

**Washington State Auditor's Office**  
**Financial Statements Audit Report**

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**Public Utility District No. 1 of Asotin  
County**

Audit Period  
January 1, 2010 through December 31, 2010

Report No. 1006046

Issue Date  
July 26, 2011



WASHINGTON  
**BRIAN SONNTAG**  
STATE AUDITOR



**Washington State Auditor  
Brian Sonntag**

July 26, 2011

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.

Sincerely,

**BRIAN SONNTAG, CGFM**  
STATE AUDITOR

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January 1, 2010 through December 31, 2010**

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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, 2010 through December 31, 2010**

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, 2010, and have issued our report thereon dated June 23, 2011.

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 as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

### ***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, 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*.

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" and last name "Sonntag" clearly distinguishable.

**BRIAN SONNTAG, CGFM**  
STATE AUDITOR

June 23, 2011

# Independent Auditor's Report on Financial Statements

## **Public Utility District No. 1 of Asotin County January 1, 2010 through December 31, 2010**

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, 2010, as listed on page 5. 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, 2010, and the changes in financial position and cash flows 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's discussion and analysis on pages 6 through 8 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.

A handwritten signature in black ink, appearing to read "Brian Sonntag". The signature is fluid and cursive, with the first name "Brian" and last name "Sonntag" clearly distinguishable.

**BRIAN SONNTAG, CGFM**  
STATE AUDITOR

June 23, 2011

# Financial Section

## **Public Utility District No. 1 of Asotin County January 1, 2010 through December 31, 2010**

### ***REQUIRED SUPPLEMENTAL INFORMATION***

Management's Discussion and Analysis – 2010

### ***BASIC FINANCIAL STATEMENTS***

Statement of Net Assets – 2010

Statement of Revenues, Expenses and Changes in Net Assets – 2010

Statement of Cash Flows – 2010

Notes to Financial Statements – 2010



## **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, 2010. 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. To ensure that rates charged meet current and future operational expenses and are adequate to fund future capital improvement projects as outlined in the District's 2006 Comprehensive Water System Plan, in December 2006, the Board of Commissioners adopted a one-time increase in the monthly minimum charges for each customer class, and yearly increases in the water consumptive rate and the new service installation charges through 2012. The adopted rate increase became effective January 1, 2007. The Board of Commissioners increased the water consumptive rate 8% effective January 2009 and 5% effective January 2010.

During 2010, the District's operating revenues were \$3,999,228. The major source of revenue for the district is metered water sales and wastewater charges. The major source of non-operating revenues is provided by miscellaneous income and account collection fees. Operating revenue increased \$658,107 (19.7%) from 2009 operating revenue primarily due to the addition of wastewater collection system fees from the assumption of a wastewater collection system from Asotin County.

Operating Expenses in 2010 increased \$714,697 (or 26.1%) from 2009. This increase in operating expenses is primarily attributed to the assumption of the wastewater collection system. The net utility operating income before non-operating revenues and expenses was \$548,641 as compared to \$605,231 in 2009. The decrease in net utility operating income was due to an increase in expenditures for materials, supply, administration and operating costs associated with the assumption of the wastewater collection system and operation of the water system. The largest source of non-operating expense is interest on long-term debt.

The change in net assets after non-operating revenues and expenses was \$484,079 as compared to \$853,876 in 2009.

**Condensed Comparative Financial Information** *(In thousands)*

	<b>2010</b>	<b>2009</b>	<b>Change</b>
Current Assets	\$2,552	\$2,159	\$393
Restricted Assets	605	650	(45)
Noncurrent Assets	3	4	(1)
Capital Assets, net of depreciation	15,298	11,966	3,332
<i>Total Assets</i>	<u>\$18,458</u>	<u>\$14,779</u>	<u>\$3679</u>
Current Liabilities	\$1,277	\$1,075	\$202
Payables from Restricted Assets	1,166	1,939	(773)
Net Assets			
Invested in Capital Assets, net of Related Debt	13,275	9,280	3995
Restricted Net Assets	605	650	(45)
Unrestricted Net Assets	2,135	1,835	300
<i>Total Liabilities, Net Assets and Other Credits</i>	<u>\$18,458</u>	<u>\$14,779</u>	<u>\$3679</u>
Operating Revenues	\$3,999	\$3,341	\$658
Non-Operating Revenues	8	23	(15)
<i>Total Revenues</i>	<u>\$4,007</u>	<u>\$3,364</u>	<u>\$643</u>
Operating Expenses	\$3,451	\$2,736	\$715
Non-operating Expenses	73	92	(19)
<i>Total Expenses</i>	<u>\$3,524</u>	<u>\$2,828</u>	<u>\$696</u>
Income before Contributions, Extraordinary Items	\$485	\$537	(\$52)
Capital Contributions – Grants/Wastewater	\$3,766	\$317	3,449
Change in Net Assets	\$4,251	\$854	\$3,397
Net assets, end of year	\$16,015	\$11,764	\$4,251

**Capital Assets**

The District's total capital assets as of December 31, 2010 were \$15.3 million, net of depreciation. The significant increase in Capital Contributions is attributed to the assumption of ownership and operation of the Asotin County Wastewater Collection System on January 1, 2010. The wastewater collection system assumption provided \$3.49 million in capital assets and \$234,461 in cash. Construction Work in Progress is \$192,228, which represents expenditures for ongoing construction and engineering projects.

Funds for capital construction are provided for through a combination of installation charges and cash flow from revenues. In 2010 the District purchased and placed in to service \$466,950 worth of assets as compared to \$452,932 in 2009. See Note 3 of the accompanying notes to the financial statements for further detail related to Capital Asset activity.

### ***Current Liabilities***

Total Current Liabilities as of December 31, 2010 were \$1,277,260 as compared to \$1,074,609 in 2009, an increase of \$202,651 (or 18.9%). A major portion of total liabilities is the Current Portion of Long-Term Debt in the amount of \$856,645, which is payable in 2010. The Current Portion of Long-Term Debt has increased due to the assumption of ownership of the Asotin County Wastewater Collection System which included assumption of the remaining balance of a Public Works Trust Fund Loan and State Revolving Fund Loan.

### ***Long-term Debt Activity***

At year-end the District had \$610,000 in revenue bonds outstanding as compared to \$1.195 million in 2009. 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. These bonds will be retired on December 1, 2011.

Other short-term and long term-debt includes low interest Public Works Trust Fund and State Revolving Fund capital improvement loans and a contractual property purchase agreement. At year-end the total of these capital improvement and property loans was \$1.413 million as compared to \$1.491 in 2009. The increase in long-term debt is due to the assumption of ownership of the Asotin County Wastewater Collection System which included assumption of the remaining balance of a Public Works Trust Fund Loan and State Revolving Fund Loan.

Funds for payment of Long-term Debt are provided for from cash flow from revenues. See Note 5 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, 2010**

<u><b>ASSETS</b></u>	<u><b>2010</b></u>
<b>Current Assets:</b>	
Cash	\$1,287,032
General Fund Investments	376,626
Certificates of Deposit	0
Equipment Replacement Fund	583,722
Accounts Receivable	278,367
Plant Materials & Supplies	26,551
Accrued Interest Receivable	0
 <b>Restricted Assets:</b>	
2003 Revenue Bond Reserve	481,000
2003 Revenue Bond Sinking Fund	52,867
1992 P WTF Sinking Fund	28,051
2000 P WTF Sinking Fund	43,313
<b>TOTAL CURRENT ASSETS</b>	<b>3,157,529</b>
 <b>Noncurrent Assets:</b>	
Unamortized Debt Issuance Costs	1,272
Workers Compensation Deposit	1,548
Capital Assets Not Being Depreciated	
Land	107,813
Construction Work in Progress	192,228
Capital Assets Being Depreciated	
Organization	970
Structures & Improvements	1,114,905
Infrastructure	20,241,462
Equipment	1,298,082
Electrical	79,724
Less Accumulated Depreciation	(7,737,026)
Total Capital Assets (Net)	15,298,158
<b>TOTAL NONCURRENT ASSETS</b>	<b>15,300,978</b>
<b>TOTAL ASSETS</b>	<b>\$18,458,507</b>

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, 2010**

	<b>2010</b>
<b><u>LIABILITIES</u></b>	
Current Liabilities:	
Warrants Payable	\$81,572
Accounts Payable	73,268
Wages Payable	27,989
Customer Deposits	84,253
Accrued Taxes and Expenses	135,926
Accrued Interest Expense	17,607
Current Portion of Long-Term Debt	856,645
<b>TOTAL CURRENT LIABILITIES</b>	1,277,260
Noncurrent Liabilities:	
Payables from Restricted Assets	
Contracts Payable	150,000
2003 Water Revenue Bonds	610,000
1991 Public Works Trust Fund	39,642
1992 Public Works Trust Fund	109,465
1993 State Revolving Fund	64,157
2000 Public Works Trust Fund	783,957
2001 State Revolving Fund	265,737
Current Portion of Long-Term Debt	(856,645)
<b>TOTAL NONCURRENT LIABILITIES</b>	1,166,313
<b>TOTAL LIABILITIES</b>	2,443,573
<b><u>NET ASSETS</u></b>	
Invested in Capital Assets, net of Related Debt	13,275,200
Restricted Net Assets	605,231
Unrestricted Net Assets	2,134,503
<b>TOTAL NET ASSETS</b>	16,014,934
<b>TOTAL NET ASSETS AND LIABILITIES</b>	\$18,458,507

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, 2010**

	<u>2010</u>
<b>OPERATING REVENUES</b>	
Metered and Wastewater Sales	\$3,761,873
Other Operating Revenues	237,355
<b>Total Operating Revenue</b>	<u>3,999,228</u>
<b>OPERATING EXPENSES</b>	
Operation Expense	
General Operations	557,454
Power Purchased for Resale	9,590
Cost of Energy	194,649
Maintenance	336,173
Customer Services	255,045
General Administration	1,172,748
Depreciation	727,974
Amortization	4,322
Excise and B&O Taxes	192,632
<b>Total Operating Expenses</b>	<u>3,450,587</u>
<b>OPERATING INCOME (LOSS)</b>	<u>548,641</u>
<b>NONOPERATING REVENUES</b>	
Interest Income	8,223
Gain (Loss) on Sale and/or Disposition Property	0
<b>Total Nonoperating Revenues</b>	<u>8,223</u>
<b>NONOPERATING EXPENSES</b>	
Interest Expense on Long-Term Debt	72,785
<b>Total Nonoperating Expenses</b>	<u>72,785</u>
<b>INCOME BEFORE CONTRIBUTIONS, TRANSFERS, SPECIAL AND EXTRAORDINARY ITEMS</b>	484,079
<b>CAPITAL CONTRIBUTIONS</b>	
Watershed Planning Unit Grants	193,723
Wastewater System Assumption	3,572,327
<b>Total Capital Contributions</b>	<u>3,766,050</u>
<b>CHANGE IN NET ASSETS</b>	4,250,129
<b>FUND EQUITY, January 1, 2010</b>	<u>11,764,805</u>
<b>FUND EQUITY, December 31, 2010</b>	<u>\$16,014,934</u>

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, 2010**

	<b>2010</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Receipts from Customers	3,943,517
Payments to Suppliers	1,605,938
Payments to Employees	1,050,392
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>\$1,287,187</b>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>	
Proceeds from Grant Funding	193,723
Proceeds from Wastewater System Assumption	234,461
<b>NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES</b>	<b>\$428,184</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	
Acquisition and Construction of Capital Assets	(466,950)
Construction Work In Process	(163,974)
Principal Paid on Revenue Bonds and Long Term Debt	(818,837)
Capital Contribution	0
Internal Activity - Amortization of Debt Discount	4,322
Proceeds from the Sale of an Asset	0
Interest Paid on Revenue Bonds and Long Term Debt	(72,785)
<b>NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES</b>	<b>(1,518,224)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Purchase of Investments	0
Reinvested Interest Income	(2,870)
Proceeds from Sale and Maturities of Investments	75,210
Interest and Dividends on Investments	8,223
<b>NET CASH PROVIDED BY INVESTING ACTIVITIES</b>	<b>80,563</b>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>277,710</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<b>\$1,593,044</b>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<b>\$1,870,754</b>

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	\$548,641
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:	
Depreciation Expense	727,974
Disposition of Assets	
Changes In Assets and Liabilities:	
Accounts Receivable	(77,087)
Plant Materials and Supplies	8,502
Warrants Payable	34,783
Accounts Payable	26,878
Wages Payable	2,599
Customer Deposits	4,220
Accrued Taxes and Expenses	10,677
	<hr/>
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$1,287,187

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 is a municipal corporation and provides residential and commercial water service, wastewater service and limited electrical service within Asotin County, Washington. The District was formed in 1984 and began operation in April, 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. A detailed listing is shown in Note 2: Deposits & Investments.

***Restricted Assets and Liabilities.*** 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. The current portion of related liabilities is shown as “*Payables from Current Restricted Assets*”. Specific debt reserve requirements are described in Note 5: Long-Term Debt.

Restricted funds currently include:

1992 PWTF Annual Payment Fund	\$ 28,051
2000 PWTF Annual Payment Fund	\$ 43,313
2003 Water Revenue Bond Annual Payment Fund	\$ 52,687
2003 Water Revenue Bond Reserve	\$481,000

***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 2011 for service that was provided in December 2010.

Accounts receivable as of December 31, 2010, are as follows:

Utility Service	\$198,367
Unbilled Accounts Receivable	100,000
Allowance for Uncollectible Accounts	<u>(20,000)</u>
Total	<u>\$278,367</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, 2010, is as follows:

2003 Water Revenue Bond Expenses	\$1,272
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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. Investments in the State of Washington Local Government Investment Pool are included as cash equivalents. Restricted investments are not included as cash equivalents.

## 2. DEPOSITS AND INVESTMENTS

### Deposits

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).

### Investments

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	Categories		Combined
	(A)	(B)	
Restricted Investments	\$ 0	\$ 605,231	\$ 605,231
General Fund Investments	1,796,427	376,626	2,173,053
Total	1,796,427	981,857	2,778,284

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 \$2,778,284 in 2010, \$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.

### 3. CAPITAL ASSETS

Capital Assets are defined by the District as assets with initial individual cost of more than \$1,000.00 and an estimated useful life in excess of 3 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	3+ 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, 2010 was as follows:

<b>CAPITAL ASSETS</b>	Beginning Balance	Increase	Decrease	Ending Balance
Utility Plant not being depreciated:				
Land	\$107,813			\$107,813
Construction in Progress	<u>\$ 28,254</u>	<u>\$163,974</u>		<u>\$192,228</u>
Total Utility Plant not being depreciated	\$136,067	\$163,974		\$300,041
Utility Plant being depreciated:				
Organizational and franchise costs	\$970			\$970
Buildings and Improvements	\$1,113,858	\$1,047		\$1,114,905
Wells, distribution system and infrastructure	\$16,530,796	\$3,790,390		\$20,321,186
Equipment	<u>\$ 1,193,528</u>	<u>\$168,725</u>	(\$64,171)	<u>\$ 1,298,082</u>
Total utility plant being depreciated	\$18,839,151	3,960,162	(\$64,171)	\$22,735,142
<b>CAPITAL ASSETS (Depreciation)</b>	Beginning Balance	Increase	Decrease	Ending Balance
Organizational and franchise costs	(\$868)	(\$4)		(\$872)
Buildings and Improvements	(\$425,681)	(\$26,662)		(\$452,343)
Wells, distribution system and infrastructure	(\$5,272,283)	(\$591,081)		(\$5,863,364)
Equipment	<u>(\$1,310,220)</u>	<u>(\$110,227)</u>		<u>(\$1,420,447)</u>
Total accumulated depreciation	<u>(\$7,009,052)</u>	<u>(\$727,974)</u>		<u>(\$7,737,026)</u>
Total Utility Plant, Net	\$11,966,166	\$3,396,162	(\$64,171)	\$15,298,157

**4. CONSTRUCTION IN PROGRESS**

Construction in progress represents expenses to date on projects whose authorizations total \$240,000. The projects represented are for a GIS Mapping project and a Sewer Lift Station Improvement project. Of the committed balance of \$192,228, the District will provide remaining funding from the general fund.

Construction in progress is composed of the following:

	<u>Project Authorization</u>	<u>Expended to 12/31/10</u>	<u>Committed</u>	<u>Required Future Financing</u>
GIS Mapping Project	\$150,000	\$135,981	\$14,019	None
Sewer Lift Station Improvements	\$ 90,000	\$ 56,247	\$33,753	None

**5. LONG-TERM DEBT**

Long-term debt at December 31, 2010, is comprised of the following:

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%.

\$ 109,466

1991 Public Works Trust Fund – SEWER

The Washington State Department of Community Development provided a loan to Asotin County for their wastewater system in the amount of \$871,906. In January 2010 the District assumed ownership of the Wastewater Collection System and this loan. The balance of the loan at the time of assumption was \$79,284. The 20 year term, 1% interest rate loan will be retired in July 2011.

\$ 39,642

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%.

\$ 783,957

1993 State Revolving Fund Loan – SEWER

The Washington State Department of Ecology provided a loan to Asotin County for their wastewater system in the amount of \$350,053. In January 2010 the District assumed ownership of the Wastewater Collection System and this Loan. The balance of the loan at the time of assumption was \$76,065. The 20 year term, 5% interest rate loan will be retired in January 2013. \$ 64,157

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%. Payments began in 2003. \$ 265,738

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. \$ 610,000

2008 Contracts Payable – Operations Facility

This promissory note provides for the purchase of property and storage Facilities for use as an operations facility. The price of the property and facility was \$220,000. A down payment of \$20,000 was made with the remaining principal balance to be paid over an 8 year period with an interest rate of 5.5%. Loan payments begin in 2009. \$ 150,000

Aggregate long-term debt	\$ 2,022,960
Current portion of long-term debt	<u>856,645</u>
Long-term debt due after one year	<u>\$ 1,166,315</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 resulted 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, 2010. At December 31, 2010, the actual bond reserve fund in the amount of \$481,000 is invested in a bank 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, 2010, the principal and interest account in the amount of \$52,867 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>1-1-10</u>	Debt <u>Issued</u>	Principal <u>Repayment</u>	Interest <u>Payment</u>	Balance <u>12-31-10</u>
1991 Public Works Trust Fund	0	79,284	39,642	793	39,642
1992 Public Works Trust Fund	164,200	0	54,734	1,642	109,466
1993 State Revolving Fund	0	76,065	11,908	1,902	64,157
2000 Public Works Trust Fund	862,352	0	78,396	8,624	783,957
2001 State Revolving Fund	289,895	0	24,157	7,247	265,738
2003 Water Revenue Bonds	1,195,000	0	585,000	46,338	610,000
2008 Contracts Payable	<u>175,000</u>	<u>0</u>	<u>25,000</u>	<u>6,240</u>	<u>150,000</u>
Total Long-Term Debt	<u>\$2,686,447</u>	<u>\$ 155,349</u>	<u>\$ 818,837</u>	<u>\$ 72,786</u>	<u>\$2,022,960</u>

**Long-term Debt Maturities.** The annual requirements to amortize all long-term debt outstanding as of December 31, 2010 are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Annual Payment</u>
2011	856,645	49,517	906,162
2012	208,254	21,534	229,788
2013	141,026	18,284	159,310
2014	127,554	16,559	144,113
2015	127,554	15,171	142,725
2016	127,554	13,783	141,337
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	<u>24,762</u>
Principal & Interest			\$ 2,174,705
Less: Interest Included			<u>151,748</u>
Aggregate long-term debt			<u>\$ 2,022,960</u>

## 6. **SHORT-TERM DEBT**

The District had no short-term debt.

## 7. **CAPITAL LEASE**

The District had no capital lease arrangements.

## 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 defined benefit plan with a defined contribution component.

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 participating 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 members are vested after the completion of 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 benefit is two 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. Plan 1 retirements from inactive status prior to the age of 65 may receive actuarially reduced benefits. The benefit is actuarially reduced to reflect the choice of a survivor option. A cost-of living allowance (COLA) is granted at age 66 based upon years of service times the COLA amount, increased by three percent annually. Plan 1 members may also elect to receive an additional COLA amount (indexed to the Seattle Consumer Price Index), capped at three percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

Plan 2 members are vested after the completion of 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 two 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 three percent per year reduction applies; otherwise an actuarial reduction will apply. The benefit is also actuarially reduced to reflect the choice of a survivor option. 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 three 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 one 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. Effective June 7, 2006, Plan 3 members are vested in the defined benefit portion of their plan after ten years of service; or after five years of service, if twelve months of that service are earned after age 44; or after five service credit years earned in PERS Plan 2 prior to June 1, 2003. Plan 3 members are immediately vested in the defined contribution portion of their plan. Vested Plan 3 members are eligible to retire with full benefits at age 65, or at age 55 with 10 years of service. 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 three percent per year reduction applies; otherwise an actuarial reduction will apply. The benefit is also actuarially reduced to reflect the choice of a survivor option. 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 1,188 participating employers in PERS. Membership in PERS consisted of the following as of the latest actuarial valuation date for the plans of June 30, 2008:

Retirees and Beneficiaries Receiving Benefits	73,122
Terminated Plan Members Entitled to but not yet Receiving Benefits	27,267
Active Plan Members Vested	105,212
Active Plan Members Non-vested	56,456
<b>Total</b>	<b>262,057</b>

In March 1995, the District authorized the participation 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 was 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. Final payment of the prior service cost is in 2010.

**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 at 7.5 percent for state government elected officials. 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. Under PERS Plan 3, employer contributions finance the defined benefit portion of the plan, and member contributions finance the defined contribution portion. 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, 2010, were as follows:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
Employer*	5.31%**	5.31%**	5.31%***
Employee	6.00%****	3.90%****	*****

\* The employer rates include the employer administrative expense fee currently set at 0.16%.  
 \*\* The employer rate for state elected officials is 7.89% for Plan 1 and 5.31% for Plan 2 and Plan 3.

\*\*\* Plan 3 defined benefit portion only.

\*\*\*\* The employee rate for state elected officials is 7.50% for Plan 1 and 3.90% for Plan 2.

\*\*\*\*\* 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, 2010, was \$747,332. The District's total current-year payroll for all employees was \$814,100.

Both the District and the employees made the required contributions. The District's required contributions for the year ending December 31, 2010 were as follows:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
2010	\$ 0.00	\$ 68,828	\$ 0.00
2009	\$ 0.00	\$ 78,051	\$ 0.00
2008	\$ 0.00	\$ 94,221	\$ 0.00

## 9. PROPERTY TAXES

The District did not levy property taxes for 2010.

## 10. RISK MANAGEMENT - 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 \$150 million for losses above \$250,000 per property loss.

## 11. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

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

## 12. OTHER POST EMPLOYMENT BENEFIT (OPEB) PLANS

The District does not provide post employment benefit plans to its employees.

**13. OTHER DISCLOSURES**

*Subsequent Events*

There were no material contingent liabilities requiring disclosure.

*Prior Period Adjustments*

There were no prior period adjustments to prior period fund equity.

*Significant Revenue or Expenditure Changes*

There were no significant revenue or expenditure changes.



## **ABOUT THE STATE AUDITOR'S OFFICE**

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

Our mission is to work in cooperation with our audit clients and citizens as an advocate for government accountability. As an elected agency, the State Auditor's Office has the independence necessary to objectively perform audits and investigations. Our audits are designed to comply with professional standards as well as to satisfy the requirements of federal, state, and local laws.

The State Auditor's Office employees are located around the state to deliver our services effectively and efficiently.

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

The results of our work are widely distributed through a variety of reports, which are available on our Web site and through our free, electronic subscription service. We continue to refine our reporting efforts to ensure the results of our audits are useful and understandable.

We take our role as partners in accountability seriously. We provide training and technical assistance to governments and have an extensive quality assurance program.

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