

Washington State Auditor's Office
Financial Statements Audit Report

Public Utility District No. 1
of Asotin County

Audit Period
January 1, 2005 through December 31, 2005

Report No. 71088

Issue Date
July 14, 2006



Washington _____
State Auditor
_____ Brian Sonntag



**Washington State Auditor
Brian Sonntag**

July 14, 2006

Board of Commissioners
Public Utility District No. 1 of Asotin County
Clarkston, Washington

Report on Financial Statements

Please find attached our report on Public Utility District No. 1 of Asotin County's financial statements.

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

In addition to this work, we look at other areas of our audit client's operations for compliance with state laws and regulations. The results of that audit will be included in a separately issued accountability report.

Sincerely,

BRIAN SONNTAG, CGFM
STATE AUDITOR

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Public Utility District No. 1 of Asotin County January 1, 2005 through December 31, 2005

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Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters in Accordance with *Government Auditing Standards*

Public Utility District No. 1 of Asotin County January 1, 2005 through December 31, 2005

Board of Commissioners
Public Utility District No. 1 of Asotin County
Clarkston, Washington

We have audited the basic financial statements of Public Utility District No. 1 of Asotin County, Washington, as of and for the year ended December 31, 2005, and have issued our report thereon dated May 17, 2006.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting.

Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving internal control over financial reporting and its operation that we consider to be material weaknesses.

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of the District's compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, the objective of our audit of the financial statements was not to provide an opinion on overall compliance with these provisions. 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 herein under *Government Auditing Standards*.

This report is intended for the information and use of management and the Board of Commissioners. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

A handwritten signature in black ink, appearing to read "Brian Sonntag". The signature is fluid and cursive, with the first name "Brian" written in a larger, more prominent script than the last name "Sonntag".

BRIAN SONNTAG, CGFM
STATE AUDITOR

May 17, 2006

Independent Auditor's Report on Financial Statements

Public Utility District No. 1 of Asotin County January 1, 2005 through December 31, 2005

Board of Commissioners
Public Utility District No. 1 of Asotin County
Clarkston, Washington

We have audited the accompanying basic financial statements of Public Utility District No. 1 of Asotin County, Washington, as of and for the year ended December 31, 2005, as listed on page 4. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Public Utility District No. 1 of Asotin County, as of December 31, 2005, and the changes in financial position and cash flows, where applicable, thereof, for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management discussion and analysis on pages 5 through 7 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.



BRIAN SONNTAG, CGFM
STATE AUDITOR

May 17, 2006

Financial Section

Public Utility District No. 1 of Asotin County January 1, 2005 through December 31, 2005

REQUIRED SUPPLEMENTAL INFORMATION

Management Discussion and Analysis – 2005

BASIC FINANCIAL STATEMENTS

Statement of Net Assets – 2005

Statement of Revenues, Expenses and Changes in Fund Equity – 2005

Statement of Cash Flows – 2005

Notes to the Financial Statements – 2005

Management Discussion and Analysis

The following Management Discussion and Analysis is designed to provide an overview of the Asotin County Public Utility District's (District's) financial activities for the year ended December 31, 2005. This discussion should be read in conjunction with the District's financial statements and notes to the financial statements.

Basic Financial Statements

The Balance Sheets presents the District's assets and liabilities, with the difference between the two reported as equity. The Balance Sheet provides information about the nature and amount of investment in resources (assets), and the obligations to creditors (liabilities). Net assets increase when revenues exceed expenses. The Statements of Revenue, Expenses and Net Assets report the revenues and expenses during the periods indicated. The Statement of Cash Flow provides information about the District's cash receipts and payments from operations, as well as funds provided in investing and financing activities. The notes to the financial statements provide additional information that is essential to fully understanding the figures provided in the financial statements.

Financial Analysis and Summary

The District's overall financial condition remains stable with slight improvement over the past few years. The refinancing of revenue bonds in 2003 and the reduction of certain costs have provided rate stability for customers while allowing the District to meet its obligations. Water system rates have remained unchanged since January of 2002.

During 2005, the District's operating revenues were \$2,854,055. The major source of revenue for the district is metered water and electric sales most of which come from the residential water customers. The major source of non-operating revenues is provided by interest income on invested funds.

Operating Expenses in 2005 increased \$636,650 (or 28%) over 2004. The primary increase in expenses for 2005 reflects an increase activity for watershed planning in our region of which the District is the Lead Agency and grant recipient. The net utility operating income before non-operating revenues and expenses was \$176,689 as compared to \$660,857 in 2004. The largest source of non-operating expenses is interest on long-term debt.

The change in net assets after non-operating revenues and expenses was \$508,961 as compared to \$706,370 in 2004.

Condensed Comparative Financial Information *(In thousands)*

	<u>2005</u>	<u>2004</u>	<u>Chg</u>
Current Assets	\$2,617	\$2,489	\$128
Restricted Assets	637	640	(3)
Noncurrent Assets	27	35	(8)
Capital Assets, net of depreciation	11,052	11,190	(138)
<i>Total Assets</i>	<u>\$14,334</u>	<u>\$14,354</u>	<u>(\$20)</u>
Current Liabilities	\$1,075	\$915	\$160
Payables from Restricted Assets	4,651	5,341	(690)
Net Assets			
Invested in Capital Assets, net of Related Debt	6,400	573	5,827
Restricted Net Assets	637	640	(3)
Unrestricted Net Assets	1,570	6,885	(5,315)
<i>Total Liabilities, Net Assets and Other Credits</i>	<u>\$14,334</u>	<u>\$14,354</u>	<u>(\$20)</u>
Operating Revenues	\$2,854	\$2,702	\$152
Non-Operating Revenues	101	61	40
<i>Total Revenues</i>	<u>\$2,955</u>	<u>\$2,763</u>	<u>\$192</u>
Operating Expenses	\$2,677	\$2,041	\$636
Non-operating Expenses	156	168	(12)
<i>Total Expenses</i>	<u>\$2,833</u>	<u>\$2,209</u>	<u>\$624</u>
Income before Contributions, Extraordinary Items	\$123	\$554	(\$431)
Capital Contributions - Grants	\$387	\$153	\$234
Change in Net Assets	\$509	\$706	(\$197)
Net assets, end of year	\$8,607	\$8,098	\$509

Capital Assets

The District's total capital asset as of December 31, 2005 was \$11.05 million, net of depreciation. Construction Work in Progress is \$116,127, which represents expenditures towards the purchase and implementation of financial and utility billing software. Final implementation of the software is scheduled for February of 2006. Funds for capital construction are provided for through a combination of installation charges and cash flow from revenues. In 2005 the District placed in to service \$286,877 worth of assets as compared to \$420,038 in 2004. See Note 2 of the accompanying notes to the financial statements for further detail related to Capital Asset activity.

Liabilities

Total liabilities as of December 31, 2005 were \$1,074,705 as compared to \$914,972 in 2004, a increase of \$159,733 (or 17.5%). A major portion of total liabilities is the Current Portion of Long-Term Debt of \$689,058, which was payable in 2005.

Long-term Debt Activity

At year-end the District had \$3.370 million in revenue bonds outstanding as compared to \$3.875 million in 2004. These bonds were used to purchase the system from a private entity in 1987. The bonds have been refunded twice, in 1993 and again in 2003 to take advantage of lower interest rates. Other short-term and long term-debt includes low interest Public Works Trust Fund and State Revolving Fund capital improvement loans and the Local Government Investment Pool Local Option Capital Asset Lending program. At year-end the total of these capital improvement and equipment purchase loans was \$1.971 million as compared to \$2.134 in 2004. Funds for payment of Long-term Debt are provided for from cash flow from revenues. See Note 3 of the accompanying notes to the financial statements for further detail related to Long Term Debt Activity.

**PUBLIC UTILITY DISTRICT NO.1 OF ASOTIN COUNTY
STATEMENT OF NET ASSETS
DECEMBER 31, 2005**

	2005
ASSETS	
CURRENT ASSETS:	
Cash	\$1,192,779
General Fund Investments	671,270
Certificates of Deposit	0
Equipment Replacement Fund	567,645
Accounts Receivable	129,568
Plant Materials & Supplies	34,626
Accrued Interest Receivable	22,082
TOTAL CURRENT ASSETS	2,617,970
RESTRICTED ASSETS:	
2003 Revenue Bond Reserve	481,000
2003 Revenue Bond Sinking Fund	81,908
1992 PWTF Sinking Fund	29,282
2000 PWTF Sinking Fund	45,078
TOTAL RESTRICTED ASSETS	637,268
NONCURRENT ASSETS:	
Unamortized Debt Issuance Costs	25,203
Workers Compensation Deposit	1,548
Total Other Noncurrent Assets	26,751
 Capital Assets	
Land	107,813
Organization	970
Structures & Improvements	830,467
Infrastructure	14,041,539
Equipment	1,213,782
Electrical	79,724
Construction Work in Progress	116,127
Accumulated Depreciation and Amortization	(5,338,577)
Total Capital Assets	11,051,845
TOTAL NONCURRENT ASSETS:	11,078,596
TOTAL ASSETS AND DEFERRED DEBITS	\$14,333,834

The accompanying notes are an integral part of these financial statements

**PUBLIC UTILITY DISTRICT NO.1 OF ASOTIN COUNTY
STATEMENT OF NET ASSETS
DECEMBER 31, 2005**

	2005
LIABILITIES AND NET ASSETS	
CURRENT LIABILITIES	
Warrants Payable	\$76,136
Accounts Payable	135,834
Wages Payable	22,005
Customer Deposits	51,400
Accrued Taxes and Expenses	82,944
Accrued Interest Expense	17,328
Current Portion of Long-Term Debt	689,058
TOTAL CURRENT LIABILITIES	1,074,705
PAYABLES FROM RESTRICTED ASSETS:	
2003 Water Revenue Bonds	3,370,000
1992 Public Works Trust Fund	383,133
1999 LOCAL Fund	25,299
2000 Public Works Trust Fund	1,175,935
2001 State Revolving Fund	386,527
Current Portion of Long-Term Debt	(689,058)
TOTAL PAYABLES FROM RESTRICTED ASSETS	4,651,836
TOTAL LIABILITIES	5,726,541
NET ASSETS	
Invested in Capital Assets, net of Related Debt	6,400,009
Restricted Net Assets	637,268
Unrestricted Net Assets	1,570,016
TOTAL NET ASSETS	8,607,293
TOTAL LIABILITIES AND NET ASSETS	\$14,333,834

The accompanying notes are an integral part of these financial statements

**PUBLIC UTILITY DISTRICT NO.1 OF ASOTIN COUNTY
STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN FUND EQUITY
YEAR ENDED DECEMBER 31, 2005**

	2005
OPERATING REVENUES:	
Metered Sales	\$2,567,996
Other Operating Revenues	286,058
Total Operating Revenue	2,854,054
OPERATING EXPENSES:	
Operation Expense	
General Operations	123,789
Power Purchased for Resale	8,017
Cost of Energy	140,644
Maintenance	190,359
Customer Services	355,833
General Administration	1,283,078
Depreciation	430,733
Amortization of Debt Discount	8,078
Excise and B&O Taxes	136,834
Total Operating Expenses	2,677,365
UTILITY OPERATING INCOME	176,689
NONOPERATING REVENUES	
Interest Income	100,829
Gain (Loss) on Sale and/or Disposition Property	0
Total Nonoperating Revenues	100,829
NONOPERATING EXPENSES	
Interest Expense on Long-Term Debt	155,856
Total Nonoperating Expenses	155,856
INCOME BEFORE CONTRIBUTIONS, TRANSFERS, SPECIAL AND EXTRAORDINARY ITEMS	121,662
CAPITAL CONTRIBUTIONS - GRANT	387,299
CHANGE IN NET ASSETS	508,961
FUND EQUITY, January 1, 2005	8,098,333
FUND EQUITY, December 31, 2005	\$8,607,294

The accompanying notes are an integral part of these financial statements

**PUBLIC UTILITY DISTRICT NO.1 OF ASOTIN COUNTY
STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2005**

	2005
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from Customers	\$2,859,540
Payments to Suppliers	1,271,146
Payments to Employees	836,610
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$751,784
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Proceeds from Grant Funding	387,299
NET CASH USED BY NONCAPITAL FINANCING ACTIVITIES	\$387,299
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Acquisition and Construction of Capital Assets	(286,877)
Construction Work In Process	(5,625)
Principal Paid on Revenue Bonds and Long Term Debt	(668,719)
Internal Activity - Amortization of Debt Discount	8,078
Proceeds from the Sale of an Asset	0
Interest Paid on Revenue Bonds and Long Term Debt	(155,856)
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	(1,108,999)
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of Investments	(208)
Reinvested Interest Income	(26,847)
Proceeds from Sale and Maturities of Investments	301,550
Interest and Dividends on Investments	100,829
NET CASH PROVIDED BY INVESTING ACTIVITIES	375,324
NET INCREASE IN CASH AND CASH EQUIVALENTS	405,408
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	\$1,355,016
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$1,760,424

The accompanying notes are an integral part of these financial statements

**RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED
BY OPERATING ACTIVITIES**

Utility Operating Income	\$176,689
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:	
Depreciation	430,733
Disposition of Assets	0
Changes In:	
Accounts Receivable	4,869
Plant Materials and supplies	0
Warrants Payable	63,173
Accounts Payable	67,625
Wages Payable	(2,134)
Customer Deposits	1,400
Accrued Taxes and Expenses	9,429
	<u>9,429</u>
 NET CASH PROVIDED BY OPERATING ACTIVITIES	 <u>\$751,784</u>

The accompanying notes are an integral part of these financial statements

Notes to the Financial Statements

1. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Public Utility District No. 1 of Asotin County conform to generally accepted accounting principles (GAAP) as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

In June 1999, GASB approved Statement 34, *Basic Financial Statements – and Management Discussion and Analysis – for State and Local Governments*. This and consecutive statements are reflected in the accompanying financial statements (including notes to the financial statements).

The following is a summary of the most significant policies (including identification of those policies which result in material departures from generally accepted accounting principles):

Entity. Public Utility District No. 1 of Asotin County provides residential, commercial, fire hydrant water services, and limited electrical service within Asotin County, Washington. The District was formed in 1985 and began operation in 1987. A three-member board governs the District.

Use of Estimates. Management uses estimates and assumptions in preparing financial statements in accordance with generally accepted accounting principles. The use of estimates affects the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Accordingly, actual results could differ from those estimates.

Basis of Accounting and Presentation. The accounting records of the District are maintained in accordance with methods prescribed by the State Auditor, under the authority of Chapter 43.09 RCW.

The District utilizes the full-accrual basis of accounting where revenues are recognized when earned, and expenses are recognized when incurred. The District uses the following fund type:

Proprietary Fund Type

Enterprise Fund – An enterprise fund is used to account for the operations of the water utility which are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that costs (including depreciation) of providing services be financed or recovered primarily through user charges. GASB 33 now requires that capital contributions to proprietary funds be recognized as revenues, effective for financial statement periods beginning after June 15, 2000. Therefore, this statement reflects this change for the period commencing January 1, 2002.

The District's financial statements include the financial position and results of operations of all operations that the District manages. There are no organizations or funds that the District has control over, or to which the District contributes resources that are not included in the District's financial statements.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the District's financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The District has elected not to follow subsequent private-sector guidance. The District uses the Uniform System of

Accounts for Class A Water Utilities (1984) of the National Association of Regulatory Utility Commissioners.

Investments. As required by state law, all investments of the District are obligations of the U.S. Government, the State of Washington Local Government Investment Pool, banker's acceptance, or deposits with a bank approved by the Public Deposit Protection Commission.

Restricted Funds. In accordance with bond resolutions and certain related agreements, separate restricted funds are required to be established. The assets held in these funds are restricted for specific uses, including debt service and other special reserve requirements. Restricted funds currently include:

1992 PWTF Fund	\$ 29,282
2000 PWTF Fund	\$ 45,078
2003 Water Revenue Bond Reserve	\$481,000
2003 Water Revenue Bond Principal and Interest Account	\$ 81,908

Receivables. Accounts receivable includes current balances due on utility services billed and other receivables. An allowance for uncollectible accounts is provided based upon historical collection experience. The basis for Unbilled Accounts Receivable is accounts that were billed in January 2006 for service that was provided in December 2005.

Accounts receivable as of December 31, 2005, are as follows:

Utility Service	\$ 84,568
Unbilled Accounts Receivable	50,000
Allowance for Uncollectible Accounts	<u>(5,000)</u>
Total	<u>\$129,568</u>

Plant Materials and Supplies (Inventory). Plant materials and supplies are valued at the first-in, first-out average cost which approximates the market value.

Compensated Absences. The District recognizes benefits as earned and records unpaid leave for compensated absences as an expense and liability when incurred. Personal Leave pay, which may be accumulated up to a maximum of 800 hours, is payable upon resignation, retirement or death.

Unamortized Debt Issuance. Costs relating to the sale of bonds are deferred and amortized over the lives of the various bond issues. Unamortized debt issuance at December 31, 2005, is as follows:

2005 Water Revenue Bond Expenses	\$ 25,203
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Cash and Cash Equivalents. For purposes of the statement of cash flows, the District considers as cash equivalent and has included all District cash accounts and certificates of deposit with an original maturity of three months or less. Restricted investments and investments in the State of Washington Local Government Investment Pool are not included as cash equivalents.

2. CAPITAL ASSETS

Capital Assets are defined by the District as assets with initial individual cost of more than \$750.00 and an estimated useful life in excess of 5 years. Utility plant in service and other assets are recorded at cost. Donations by developers are recorded at appraised value. Net interest expense on construction loans is capitalized as a cost of the utility plant.

Depreciation is computed on the straight-line method over the estimated useful lives of the asset as follows:

	<u>Useful Life</u>
Organizational and franchise costs	5-50 years
Buildings and improvements	10-40 years
Wells and distribution system	25-50 years
Equipment	5-10 years

The original cost of utility plant retired or otherwise disposed of is removed from the plant account: accumulated depreciation is charged with the accumulated depreciation relating to the asset sold: and the net gain or loss on disposal is credited or charged to income. The gain (loss) from disposition of utility property account is maintained so that the transactions and details underlying each gain or loss are readily identifiable.

Utility plan activity for the year ended December 31, 2005 was as follows:

CAPITAL ASSETS	Beginning Balance	Increase	Decrease	Ending Balance
Utility Plant not being depreciated:				
Land	\$107,813			\$107,813
Construction in Progress	\$110,502	\$5,625		\$116,127
Total Utility Plant not being depreciated	\$218,315	\$5,625		\$223,940
Utility Plant being depreciated:				
Organizational and franchise costs	\$970			\$970
Buildings and Improvements	\$830,467			\$830,467
Wells, distribution system and infrastructure	\$13,861,462	\$259,801		\$14,121,263
Equipment	\$1,186,705	\$27,077		\$1,213,782
Total utility plant being depreciated	\$16,097,920	\$286,878		\$16,390,422
Less accumulated depreciation for:				
Organizational and franchise costs	(\$849)	(\$4)		(\$853)
Buildings and Improvements	(\$312,041)	(\$23,795)		(\$335,836)
Wells, distribution system and infrastructure	(\$3,729,513)	(\$315,956)		(\$4,045,469)
Equipment	(\$865,440)	(\$90,978)		(\$956,418)
Total accumulated depreciation	(\$4,907,843)	(\$430,733)		(\$5,338,576)
Total Utility Plant, Net	\$11,190,076			\$11,051,845

3. CONSTRUCTION IN PROGRESS

Construction in progress represents expenses to date on projects whose authorizations total \$212,000. The project represented is for the purchase and implementation of utility billing and finance software. Of the committed balance of \$116,127, the District will provide remaining funding from designated funds in the Equipment Replacement Fund.

Construction in progress is composed of the following:

	<u>Project Authorization</u>	<u>Expended to 12/31/05</u>	<u>Committed</u>	<u>Required Future Financing</u>
Utility Billing-Financial Software	\$212,000	\$116,127	\$ 95,873	None

4. LONG-TERM DEBT

Long-term debt at December 31, 2005, is comprised of the following individual bonds and contract payable:

1992 Public Works Trust Fund

The Washington State Department of Community Development provided a loan, not to exceed \$1,027,839, to finance water system improvements. The District received the final loan advance of \$102,784 after December 31, 1995. The loan will be repaid annually over 20 years at an interest rate of 1%. \$ 383,133

1999 Local Option Capital Assets Lending Program (LOCAL)

The State Investment Pool provided a low interest loans through their LOCAL program, which were used for the purchase of fleet vehicles and equipment. These loans are paid bi-annually.
 Loan No. 1 - \$14,766, 5 year term, 4.80% interest rate.
 Loan No. 2 - \$28,974, 5 year team, 5.16% interest rate.
 Loan No. 3 - \$62,000, 10 year term, 5.20% interest rate. \$ 25,299

2000 Public Works Trust Fund

The Washington State Department of Community Development provided a loan, not to exceed \$1,620,000, to finance distribution system improvements, well upgrade, reservoir painting and SCADA upgrades. The District received advances in the amount of \$1,458,000, which represents 90% of the approved loan. The loan will be repaid annually over 20 years at an interest rate of 3%. \$1,175,935

2001 State Revolving Fund Loan

The Washington State Public Works Board provided a loan not to exceed \$459,000, to finance the construction of Disinfection Facilities at each source of water supply. The \$39,000 represents the first draw on the loan for expense reimbursement of \$30,000 and a 2 percent, \$9,000 loan fee. The loan will be repaid annually over 20 years at an interest rate of 2.5%. Loan payments began in 2003. \$ 386,526

2003 Water Revenue Bonds – Original issue of \$4,810,000

These bonds were issued to retire \$5,295,000 of the 1993 water revenue bonds. \$ 3,370,000

Aggregate long-term debt	\$ 5,340,893
Current portion of long-term debt	<u>689,058</u>
Long-term debt due after one year	<u>\$ 4,651,835</u>

There are a number of limitations and restrictions contained in the various bond indentures. The District is in compliance with all significant limitations and restrictions.

On January 7, 2003, Public Utility District No. 1 of Asotin County issued Water Revenue Refunding Bonds of \$4,810,000 (par value) with an average coupon rate of 3.394 percent and to advance refund 1993 Water Revenue Bonds with an average coupon rate of 5.24 percent and a par value of \$6,660,000. The 2003 Water Revenue Refunded Bonds mature December 2003 thru December 2011. This will result in a net present value savings to the PUD of \$416,630.21.

On September 7, 1993, Public Utility District No. 1 of Asotin County issued Water Revenue Refunding Bonds of \$7,395,000 (par value) with an average coupon rate of 5.24 percent to advance refund 1987 Water Revenue Bonds with an average coupon rate of 6.94 percent and a par value of \$6,660,000.

The advance refunding of the 1987 water revenue bonds and simultaneous issuance of the 1993 bonds met the requirements of an in-substance debt defeasance. Therefore, \$6,660,000 of the 1987 water revenue bonds was considered retired and the debt was removed from the balance sheet.

The 2003 Water Revenue Refunding Bonds covenants require that the District maintain a bond reserve fund equal to or greater than the maximum annual debt service under the 1987, 1991, and 1993 Water Revenue Bonds, which amounts to an additional reserve fund of \$481,000 at December 31, 2005. At December 31, 2005, the actual bond reserve fund in the amount of \$481,000 is invested in a bank certificate of deposit. The covenants further require the transfer of the following year's principal and interest payments to a separate account on a monthly basis. At December 31, 2005, the principal and interest account in the amount of \$81,908 is combined with general District investments in the State of Washington Local Government investment Pool.

A summary of changes in long-term debt is as follows:

	Balance <u>1-1-05</u>	Debt <u>Issued</u>	Principal <u>Repayment</u>	Interest <u>Payment</u>	Balance <u>12-31-05</u>
1992 Public Works Trust Fund	437,866	0	54,733	4,379	383,133
1999 LOCAL	31,731	0	6,432	1,567	25,299
2000 Public Works Trust Fund	1,254,331	0	78,396	12,543	1,175,935
2001 State Revolving Fund	410,684	0	24,158	10,267	386,526
2003 Water Revenue Bonds	<u>3,875,000</u>	<u>0</u>	<u>505,000</u>	<u>127,100</u>	<u>3,370,000</u>
Total	<u>\$6,009,612</u>	<u>\$ 0</u>	<u>\$668,719</u>	<u>\$155,856</u>	<u>\$5,340,893</u>

Long-term Debt Maturities. The annual requirements to amortize all long-term debt outstanding as of December 31, 2005 are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Annual Payment</u>
2006	689,058	140,957	830,015
2007	699,414	124,228	823,642
2008	714,789	105,600	820,390
2009	726,185	85,662	811,847
2010	742,287	63,850	806,137
2011	767,287	39,978	807,264
2012	157,287	13,642	170,929
2013	102,554	11,707	114,261
2014	102,554	10,319	112,873
2015	102,554	8,931	111,485
2016	102,554	7,543	110,097
2017	102,554	6,156	108,709
2018	102,554	4,768	107,321
2019	102,554	3,380	105,933
2020	102,554	1,992	104,545
2021	24,158	604	24,762
Principal & Interest			<u>\$ 5,970,211</u>
Interest Included			<u>629,318</u>
Aggregate long-term debt			<u>\$ 5,340,893</u>

5. SHORT-TERM DEBT

The District had no short-term Debt.

6. CAPITAL LEASE

The District had no capital lease arrangements.

7. DEPOSITS AND INVESTMENTS

The District's deposits and certificates are entirely covered by the Federal Depository Insurance (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (PDPC).

The District's investments are categorized to give an indication of risk assumed at year-end as either (A) insured investments and (B) amounts invested with the State of Washington Local Government Investment Pool.

Proprietary Fund Type	<u>Categories</u>		<u>Combined</u>
	(A)	(B)	
Restricted Investments	\$ 481,000	\$ 156,268	\$ 637,268
Designated Investments		0	0
General Fund Investments		<u>671,270</u>	<u>671,270</u>
Total	<u>\$ 481,000</u>	<u>\$ 827,538</u>	<u>\$1,308,538</u>

Amounts held in Washington State banks approved by the Public Deposit Protection Commission (PDPC) are covered by federal depository insurance up to \$100,000 and by the PDPC for amounts over \$100,000. The PDPC constitutes a multiple financial institution collateral pool that provides for additional assessments against participants of the pool on a pro rata basis. Accordingly, the deposits covered by PDPC are considered to be insured.

Custodial risk is the risk that in event of a failure of the counterparty to an investment transaction the District would not be able to recover the value of the investment or collateral securities. Of the District's total position of \$1,308,538 in 2005, \$0 is exposed to custodial risk because the investments are held by the District's brokerage firm, which is also the counterparty in those particular securities. The District has no derivatives.

8. RETIREMENT PLAN

Public Employees' Retirement System (PERS) Plans 1, 2, and 3

All of the District's full-time and qualifying part-time employees participate in one of the following statewide retirement systems administered by the Washington State Department of Retirement Systems, under cost-sharing multiple-employer public employee defined benefit and defined contribution retirement plans. The Department of Retirement Systems (DRS), a department within the primary government of the State of

Washington, issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for each plan. The DRS CAFR may be obtained by writing to: Department of Retirement Systems, Communications Unit, P.O. Box 48380, Olympia, WA 98504-8380. The following disclosures are made pursuant to GASB Statement No. 27, *Accounting for Pensions by State and Local Government Employers*.

Plan Description

PERS is a cost-sharing multiple-employer retirement system comprised of three separate plans for membership purposes: Plans 1 and 2 are defined benefit plans and Plan 3 is a combination defined benefit/defined contribution plan. Membership in the system includes: elected officials; state employees; employees of the Supreme, Appeals, and Superior courts (other than judges currently in a judicial retirement system); employees of legislative committees; community and technical colleges, college and university employees (not in national higher education retirement programs); judges of district and municipal courts; and employees of local governments. PERS participants who joined

the system by September 30, 1977, are Plan 1 members. Those who joined on or after October 1, 1977 and by either, February 28, 2002 for state and higher education employees, or August 31, 2002 for local government employees, are Plan 2 members unless they exercise an option to transfer their membership to Plan 3. PERS participants joining the system on or after March 1, 2002 for state and higher education employees, or September 1, 2002 for local government employees have the irrevocable option of choosing membership in either PERS Plan 2 or PERS Plan 3. The option must be exercised within 90 days of employment. An employee is reported in Plan 2 until a choice is made. Employees who fail to choose within 90 days default to PERS Plan 3. PERS defined benefit retirement benefits are financed from a combination of investment earnings and employer and employee contributions. PERS retirement benefit provisions are established in state statute and may be amended only by the State Legislature.

Plan 1 retirement benefits are vested after an employee completes five years of eligible service. Plan 1 members are eligible for retirement at any age after 30 years of service, or at the age of 60 with five years of service, or at the age of 55 with 25 years of service. The annual pension is 2 percent of the average final compensation per year of service, capped at 60 percent. The average final compensation is based on the greatest compensation during any 24 eligible consecutive compensation months. If qualified, after reaching the age of 66 a cost-of-living allowance is granted based on years of service credit and is capped at 3 percent annually.

Plan 2 retirement benefits are vested after an employee completes five years of eligible service. Plan 2 members may retire at the age of 65 with five years of service, or at the age of 55 with 20 years of service, with an allowance of 2 percent of the average final compensation per year of service. The average final compensation is based on the greatest compensation during any eligible consecutive 60-month period. Plan 2 retirements prior to the age of 65 receive reduced benefits. If retirement is at age 55 or older with at least 30 years of service, a 3 percent per year

reduction applies; otherwise an actuarial reduction will apply. There is no cap on years of service credit; and a cost-of-living allowance is granted (indexed to the Seattle Consumer Price Index), capped at 3 percent annually.

Plan 3 has a dual benefit structure. Employer contributions finance a defined benefit component, and member contributions finance a defined contribution component. The defined benefit portion provides a benefit calculated at 1 percent of the average final compensation per year of service. The average final compensation is based on the greatest compensation during any eligible consecutive 60-month period. Plan 3 members become eligible for retirement if they have: at least ten years of service; or five years including twelve months that were earned after age 54; or five service credit years earned in PERS Plan 2 prior to June 1, 2003. Plan 3 retirements prior to the age of 65 receive reduced benefits. If retirement is at age 55 or older with at least 30 years of service, a 3 percent per year reduction applies; otherwise an actuarial reduction will apply. There is no cap on years of service credit; and Plan 3 provides the same cost-of-living allowance as Plan 2. The defined contribution portion can be distributed in accordance with an option selected by the member, either as a lump sum or pursuant to other options authorized by the Employee Retirement Benefits Board.

There are 1,168 participating employers in PERS. Membership in PERS consisted of the following as of the latest actuarial valuation date for the plans of September 30, 2004:

Retirees and Beneficiaries Receiving Benefits	66,896
Terminated Plan Members Entitled to But Not Yet Receiving Benefits	21,031
Active Plan Members Vested	103,039
Active Plan Members No vested	53,217
Total	244,183

In March of 1995, the District authorized the participation and membership of its full-time employees in the Washington Public Employee's Retirement System (PERS). This is a statewide local government retirement system administered by the Department of Retirement System, under a cost sharing multiple-employer public employee retirement plan.

During 1995, assets from the District's Defined Benefit Plan amounting to \$124,603 were used to provide service credit for all employees from the later of April 1987 or the employee's date of employment up through March 1995. The balance of the Defined Benefit Plan Assets of \$19,175 were used to fund the employer's share of prior service credit. The District has entered into an agreement with PERS to fund the balance of the employer's share of prior service cost amounting to \$159,695 over 15 years at \$887 per month with no interest.

Funding Policy

Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates, Plan 2 employer and employee contribution rates, and Plan 3 employer contribution rates. Employee contribution rates for Plan 1 are established by statute at 6 percent for state agencies and local government unit employees, and 7.5 percent for state government elected officers. The employer and employee contribution rates for Plan 2 and the employer contribution rate for Plan 3 are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. All employers are required to contribute at the level established by the Legislature. PERS Plan 3 defined contribution is a non-contributing plan for employers. Employees who participate in the defined contribution portion of PERS Plan 3 do not contribute to the defined benefit portion of PERS Plan 3. The Employee Retirement Benefits Board sets Plan 3 employee contribution rates. Six rate options are available ranging from 5 to 15 percent; two of the options are graduated rates dependent on the employee's age. The methods used to determine the contribution requirements are established under state statute in accordance with chapters 41.40 and 41.45 RCW.

The required contribution rates expressed as a percentage of current-year covered payroll, as of December 31, 2005, were as follows:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
Employer*	2.44%	2.44%	2.44%**
Employee	6.00%	1.18%	***

* The employer rates include the employer administrative expense fee currently set at 0.19%.

** Plan 3 defined benefit portion only.

*** Variable from 5.0% minimum to 15.0% maximum based on rate selected by the PERS 3 member.

The District's covered payroll for year ending December 31, 2005, was \$618,558. The District's total current-year payroll for all employees was \$661,278. The District's contribution rates expressed as a percentage of covered payroll as of December 31, 2005,

Both the District and the employees made the required contributions. The District's required contributions for the years ending December 31, 2005 were as follows:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
2005	\$	\$ 22,522	\$
2004	\$	\$ 15,022	\$
2003	\$	\$ 15,341	\$

9. PROPERTY TAXES

The District did not levy property taxes for 2005.

10. SELF-INSURANCE FUND

The District is a member of the Public Utility Risk Management System (PURMS). The purpose of the PURMS is to provide its members the capability and authority to jointly provide a self-insurance plan for liability claims and property losses for which the risk is shared, to jointly purchase excess group liability and property loss coverage, establish and maintain a cash reserve for self-insurance coverage, and to provide related services, including a cooperative program of risk management. In 2000 PURMS began offering Group Health Insurance coverage. In May 2000 the District added group health insurance coverage for all employees and commissioners.

The member districts, through the Fund, provide self-insurance for the first \$1,000,000 of individual loss liability claims and \$250,000 per property loss. The Fund maintains assets from which liability claims and property losses are paid and, through assessments of the members to replenish these assets, the members share joint liability among themselves for liability claims and property losses incurred. Additional assessments may be imposed in addition to the annual contributions in the event that losses payable exceed funds available in the Fund's loss fund.

The Fund also maintains excess liability insurance of \$35 million for losses above \$1,000,000 and excess property insurance in the amount of \$137.5 million for losses above \$250,000.

11. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

The District had no violations of finance-related legal or contractual provisions.

12. OTHER DISCLOSURES

Subsequent Events

There were no material contingent liabilities requiring disclosure.

Prior Period Adjustments

There were no adjustments to prior period fund equity.

Significant Revenue or Expenditure Changes

There were no significant revenue or expenditure changes.