,999)
Cash and cash equivalents, beginning	246,567
Cash and cash equivalents, ending	$ 236,568
Reconciliation of operating income (loss) to net cash provided by operating activities:	
Operating income (loss)	$ (62,574)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:	
Depreciation expense	58,413
Changes in assets and liabilities:	
(Increase) decrease in accounts receivable	(37,530)
(Increase) decrease in prepaid expenses	(17,858)
Increase (decrease) in deferred revenue	673
Increase (decrease) in net pension liability	4,272
Total adjustments	7,970
Net cash provided (used) by operating activities	$ (54,604)

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

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity – The Kalispell Bay Sewer District (the "District") operates under the board of director's form of government and operates and maintains a sanitary sewer system.

The accounting methods and procedures adopted by the District conform to generally accepted accounting principles as applied to special-purpose governments engaged only in business-type activities. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The following notes to the financial statements are an integral part of the District's financial statements.

Basis of Presentation and Accounting – For financial statement purposes, the District is considered a special-purpose government engaged only in business-type activities. Accordingly, the District's financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred.

The accounts of the District are organized on the basis of proprietary fund type, specifically an enterprise fund. The activities of this fund are accounted for with a separate set of self-balancing accounts that comprise the District's assets, liabilities, net position, revenues and expenses. Enterprise funds account for activities (1) that are financed with debt that is secured solely by a pledge of the net revenues from fees and charges of the activity or (2) that are required by laws or regulations that the activity's costs of providing services, including capital costs (such as depreciation or debt service), be recovered with fees and charges, rather than with taxes or similar revenues or (3) that the pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs (such as depreciation or debt service).

Net Position – Net position comprise the various net earnings from operating income, nonoperating revenues and expenses and capital contribution. The District's net positions are classified as follows:

Net Investment in Capital Assets – This represents the District's total investment in capital assets; net of outstanding debt obligations related to those capital assets, to the extent debt has been incurred but not yet expended for capital assets.

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

Unrestricted – Unrestricted net position represents resources derived from sewer sales and fees charged. These resources are used for transactions related to the general operation of the District and may be used at the discretion of the governing board to meet current expenses for any purpose.

Statement of Cash Flows – For purposes of the Statement of Cash Flows the District considers all highly liquid investments purchased with a maturity of three months or less to be cash and cash equivalents.

Accounts Receivable – Accounts receivable 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 November 30, 2024.

(Continued)

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash and Cash Equivalents – The District 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 balance that the District has in the Idaho State Investment Pool is carried at cost, which materially approximates fair market value.

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

For presentation on the financial statements, the District considers all highly liquid, non-restricted debt instruments with an original maturity of three months or less to be cash equivalents, excluding those cash assets limited as to use.

Capital Assets – Capital assets purchased or acquired are reported at historical costs or estimated historical cost. The District has not established an official capitalization threshold for this determination. Contributed assets are reported at fair market value as of the date received. Additions, improvements, and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Interest incurred in construction is not capitalized. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

Sewer plant	10 – 40 years
Equipment and vehicles	5 – 10 years

Classification of Revenues – The District has classified its revenue as either operating or non-operating according to the following criteria:

Operating Revenues – Operating revenues include activities that have the characteristics of exchange transactions, primarily charges for services, net of refunds.

Nonoperating Revenues – Non-operating revenues include activities that have the characteristics of non-exchange transactions, such as financing and investing type of activities, and other revenue sources that are defined as non-operating revenues by GASB Statement No. 34, such as investment income.

Income taxes – The District is a political subdivision of the State of Idaho and is not subject to taxation of its earnings.

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.

(Continued)

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONCLUDED)

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 District 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.

The District 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.

NOTE 2: CASH AND INVESTMENTS

General:

State statutes authorize the District's investments and deposits. The District is authorized to invest in demand deposits, savings accounts, U.S. Government obligations and its agencies, obligations 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.

Custodial credit risk:

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

(Continued)

NOTE 2: CASH AND INVESTMENTS (CONCLUDED)

Deposits and investments without exposure to custodial credit risk:

Deposits:	
Insured deposits	$ 31,139
Funds held in the District's name by the Idaho State Investment Pool	212,257
Total deposits	243,396
Total deposits and investments without exposure to custodial credit risk	$ 243,396
The carrying amount is displayed in the financial statements as follows:	
Cash and cash equivalents	$ 236,568
Cash and cash equivalents at November 30, 2024 consists of the following:	
Insured deposits	$ 24,311
Funds held in the District's name by the Idaho State Investment Pool	212,257
	$ 236,568

Credit risk:

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

NOTE 3: CAPITAL ASSETS

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

	Beginning Balance	Additions	Disposals	Ending Balance
Capital assets, not being depreciated:				
Land	$ 90,667	$ -	$ -	$ 90,667
Total capital assets, not being depreciated	90,667	-	-	90,667
Capital assets, being depreciated:				
Building	75,000	-	-	75,000
Sewer infrastructure, plant and equipment	2,438,032	-	(22,820)	2,415,212
Office equipment	8,558	655	-	9,213
Vehicles	59,327	-	-	59,327
Total capital assets, being depreciated	2,580,917	655	(22,820)	2,558,752
Less accumulated depreciation	(1,969,977)	(58,413)	13,578	(2,014,812)
Total capital assets, being depreciated, net	610,940	(57,758)	(9,242)	543,940
Governmental activities capital assets, net	$ 701,607	$ (57,758)	$ (9,242)	$ 634,607

(Continued)

NOTE 4: DEFINED BENEFIT PENSION PLAN

Plan Description

Kalispell Bay Sewer District 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.

Responsibility for administration of the Base Plan is assigned to the Board comprised of five members appointed by the Governor and confirmed by the Idaho Senate. State law requires that two members of the Board 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 Board.

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 Kalispell Bay Sewer District's contributions were $9,178 for the year ended November 30, 2024.

(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

At November 30, 2024, the Kalispell Bay Sewer District 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 District's proportion of the net pension liability was based on the District'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 District's proportion was 0.006834 percent.

For the year ended November 30, 2024, the Kalispell Bay Sewer District recognized pension expense (revenue) of $13,495. At November 30, 2024 the District 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	$ -	$ (1,143)
Changes of assumptions	2,495	-
Net difference between projected and actual earnings on pension plan investments	10,025	-
Changes in the employer's proportion and differences between the employer's contributions and the employer's proportionate contributions	-	2,251
Kalispell Bay Sewer District's contributions subsequent to the measurement	2,230	-
Total	$ 14,750	$ 1,108

$2,230 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 November 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, 2021 the beginning of the measurement period ended June 30, 2022 is 4.6 and 4.6 for the measurement period June 30, 2024.

(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)

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	$ 3,108
2026	$ 11,741
2027	$ (2,025)
2028	$ (1,447)

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%	net of investment expenses
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 and police – Males Pub 2010 Safety Tables, increased 21%.
- Fire and 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.

(Continued)

NOTE 4: DEFINED BENEFIT PENSION PLAN (CONTINUED)

Actuarial Assumptions (Concluded)

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.

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.

(Continued)

NOTE 4: DEFINED BENEFIT PENSION PLAN (CONCLUDED)

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%)
District's net pension liability (asset)	$ 119,661	$ 62,969	$ 16,666

Payables to the Pension Plan

At November 30, 2024, the Kalispell Bay Sewer District reported no material payables to the defined benefit pension plan.

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.

NOTE 5: RISK MANAGEMENT

The District maintains insurance with two carriers for potential risk of loss. The Idaho Counties Reciprocal Management Program carries the District’s general insurance including coverage for general liability, auto liability, errors and omissions, and property insurance. The Idaho State Insurance Fund carries the policy for workers’ compensation insurance.

(Concluded)

FINANCIAL SECTION

REQUIRED SUPPLEMENTARY INFORMATION

Kalispell Bay Sewer District

GASB 68 Required Supplementary Information
For the Year Ended November 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	0.0016834%	0.0017982%	0.0019074%
Employer's proportionate share of the net pension liability	$ 62,969	$ 71,760	$ 75,128
Employer's covered-employee payroll	$ 80,969	$ 82,453	$ 78,289
Employer's proportional share of the net pension liability as a percentage of its covered employee payroll	77.77%	87.03%	95.96%
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	$ 9,178	$ 9,548	$ 9,061
Contributions in relation to the statutorily required contribution	9,178	9,548	9,061
Contribution deficiency (excess)	$ -	$ -	$ -
Employer's covered-employee payroll of its covered employee payroll	$ 80,969	$ 82,453	$ 78,289
Contributions as a percentage of covered-employee payroll	11.34%	11.58%	11.57%

* 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 November 30, 2024.

2021	2020	2019	2018	2017	2016	2015
0.0018890%	0.0017043%	0.0018159%	0.0020403%	0.0020552%	0.0020968%	0.0021000%
$ (1,492)	$ 39,576	$ 20,728	$ 30,095	$ 32,340	$ 42,505	$ 24,621
$ 72,488	$ 62,994	$ 61,973	$ 65,643	$ 63,835	$ 62,800	$ 59,681
-2.06%	62.83%	33.45%	45.85%	50.66%	67.68%	41.25%
100.36%	88.22%	93.79%	91.69%	90.68%	87.26%	91.38%

2021	2020	2019	2018	2017	2016	2015
$ 8,432	$ 7,654	$ 7,355	$ 7,221	$ 7,310	$ 7,109	$ 6,755
8,432	7,654	7,355	7,221	7,310	7,109	6,755
$ -	$ -	$ -	$ -	$ -	$ -	$ -
$ 72,488	$ 62,994	$ 64,973	$ 63,793	$ 64,576	$ 63,488	$ 60,331
11.94%	12.15%	11.32%	11.32%	11.32%	11.20%	11.20%

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
Kalispell Bay Sewer District
Priest River, Idaho 83856

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 the business-type activities of Kalispell Bay Sewer District, as of and for the year ended November 30, 2024, and the related notes to the financial statements, which collectively comprise the Kalispell Bay Sewer District's basic financial statements and have issued our report thereon dated March 17, 2025.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Kalispell Bay Sewer District's internal control over financial reporting (internal control) as a basis for designing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Kalispell Bay Sewer District's internal control. Accordingly, we do not express an opinion on the effectiveness of Kalispell Bay Sewer 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 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified certain deficiencies in internal control, described in the accompanying schedule of findings and responses as items 2024-001 and 2024-002 that we consider to be material weaknesses.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether Kalispell Bay Sewer 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*.

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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)

Kalispell Bay Sewer District's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on Kalispell Bay Sewer District's response to the findings identified in our audit and described in the accompanying schedule of findings and responses. Kalispell Bay Sewer District's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Magnuson, McHugh, Dougherty CPAs

Magnuson, McHugh, Dougherty CPAs

March 17, 2025

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Kalispell Bay Sewer District

SCHEDULE OF FINDINGS AND RESPONSES
November 30, 2024

Finding 2024 – 001

Material Weakness in Internal Control over Financial Reporting – Inadequate Segregation of Duties

Criteria: In order to have an effective system of internal controls, associated duties such as recording transactions, authorizing transactions, and maintaining the financial statements should all be segregated with different personnel.

Condition: The District is a very small entity, with only one administrative employee performing financial accounting duties.

Context: We observed inadequate controls over financial reporting by performing internal control walkthroughs.

Effect or Potential Effect: The lack of segregation of duties increases the chances of errors or fraud occurring and not being detected by the District.

Cause: The District's limited size and staffing resources have made it difficult for management to provide sufficient staffing to fully segregate incompatible duties in a cost-effective manner.

Recommendation: It is our recommendation that the District be mindful of the lack of segregation of duties and explore options of implementing greater segregation by way of Board member involvement, additional personnel, or an external accounting service.

Views of the Responsible Officials and Planned Corrective Actions: The District's board is aware of the issue and the associated risks. The board has concluded that it is not financially feasible for such a small entity to hire additional personnel to mitigate the above condition. The District has mitigated the risk by implementing other controls such as approval of all disbursements by the Commissioners.

Finding 2024 – 002

Material Weakness in Financial Statement Balances

Criteria: There is an expectation that the financial statements should be materially accurate when the auditor performs the audit.

Condition: During the audit several adjustments were posted to properly state the balances in prepaid assets, accounts receivable, revenues, and expenses. Proper cutoff and proper recording of balance sheet and income statement activity are critical for the accuracy of the financial statements in accordance with the accrual basis of accounting.

Context: We observed inadequate controls over financial reporting by testing year end balances.

Effect or Potential Effect: Material misstatement of certain balance sheet and income statement accounts.

Cause: Lack of internal controls and processes to ensure proper recording of year end accruals and proper recording of prepaid assets.

Recommendation: It is our recommendation that the District implement processes to ensure all year end accruals are properly recorded, and to ensure prepaid assets are properly recorded.

Views of the Responsible Officials and Planned Corrective Actions: The District's board is aware of the issue and the associated risks. The board has concluded that it is not financially feasible for such a small entity to hire additional personnel to mitigate the above condition. The journal entries that were made for the insurance claim were out of the ordinary for our normal course of business.