

Washington State Auditor's Office
Financial Statements and Federal Single Audit Report

Vera Water and Power
Spokane County

Audit Period
January 1, 2007 through December 31, 2007

Report No. 74789

Issue Date
June 9, 2008



WASHINGTON
BRIAN SONNTAG
STATE AUDITOR



**Washington State Auditor
Brian Sonntag**

June 9, 2008

Board of Directors
Vera Water and Power
Veradale, Washington

Report on Financial Statements and Federal Single Audit

Please find attached our report on the Vera Water and Power's financial statements and compliance with federal laws and regulations.

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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Spokane County
January 1, 2007 through December 31, 2007**

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Federal Summary

Vera Water and Power Spokane County January 1, 2007 through December 31, 2007

The results of our audit of the Vera Water and Power are summarized below in accordance with U.S. Office of Management and Budget Circular A-133.

FINANCIAL STATEMENTS

An unqualified opinion was issued on the basic financial statements.

Internal Control Over Financial Reporting:

- **Significant Deficiencies:** We reported no deficiencies in the design or operation of internal control over financial reporting that we consider to be significant deficiencies.
- **Material Weaknesses:** We identified no significant deficiencies that we consider to be material weaknesses.

We noted no instances of noncompliance that were material to the financial statements of the District.

FEDERAL AWARDS

Internal Control Over Major Programs:

- **Significant Deficiencies:** We reported no deficiencies in the design or operation of internal control over major federal programs that we consider to be significant deficiencies.
- **Material Weaknesses:** We identified no significant deficiencies that we consider to be material weaknesses.

We issued an unqualified opinion on the District's compliance with requirements applicable to its major federal program.

We reported no findings that are required to be disclosed under OMB Circular A-133.

Identification of Major Programs:

The following was a major program during the period under audit:

<u>CFDA No.</u>	<u>Program Title</u>
66.468	Capitalization Grants for Drinking Water State Revolving Funds

The dollar threshold used to distinguish between Type A and Type B programs, as prescribed by OMB Circular A-133, was \$300,000.

The District did not qualify as a low-risk auditee under OMB Circular A-133.

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

**Vera Water and Power
Spokane County
January 1, 2007 through December 31, 2007**

Board of Directors
Vera Water and Power
Veradale, Washington

We have audited the basic financial statements of the Vera Water and Power, Spokane County, Washington, as of and for the years ended December 31, 2007 and 2006, and have issued our report thereon dated March 13, 2008.

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

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the District's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

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 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, the Board of Directors, federal awarding agencies and pass-through entities. 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.

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BRIAN SONNTAG, CGFM
STATE AUDITOR

March 13, 2008

Independent Auditor's Report on Compliance with Requirements Applicable to its Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133

Vera Water and Power Spokane County January 1, 2007 through December 31, 2007

Board of Directors
Vera Water and Power
Veradale, Washington

COMPLIANCE

We have audited the compliance of the Vera Water and Power, Spokane County, Washington, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to its major federal program for the year ended December 31, 2007. The District's major federal program is identified in the Federal Summary. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to the financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the District's compliance with those requirements.

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended December 31, 2007.

INTERNAL CONTROL OVER COMPLIANCE

The management of the District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance

and to test and report on internal control over compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

A control deficiency in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is a more than remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in a more than remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance 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 significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended for the information of management, the Board of Directors, federal awarding agencies and pass-through entities. 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.

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BRIAN SONNTAG, CGFM
STATE AUDITOR

March 13, 2008

Independent Auditor's Report on Financial Statements

Vera Water and Power Spokane County January 1, 2007 through December 31, 2007

Board of Directors
Vera Water and Power
Veradale, Washington

We have audited the accompanying basic financial statements of the Vera Water and Power, Spokane County, Washington, as of and for the years ended December 31, 2007 and 2006, as listed on page 8. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audits.

We conducted our audits 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 audits provide a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Vera Water and Power, as of December 31, 2007 and 2006, and the changes in financial position and, where applicable, cash flows thereof for the years 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 audits.

The management's discussion and analysis on pages 9 through 15 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.

Our audits were performed for the purpose of forming an opinion on the financial statements that collectively comprise the District's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. This schedule is not a required part of the basic financial statements. Such information

has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

The Schedules of Long-Term Debt are not a required part of the basic financial statements but are supplementary information presented for purposes of additional analysis. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

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BRIAN SONNTAG, CGFM
STATE AUDITOR

March 13, 2008

Financial Section

Vera Water and Power Spokane County January 1, 2007 through December 31, 2007

REQUIRED SUPPLEMENTAL INFORMATION

Management's Discussion and Analysis – 2007 and 2006

BASIC FINANCIAL STATEMENTS

Statements of Net Assets – 2007 and 2006
Statements of Revenues, Expenses and Changes in Fund Net Assets – 2007 and 2006
Statements of Cash Flows – 2007 and 2006
Notes to Financial Statements – 2007

SUPPLEMENTAL INFORMATION

Schedule of Long-Term Debt – 2007
Schedule of Long-Term Debt – 2006
Schedule of Expenditures of Federal Awards – 2007
Notes to the Schedule of Expenditures Federal Awards – 2007

VERA WATER AND POWER

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

The management of Vera Water and Power (the District) offers readers of these financial statements this overview and summary analysis of the financial activities of the District for the years ended December 31, 2007 and 2006. This section of the financial report is designed to assist the reader in focusing on significant financial activities and issues, as well as important changes in the District's financial position and results of operations. Please read it in conjunction with the District's financial statements.

FINANCIAL HIGHLIGHTS

The District's overall financial condition remains stable with some improvement over the past two years.

Unrestricted Cash and Investments were \$7.5 million and \$4.7 million as of December 31, 2007 and 2006, respectively. As of December 31, 2007, there were \$1.4 million remaining from the 2007 Bond Construction Fund. These funds are restricted for the water projects, as described below.

Debt Service Cash and Investments increased from \$864,154 in 2006 to \$1,150,573 in 2007. This increase is due to the District investing the \$620,000 of proceeds from the 2007 Bond Sale in order to refund the 2002 Bonds. As of December 31, 2007, the 2002 Bond Refunding account was invested in a yield restricted Certificate of Deposit maturing on January 1, 2008.

The District issued its 2007 Parity Lien Water and Power Revenue and Refunding Bonds in the amount of \$2,220,000. The District used \$620,000 of the proceeds from the Bonds to refund the 2002 Bonds and \$1,600,000 to construct improvements to the water system. The improvements consisted of the 900,000 Gallon Reservoir Loop (Morningside Booster Station), Well No. 33 Rebuild, and other water system improvement projects.

The District entered into a Drinking Water State Revolving Fund (DWSRF) Municipal Loan Agreement with the Washington State Public Works Board in order to finance the "Well No. 3 Rehabilitation Project". This project involved making Well No. 3 automatic, cleaning out the debris at the bottom of the well and deepening the well. The total cost of the project was \$839,265. The DWSRF Loan financed \$650,000 of the project costs and the District paid \$189,265 out of its cash reserves.

Electric and Water revenues were higher in 2007 than in 2006 and 2005. This is due to better weather conditions and customer growth. The District sold 220 million kwh for the year ended December 31, 2007. This exceeded electric sales in both 2006 and 2005 of 215 million and 201 million kwh, respectively. The District pumped 3.3 billion gallons of water in 2007 verses 3.2 billion and 2.6 billion in 2006 and 2005, respectively. The District increased its water rates beginning January 1, 2007. This rate increase generated approximately \$200,000 of additional revenue for the Water Division. This rate change increased the rates charged to customers by approximately \$27 per customer per year.

The District capitalized Contributions in Aid of Construction of \$587,839, \$463,953 and \$350,097 for 2007, 2006 and 2005, respectively. These costs represent donations of water lines and hydrants by developers in the District. The increase in these capital contributions over the years reflect the growth the District has experienced and the significant increase in water material cost.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The Statements of Net Assets and Statements of Revenues and Expenses and Changes in Fund Net Assets provide information about the activities of the District and present a longer-term view of the District's finances.

THE STATEMENT OF NET ASSETS AND CHANGES IN NET ASSETS

The Statements of Net Assets and the Statements of Revenues and Expenses and Changes in Fund Net Assets report information about the District and about its activities. These statements include all assets and liabilities using the accrual basis of accounting. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the District's net assets and changes in them. You can think of the District's net assets - the difference between assets and liabilities - as a way to measure the District's financial health, or financial position. Over time, increases or decreases in the District's net assets are one indicator as to whether its financial health is improving or deteriorating.

Our analysis below focuses on the net assets and changes in net assets of the District:

	Net Assets (in thousands)		
	<u>2007</u>	<u>2006</u>	<u>2005</u>
Current and other assets	\$10,729	\$7,822	\$9,736
Capital assets	<u>36,086</u>	<u>34,328</u>	<u>32,905</u>
Total assets	<u>46,815</u>	<u>42,150</u>	<u>42,641</u>
Long-term debt outstanding	6,670	5,000	5,554
Other liabilities	<u>3,510</u>	<u>2,744</u>	<u>4,135</u>
Total liabilities	<u>10,180</u>	<u>7,744</u>	<u>9,689</u>
<u>Net assets:</u>			
Invested in capital assets	28,336	28,904	25,503
Unrestricted	549	77	47
Restricted – Debt Service	<u>7,750</u>	<u>5,425</u>	<u>7,402</u>
Total net assets	<u>\$36,635</u>	<u>\$34,406</u>	<u>\$32,952</u>

Current and other assets increased by \$2.9 million from 2006 to 2007. Included in current assets" as of December 31, 2007 is \$1,426,187 remaining of the 2007 Bond Construction Fund designated to finance the construction of improvements to the water system. Also, included in "Debt Service Cash and Investments" as of December 31, 2007 were the proceeds from the 2007 Bond Sale that were restricted to refund the 2002 Bonds totaling \$620,000. These funds were paid to the Bank of New York on January 1, 2008.

The following is a detail of capital assets for the last three years:

Capital Assets at Year-end (in thousands)			
	<u>2007</u>	<u>2006</u>	<u>2005</u>
Utility Plant	\$49,071	\$46,181	\$43,117
Land	1,208	1,180	1,171
Transportation Equipment	1,686	1,588	1,692
Construction in Progress	225	535	1,193
Less: Accumulated Depreciation	<u>(16,104)</u>	<u>(15,155)</u>	<u>(14,268)</u>
Total Utility Plant, Net	\$36,086	\$34,329	\$32,905

Capital assets grew to \$36 million as of December 31, 2007. The major additions for 2007 and 2006 are as follows (in thousands):

	<u>2007</u>	<u>2006</u>
750,000 Reservoir Loop Project	\$0	\$356
Well No. 3 Rehabilitation Project	579	255
Water mains and hydrants paid for by developers	588	464
900,000 Reservoir Loop Project	58	47
Well No. 33 Upgrade/Saltese Water Main	151	0
Total	\$1,376	\$1,122

The District was reimbursed \$650,000 of Well No. 3 Rehabilitation expenses through the DWSRF Loan in 2007. In addition the expenses incurred for the 900,000 Loop Project, Well No. 33 and Saltese Water Main projects were reimbursed from the proceeds of the 2007 Bond Sale.

More detailed information about the District's capital assets is presented in the notes to the financial statements.

Other Liabilities increased to \$3.5 million as of December 31, 2007 (up from \$2.7 million as of December 31, 2006). This is largely due to the \$620,000 payment to the Bank of New York on January 1, 2008 in order to refund the 2002 Bonds. This refunding payment was classified as a "current liability" as of December 31, 2007.

Below is a detail of the District's outstanding debt:

**Outstanding Long-Term Debt (exclusive of current portion), at Year-End
(in thousands)**

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Revenue & Refunding Bonds	\$5,610	\$4,395	\$4,745
Drinking Water Loan	611	0	0
LID Bonds	450	605	809
Total	\$6,671	\$5,000	\$5,554

More detailed information about the District's long-term liabilities is presented in the notes to the financial statements.

**Changes in Nets Assets
(in thousands)**

	<u>2007</u>	<u>2006</u>	<u>2005</u>
<u>Operating Revenues:</u>			
Electric Revenues	\$12,016	\$11,744	\$11,102
Water Revenues	1,597	1,324	1,253
Sewer Revenues	6	6	6
Total Operating Revenues	13,619	13,074	12,361
<u>Other Revenues:</u>			
Credit Fees	132	120	119
Capacity Charges	217	163	144
Other	180	298	247
Total Other Operating Revenues	529	581	510
Investment Income	258	239	138
Total Non Operating Revenues	258	239	138
Total Revenues	14,406	13,894	13,009
<u>Non Operating Expenses:</u>			
Interest & Discount Expense	241	190	189
Total Non Operating Expenses	241	190	189

Operating Expenses:

Cost of Purchased Power	7,251	7,588	7,092
General Operations	625	629	617
Cost of Pumping Water	296	338	272
Maintenance Expense	926	803	641
Customer Service	753	730	660
General Administration	743	660	606
Depreciation & Amortization	1,150	1,089	1,010
Taxes	535	511	487
Special Sales & Services Costs	211	254	219
Total Operating Expenses	12,490	12,602	11,604
Total Expenses	12,731	12,792	11,793
Income before Contributions & Special Items	1,675	1,102	1,216
Capital Contributions	588	440	324
Cust. Rec./LID Capital Contrib./Purch Power Accrual	(34)	(88)	0
Increase in Net Assets	2,229	1,454	1,540
Net Assets – Beginning	34,406	32,952	31,412
Net Assets – Ending	\$36,635	\$34,406	\$32,952

Revenues

Electric Revenues grew to \$12 million in 2007 verses \$11.7 and \$11.1 million in 2006 and 2005 respectively. The District's electric kwh sales grew by 2.3% and 5.2 million kwh from 2006 to 2007. Effective September 30, 2006, Bonneville's five-year power rates came to an end and Bonneville enacted new power rates on October 1, 2006. The District's retail rates have remained unchanged since October 2005. The District's electric customers grew to 9,598 in 2007 verses 9,402 in 2006 and 9,193 in 2005.

Water Revenues grew to \$1,597,000 in 2007 verses \$1,324,000 and \$1,253,000 in 2006 and 2005 respectively. The District pumped 3.3 billion gallons of water in 2007 verses 3.2 billion in 2006 and 2.6 billion in 2005. The average temperature during the 2006 watering season was significantly warmer than 2005. The District had more precipitation in the spring of 2005 which slowed the start of the watering season. Because of the slow start and cooler temperatures, the District pumped and sold less water in 2005 than either 2007 or 2006. The District's water division customers grew to 7,537 in 2007 verses 7,372 in 2006 and 7,198 in 2005. The District increased its water rates beginning January 1, 2007. This rate increase generated approximately \$200,000 of additional revenue for the Water Division. This rate change increased the rates charged to individual customers by approximately \$27 per customer per year.

Expenses

The changes in Operating Expenses are discussed below:

The cost of Purchased Power was \$7,250,961 in 2007 versus \$7,588,402 and \$7,091,768 in 2006 and 2005, respectively. The wholesale power cost was .0318 per kWh in 2007 versus .0341 in 2006 and .0334 in 2005. Bonneville restructured the monthly base rates charged to the District beginning October 1, 2006. This rate change significantly lowered the District's purchased power cost during July and August, previously the months of the highest rates charged by Bonneville. Electric System Demand exceeded 40,000 KW in three different months of both 2007 and 2006. For the year ended December 31, 2005 the highest system demand month was January 2005 at 39,730 KW.

As noted above the District pumped 3.3 billion gallons of water in 2007; equivalent to 2006 but significantly more than in 2005. Because of Bonneville's rate restructure, as discussed above, the cost of pumping water decreased from \$338,000 in 2006 to \$296,000 in 2007.

The increase General Operations and Maintenance Expense since 2005 is largely due to:

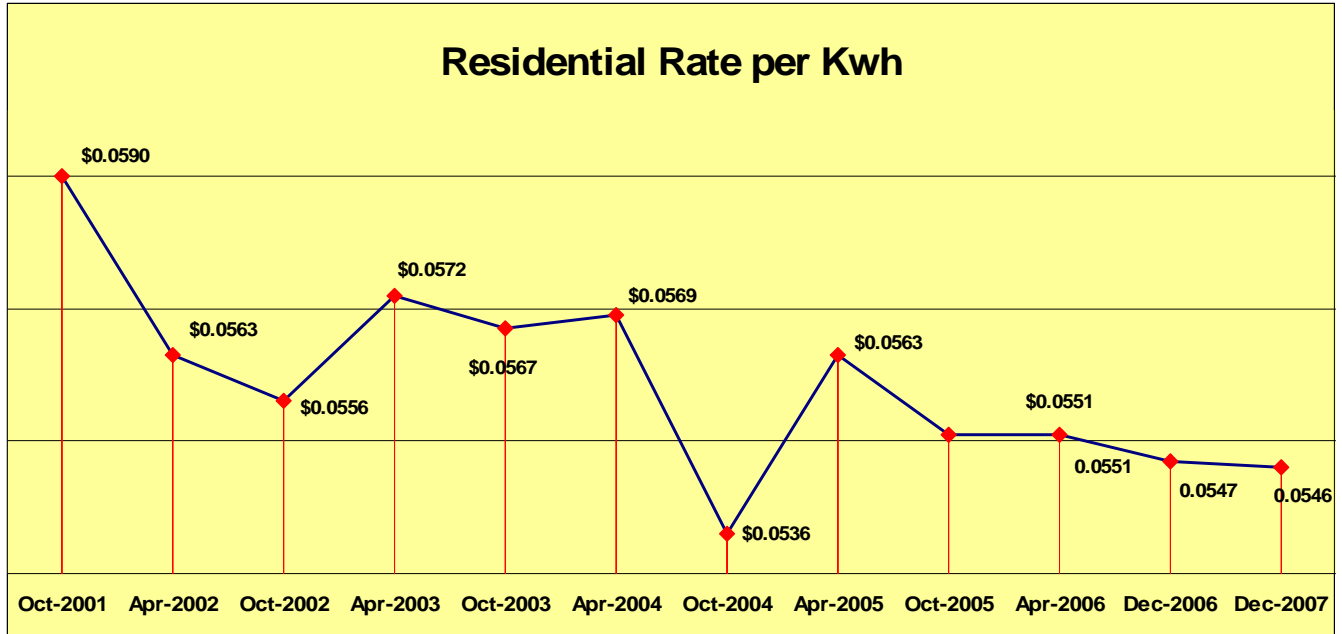
- There were two windstorms in the winter of 2006 that brought wind gusts to the Spokane Valley exceeding 50 mph. These windstorms caused trees breaking off and falling onto the District's primary and secondary power lines.
- During 2007, a large amount of District payroll was incurred for fire hydrant and water main maintenance. The Water Division also added a new water crew employee in January 2007.
- During 2007, two regulators failed at the District's Sullivan and Vera Substations. As a result "Substations Maintenance Expense" increased from \$21,000 in 2006 to \$46,000 in 2007.
- The District owned a church building adjacent to the District's offices. This building was deteriorating and in need of expensive improvements to keep it in good condition. The District demolished and re-landscaped the church property. During 2007, the District also demolished the rental house it owned at 602 S. Evergreen. These demolition projects cost approximately \$45,000.

Water Rates

Effective January 1, 2007, the District increased water rates. This is only the third water rate increase in the last 20 years. It is estimated that the average customer will pay \$27 more each year for their water bill. This rate increase will help the District in protecting the value and integrity of the water system. The rate increase will help fund the upgrade of the District's Well No. 3. This project cost approximately \$839,000 and is funded by ratepayer funds and a \$650,000 low interest loan from the Washington State Drinking Water Fund, which will be paid over the next 20 years.

Electric Rates

September 30, 2006 marked the end of a five-year power rate period from the Bonneville Power Administration that was enacted during the height of the West Coast Energy Crisis. Bonneville's new rates, effective from October 1, 2006 through September 30, 2009, end the Cost Recovery Adjustment Clauses (CRACs). These rates do contain provisions for future rate adjustment clauses; however, none of them have been in effect since October 1, 2006. This allowed the District to retain retail rates at the same overall rate that had existed since October 2005. These rates are about 7% lower than they were 6 years ago.



CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our customers and creditors with a general overview of the District's finances. If you have questions about this report or need additional financial information, contact the Controller/Treasurer at Vera Water and Power, P.O. Box 630, Spokane Valley, WA 99037.

VERA WATER AND POWER
Statements of Net Assets
December 31, 2007 and 2006

	<u>2007</u>	<u>2006</u>
<u>ASSETS</u>		
<u>CURRENT ASSETS:</u>		
Cash and Cash Equivalents	\$553,782	\$444,666
Temporary Investments	5,542,518	4,215,093
2007 Bond Construction Fund	1,426,187	0
Debt Service Cash and Investments	1,150,573	864,154
Accounts Receivable - Customer and Other	567,840	755,643
Inventories	550,465	451,277
Prepayments and Other	97,390	100,422
TOTAL CURRENT ASSETS	9,888,755	6,831,255
<u>NONCURRENT ASSETS:</u>		
Capital Assets:		
Utility Plant in Service	49,052,803	46,161,433
Land	1,207,627	1,180,314
Transportation Equipment	1,686,008	1,588,272
Construction Work in Progress	225,039	535,268
Other Utility Plant	18,370	18,370
Less: Accumulated Depreciation	(16,103,765)	(15,155,111)
Total Capital Assets (Net)	36,086,082	34,328,546
Unamortized Debt Discount	233,268	205,946
L.I.D. Assessments Receivable	546,903	720,418
Unamortized Water System Costs	60,407	64,160
TOTAL NONCURRENT ASSETS	36,926,660	35,319,070
TOTAL ASSETS	\$46,815,415	\$42,150,325

The Accompanying Notes Are An Integral Part Of The Financial Statements

VERA WATER AND POWER
Statements of Net Assets
December 31, 2007 and 2006

	<u>2007</u>	<u>2006</u>
<u>LIABILITIES</u>		
<u>CURRENT LIABILITIES:</u>		
Accounts Payable	\$1,961,954	\$1,889,585
Interest Accrued	174,609	136,865
Bonds Payable, portion due within one year	1,014,118	350,000
L.I.D. Bonds, portion due within one year	65,254	74,823
Other Current and Accrued Liabilities	293,643	293,237
TOTAL CURRENT LIABILITIES	3,509,578	2,744,510
<u>NONCURRENT LIABILITIES:</u>		
Bonds and Notes Payable, portion due after one year	6,220,910	4,395,000
L.I.D. Bonds, portion due after one year	449,746	605,177
TOTAL NONCURRENT LIABILITIES	6,670,656	5,000,177
TOTAL LIABILITIES	10,180,234	7,744,687
<u>NET ASSETS</u>		
Invested in Capital Assets, Net of Related Debt	28,336,054	28,903,546
Restricted Net Assets - Debt Service	7,750,028	5,425,000
Unrestricted	549,099	77,092
TOTAL NET ASSETS	36,635,181	34,405,638
TOTAL NET ASSETS AND LIABILITIES	\$46,815,415	\$42,150,325

The Accompanying Notes Are An Integral Part Of The Financial Statements

VERA WATER AND POWER

**Statements of Revenues and Expenses and Changes in Fund Net Assets
For the Years Ended December 31, 2007 and 2006**

	<u>2007</u>	<u>2006</u>
OPERATING REVENUES		
Utility Sales	\$13,618,667	\$13,074,082
Other Operating Revenues	528,948	580,765
TOTAL OPERATING REVENUES	14,147,615	13,654,847
<u>OPERATING EXPENSES:</u>		
Cost of Purchased Power	7,250,961	7,588,402
General Operations	625,651	629,226
Cost of Pumping Water	296,377	338,018
Maintenance Expense	925,725	802,806
Customer Services and Marketing	752,869	730,729
General Administration	742,716	660,122
Depreciation & Amortization Expense	1,150,008	1,088,705
Utility Tax Expense	535,070	510,798
Special Sales & Services Costs	210,840	253,516
TOTAL OPERATING EXPENSES	12,490,217	12,602,322
OPERATING INCOME	1,657,398	1,052,525
<u>NONOPERATING REVENUES AND EXPENSES:</u>		
Interest Expense	(222,670)	(172,672)
Debt Discount Amortization Expense	(18,506)	(17,080)
Interest Income	258,739	239,267
TOTAL NONOPERATING REVENUES AND EXPENSES	17,563	49,515
INCOME BEFORE CONTRIBUTIONS AND SPECIAL ITEMS	1,674,961	1,102,040
Capital Contributions by Developers	587,839	463,953
Change in LID Capital Contributions & Customer Receivables	(33,257)	(23,996)
Purchased Power Accrual	0	(88,675)
INCREASE IN NET ASSETS	2,229,543	1,453,322
TOTAL NET ASSETS, beginning of year	34,405,638	32,952,316
TOTAL NET ASSETS, end of year	\$36,635,181	\$34,405,638

The Accompanying Notes Are An Integral Part Of The Financial Statements

VERA WATER AND POWER

Statements of Cash Flows

For the Years Ended December 31, 2007 and 2006

	<u>2007</u>	<u>2006</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>		
Receipts form customers	\$14,324,617	\$13,621,321
Payments for Purchased Power	(7,213,487)	(7,601,487)
Payments to all other suppliers	(1,383,379)	(1,309,117)
Payments for payroll expenses	(2,766,725)	(2,675,872)
	<hr/>	<hr/>
NET CASH PROVIDED BY OPERATING ACTIVITIES	2,961,026	2,034,845
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES	0	0
<u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</u>		
Payments for Purchase of Utility Plant	(2,307,624)	(2,036,005)
Proceeds from Bond Sale & DWSRF Loan	2,876,500	0
L.I.D. Assessments Receivable	(13,941)	(24,754)
Payments for Water System Costs	(8,327)	(56,990)
Payments to Retire Bond and Loan Principal	(386,472)	(1,706,624)
Change in Debt Discount	(45,828)	(1,579)
Interest paid	(184,926)	(192,989)
	<hr/>	<hr/>
NET CASH USED FOR CAPITAL AND RELATED FINANCING ACTIVITIES	(70,618)	(4,018,941)
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>		
Interest Income	258,739	239,267
	<hr/>	<hr/>
NET CASH PROVIDED BY INVESTING ACTIVITIES	258,739	239,267
NET INCREASE (DECREASE) IN CASH	3,149,147	(1,744,829)
CASH & CASH EQUIVALENTS, BEGINNING OF YEAR	5,523,913	7,268,742
	<hr/>	<hr/>
CASH & CASH EQUIVALENTS, END OF YEAR	\$8,673,060	\$5,523,913
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The Accompanying Notes Are An Integral Part Of The Financial Statements

VERA WATER AND POWER
Statements of Cash Flows
For the Years Ended December 31, 2007 and 2006

	<u>2007</u>	<u>2006</u>
RECONCILIATION OF NET INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
OPERATING INCOME	\$1,657,398	\$1,052,525
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:		
Depreciation and Amortization Expense	1,150,008	1,088,705
Net Changes In:		
Accounts Receivable - Customer and Other	177,001	(33,527)
Material and Supplies	(99,188)	(49,227)
Prepayments and Other	3,032	11,645
Accounts Payable	72,369	(43,133)
Accrued Liabilities	406	7,857
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$2,961,026	\$2,034,845
NONCASH INVESTING, CAPITAL & FINANCING ACTIVITIES:		
Capital Contributions by Developers	\$587,839	\$463,953

The Accompanying Notes Are An Integral Part Of The Financial Statements

VERA WATER AND POWER
Notes To Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Vera Water and Power (The District) conform to generally accepted accounting principles (GAAP) as applicable to proprietary funds of governments. The Governmental Accounting Standards Board (GASB) is the authoritative accounting and financial reporting standard setting body for state and local governments. 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 financial statements). The District applies FASB pronouncements issued after November 30, 1989 to the accompanying financial statements, except for those that conflict with or contradict GASB pronouncements.

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):

a. Reporting Entity

The District is a political subdivision of the State of Washington governed by an elected five-member board. As required by GAAP, management has considered all potential component units in defining the reporting entity. The District has no component units and operates three utility divisions (electric, water and sewer).

b. Basis of Accounting 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 uses the full-accrual basis of accounting where revenues are recognized when earned and expenses are recognized when incurred.

c. Unbilled Utility Revenues

The District has not accrued year end unbilled revenues. The District has recorded revenues based on total customer billings. The customer meters are read and billed at various times during the month, actual energy usage in the current period may not be billed until the subsequent period. The District's management has determined that the amount of unbilled revenues would be immaterial to the financial statements taken as a whole.

d. Cash and Cash Equivalents

For purposes of the Statement of Cash Flows, the District considers all highly liquid investments (including restricted assets) with an original maturity of three months or less to be cash equivalents.

e. Revenue and Expense Classification

Operating Revenues are revenues billed to customers of the District for usage of electricity, water, sewer and street lights. Other Operating Revenues are revenues billed for credit and collection fees, hookup fees and chargeable construction work orders. Operating Expenses for the District include purchased power, general maintenance and operations expense and depreciation and amortization of capital assets. All revenues and expenses not meeting this definition are reported as non operating revenues and expenses.

f. Utility Plant and Depreciation

See Note 4 regarding capitalization, depreciation and retirement of Utility Plant.

g. Debt Service Cash & Investments

In accordance with bond resolutions, separate restricted funds are required to be established. The assets held in these funds restricted for debt service total \$1,150,573 and \$864,154 as of December 31, 2007 and 2006, respectively. Included in these cash and investments at December 31, 2007 are \$620,000 of proceeds from the "2007 Bonds" which were reserved for the refunding of the 2002 Bonds on January 1, 2008. All restricted funds are stated at cost which approximates market. See also the Cash and Investments footnote.

h. Receivables

The District has a lien on all property, within its boundaries, to which it provides utility service. Because of this lien, the District does not have a policy for estimating and/or writing off uncollectible accounts receivable. There are instances, however, where the District may write off certain accounts because of a court order. The District also may write off certain accounts resulting from pole-hits as they are deemed uncollectible.

i. Inventories

Inventories are valued at average cost which approximates the market value.

j. Investments

All temporary investments are stated at cost plus accrued interest which approximates market. Management intends to hold its investments until maturity. See the Deposits and Investments Note No. 3 for more detailed information concerning the District's investments.

k. Compensated Absences

Vacation pay is payable upon termination. The vacation liability included in other current and accrued liabilities as of December 31, 2007 and 2006 is \$223,387 and \$207,827, respectively.

Sick leave may accumulate up to 960 hours. At the end of a calendar year, all sick leave hours in excess of 960 will be reimbursed to the employees at 25% of their straight time rate of pay. Upon termination any outstanding sick leave up to 960 hours is lost.

l. Unamortized Debt Expense

Costs relating to the sale of bonds are deferred and amortized over the lives of the various bond issues.

2. THE DISTRICT'S POWER SUPPLY

The District, a statutory preference customer of the Bonneville Power Administration (Bonneville), is entitled to the same preference rights as Bonneville's other preference customers and, as such, has priority to purchase power over Bonneville's non-preference customers. The District purchases power from Bonneville pursuant to a ten-year "Full Service Power Sales Agreement" which expires September 30, 2011. The District's wholesale power rates with Bonneville are good through September 30, 2009.

3. DEPOSITS AND INVESTMENTS

Cash and Cash Equivalents of \$553,782 and \$444,666 for the years ended December 31, 2007 and 2006, respectively represent deposits held at Washington Trust Bank. The District's deposits are entirely covered by federal depository insurance (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (PDPC).

Custodial credit 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. None of District's deposits and investments is exposed to custodial credit risk. The District does not have a deposit or investments policy.

All of the District's investments are insured, registered or held by the District or its agent in the District's name. As of December 31, 2007 and 2006, the District's funds invested in the State Treasurer's Investment Pool (LGIP) were \$5,682,450 and \$4,558,870, respectively.

The remaining funds classified as "Investments" on the balance sheet are invested in a premium savings account at Washington Trust Bank. These investments have a carrying value of \$1,721,105 and \$520,377 as of December 31, 2007 and 2006, respectively.

As of July 1, 2007, The District entered into an Escrow Agreement with Washington Trust Bank (Escrow Agent) where two Certificates of Deposit were opened for the payment of all principal and interest of the 2002 Refunded Bonds. These Certificates of Deposit were rate restricted at 4.39% and matured January 2, 2008. The Escrow Agent paid the principal and interest on these 2002 Refunded Bonds to the Bank of New York (Fiscal Agent for the State of Washington) on January 2, 2008.

All of the District's investments carrying value approximate their market value as of December 31, 2007. There are no maturity restrictions to the deposits and investments held at the LGIP or Washington Trust Bank.

4. UTILITY PLANT AND DEPRECIATION

Major expenses for capital assets and major repairs that increase useful lives of the assets are capitalized. The District's management considers the nature and dollar amount of the item or project when capitalizing expenditures to Utility Plant. Maintenance, repairs, and minor renewals are expensed when incurred.

Utility plant in service and other capital assets are recorded at cost where the historical cost is known. Where historical cost is not known, assets are recorded at estimated cost. Donations by developers and customers are recorded at the fair value at the date of donation.

The original cost of operating property retired or otherwise disposed of and the cost of installation, less salvage, is charged to accumulated depreciation. However, in the case of the sale of a significant operating unit or system occurs, the original cost is removed from the utility plant accounts, accumulated depreciation is charged with the accumulated depreciation related to the property sold, and the net gain or loss on disposition is credited or charged to income.

Depreciation is computed on the straight-line method with useful lives of 5 to 70 years. Initial depreciation on utility plant is recorded in the year subsequent to purchase.

Preliminary costs incurred for proposed projects are deferred pending construction of the facility. Costs relating to projects ultimately constructed are transferred to utility plant; charges that relate to abandoned projects are expensed.

All capital assets are depreciable except for Land and Construction in Progress. During 2007 and 2006, the District capitalized \$31,579 and \$36,743, respectively, of interest costs for funds borrowed to finance the construction/acquisition of capital assets.

	<u>2006 Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>2007 Balance</u>
<u>Utility plant not being depreciated:</u>				
Land	\$1,180,314	\$27,313	\$0	\$1,207,627
Construction in progress	535,268	0	(310,229)	225,039
Total utility plant not being depreciated	1,715,582	27,313	(310,229)	1,432,666
<u>Utility plant being depreciated:</u>				
Utility Plant	46,179,803	3,115,327	(223,957)	49,071,173
Transportation Equipment	1,588,272	131,117	(33,381)	1,686,008
Total utility plant being depreciated	47,768,075	3,246,444	(257,338)	50,757,181
<u>Less accumulated depreciation for:</u>				
Utility Plant	(14,094,847)	(1,052,746)	155,499	(14,992,094)
Transportation Equipment	(1,060,264)	(84,788)	33,381	(1,111,671)
Total accumulated depreciation	(15,155,111)	(1,137,534)	188,880	(16,103,765)
Total utility plant being depreciated, net	32,612,964	2,108,910	(68,458)	34,653,416
TOTAL UTILITY PLANT, NET	\$34,328,546	\$2,136,223	(\$378,687)	\$36,086,082

	<u>2005 Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>2006 Balance</u>
<u>Utility plant not being depreciated:</u>				
Land	\$1,170,298	10,016	0	\$1,180,314
Construction in progress	1,193,073	0	(657,805)	535,268
Total utility plant not being depreciated	2,363,371	10,016	(657,805)	1,715,582
<u>Utility plant being depreciated:</u>				
Utility Plant	43,117,062	3,082,205	(19,464)	46,179,803
Transportation Equipment	1,692,147	68,543	(172,418)	1,588,272
Total utility plant being depreciated	44,809,209	3,150,748	(191,882)	47,768,075
<u>Less accumulated depreciation for:</u>				
Utility Plant	(13,132,538)	(978,772)	16,463	(14,094,847)
Transportation Equipment	(1,135,288)	(97,394)	172,418	(1,060,264)
Total accumulated depreciation	(14,267,826)	(1,076,166)	188,881	(15,155,111)
Total utility plant being depreciated, net	30,541,383	2,074,582	(3,001)	32,612,964
TOTAL UTILITY PLANT, NET	\$32,904,754	2,084,598	(660,806)	\$34,328,546

Construction in progress represents expenditures to date on projects whose authorizations total \$225,039 and \$535,268 at December 31, 2007 and 2006, respectively. Construction in progress for 2007 is composed of accumulated costs for the 900,000 Reservoir Loop Projects and new construction in various developments. Construction in progress for 2006 included accumulated costs of \$260,000 the Well # 3 Rehabilitation Project.

6. LONG-TERM DEBT

Schedule 09 which accompanies this report contains a list of the outstanding debt at December 31, 2007 and 2006. The annual requirements to amortize all debts outstanding as of December 31, 2006, including interest, are as follows:

Years Ending December 31:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$361,472	\$242,339	\$603,811
2009	316,472	286,686	603,158
2010	361,472	275,129	636,601
2011	471,472	261,015	732,487
2012	516,472	242,113	758,585
2013-2017	1,947,360	921,296	2,868,656
2018-2026	<u>3,260,308</u>	<u>865,888</u>	<u>4,126,196</u>
Total	\$7,235,028	\$3,094,466	\$10,329,494

All of the restricted assets of \$1,150,573 at December 31, 2007 represent debt reserve requirements of the District. As of December 31, 2006 there was \$864,154 in restricted assets of the District. Of these sinking funds, \$530,572 represented reserve requirements as contained in the various indentures and \$620,000 represents proceeds from the 2007 bond sale to refund the 2002 bonds. There are a number of other limitations and restrictions contained in the various bond indentures. The District is in compliance with all limitations and restrictions.

On June 13, 2007, the District executed a Bond Purchase Contract issuing the Parity Lien Water and Power Revenue Refunding Bonds in the aggregate principal amount of \$2,220,000 (the 2007 Bonds). The Bonds were issued to finance the construction of water system projects and to refund the 2002 Bonds. The Bonds estimated maturity date is January 1, 2026 and bear interest rates ranging from 4.00% to 4.65% throughout their maturity. Interest is payable semiannually on each January 1 and July 1. The Bonds maturing on or after January 1, 2014 are callable on January 1, 2013 at par in inverse numerical order. As a result of the current refunding, the District reduced its total debt service requirements by approximately \$31,310, which resulted in an economic gain (difference between the present value of the debt service payments on the old and new debt) of \$26,813.

On July 19, 2004, the District entered into a Drinking Water State Revolving Fund Municipal Loan Agreement with the Washington State Public Works Board in the aggregate principal amount of \$656,500. The interest rate of this loan is 1.5% per annum on the outstanding principal balance. The term of the loan shall not exceed 20 years, with the final payment due October 1, 2026. This first loan repayment under this agreement was paid October 1, 2007 and subsequent installments are due on October 1 of each year during the term of the loan. The District used the loan proceeds to finance the "Well No. 3 Rehabilitation Project". This project involved making Well No. 3 automatic, cleaning out the debris at the bottom of the well and deepening the well. The total cost of the project was \$839,265. The loan financed \$650,000 of the project costs and the District paid \$189,265 out of its cash reserves.

The following changes occurred in long-term liabilities:

	Beginning Balance <u>1/1/2007</u>	<u>Additions</u>	<u>Reductions</u>	Ending Balance <u>12/31/2007</u>	Due Within <u>One Year</u>
Bonds and Notes Payable	4,395,000	2,876,500	-1,050,590	6,220,910	1,014,118
L.I.D. Bonds Payable	605,177	0	-155,431	449,746	65,254
Total Long-Term Liabilities	5,000,177	2,876,500	-1,206,021	6,670,656	1,079,372

	Beginning Balance <u>1/1/2006</u>	<u>Additions</u>	<u>Reductions</u>	Ending Balance <u>12/31/2006</u>	Due Within <u>One Year</u>
Bonds Payable	\$4,745,000	\$0	\$(350,000)	\$4,395,000	\$350,000
L.I.D. Bonds Payable	808,789	0	(203,612)	605,177	74,823
Total Long-Term Liabilities	\$5,553,789	\$0	\$(553,612)	\$5,000,177	\$424,823

7. PENSION PLANS

All of the District's full-time employees and qualifying part-time employees participate in one of the following statewide retirement systems administered by the Washington State Department of Retirement Systems, under a cost-sharing multiple-employer public employee defined benefit and defined contribution 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 the plan. The DRS CAFR may be obtained by writing to: Department of Retirement Systems, Communications Unit, PO Box 48380, Olympia, WA 98504-8380.

The following disclosures are made pursuant to GASB Statement 27, Accounting for Pensions by State and Local Government Employers.

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

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); employees of Legislative committees; college and university employees not in national higher education retirement programs; judges of district and municipal courts; non-certified employees of school districts; and employees of local governments.

PERS participants who joined the system by September 30, 1977, are Plan I 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 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 eligible for retirement at any age after 30 years of service, or at the age of 60 with 5 years of service, or at the age of 55 with 25 years of service. The annual pension is computed by multiplying 2 percent per year of service (capped at 60 percent) by the average final compensation (AFC). 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. The cost of living allowance (COLA) is granted at age 66 based upon years of service times the 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 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. 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 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 years 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 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. 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. 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 September 30, 2006:

Retirees and Beneficiaries Receiving Benefits	70,201
Terminated Plan Members Entitled to Benefits	25,610
Active Plan Members Vested	105,215
Active Members Nonvested	<u>49,812</u>
Total	<u>250,838</u>

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 and do not vary from year to year. 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 covered payroll as of December 31, 2007 were as follows:

	<u>Plan 1</u>	<u>Plan 2</u>	<u>Plan 3</u>
Employer	6.13%	6.13%	6.13%
Employee	6.00%	4.15%	-

The employer rates above include the employer administrative expense fee currently set at .16%. Plan 3 employer contribution rate is for the defined benefit portion only. Plan 3 employee contribution rate is variable from a minimum of 5% to a maximum of 15% based on the rate selected by the PERS 3 member.

Both the District and the employees made the required contributions. The District's required contributions for the years ended December 31 were:

	<u>PERS 1</u>	<u>PERS 2</u>	<u>PERS 3</u>
2007	\$ 11,864	\$93,995	\$ 14,181
2006	\$ 8,030	\$45,641	\$ 7,389
2005	\$ 6,545	\$27,241	\$ 4,459

8. DEFERRED DEBITS (OR CREDITS)

In accordance with GAAP for regulated businesses, the District has deferred bond discounts of \$233,268 and \$205,946 in 2007 and 2006, respectively. These discounts are amortized using the costs method over original life of bonds. The charges would have been included in net income for non regulated business, but for rate-making purposes they are treated as applicable in the future.

9. FINANCIAL ASSISTANCE

The District administered an energy conservation program with the Bonneville Power Administration (BPA) called the Conservation & Renewables Discount Program.

The District and BPA, from October 1, 2001 through September 20, 2006, agreed to a Conservation and Renewables Discount that appeared as a credit on the District's monthly power bill. The C&R Discount fixed monthly amount of \$9,145, was available to be used for various energy conservation measures. These measures ranged from electric heat pump upgrades, upgrade of lighting systems to long term Super Good Cents homes programs. During 2006, \$82,305 was credited to the District's purchased power bill under this program.

Two major conservation initiatives were developed for the BPA Post 2006 Conservation Portfolio of Programs: the Conservation Rate Credit (CRC) and the Conservation Acquisition Agreement (CAA). These initiatives replaced the C&RD. The measures in these programs include but are not limited to: weatherization, new electrically heated homes certified to be in compliance with ENERGY STAR Homes Northwest, Northwest

Energy Efficient Manufactured Housing Program, PTCS-certified upgrades to electric heating systems including duct sealing, heat pump installations and heat pump commissioning and Air Source and Ground Source Heat Pump installations.

The CRC Conservation program appears as a credit on the District's monthly power bill at a fixed monthly amount of \$9,146. The District entered into a "green power" agreement with Bonneville. This agreement allocates a portion of the CRC to be offset by the purchase of this "green power". Because of this, the District pays a "Green Energy Premium" and qualifies as an eligible expenditure under the CRC program and is reflected as a separate line item on the District's monthly power bill at a fixed monthly amount. For the year ended December 31, 2007, a total of \$84,675 of CRC Conservation and \$25,077 of CRC Renewables were credited to the District's purchased power bill under this program. For the year ended December 31, 2006, a total of \$22,467 of CRC Conservation and \$4,971 of CRC Renewables were credited to the District's purchased power bill under this program.

10. INSURANCE POOL

The District is a member of the Washington Governmental Entity Pool (Pool). Chapter 48.62 RCW authorizes the District to form together into or join a pool or organization for the joint purchasing of insurance, and/or joint self-insuring, and/or joint firing or contracting for risk management services. An agreement to form a pooling arrangement was made pursuant to the provisions of Chapter 39.34 RCW, the Interlocal Cooperation Act.

The Pool allows members to jointly purchase excess insurance coverage, share in the self-insured retention, establish a plan for total self-insurance, and provide excellent risk management services. The Pool provides "occurrence" policies for all lines of liability coverage including Public Official's Liability. The Property coverage is written on an "all risk" basis, blanket-form using current Statement of Values. The Property coverage includes mobile equipment, electronic data processing equipment, valuable papers, building ordinance coverage, property in transit, extra expense, consequential loss, accounts receivable, fine arts, inventory or appraisal cost, automobile physical damage to insured vehicles. Boiler and machinery coverage is included with a blanket limit of \$100 million for all members. The Pool offers employee dishonesty coverage up to a liability limit of \$500,000.

Members make an annual contribution to fund the Pool. The Pool acquires insurance from unrelated underwriters that are subject to a "per occurrence" \$500,000 deductible on liability loss, \$100,000 deductible on property loss, and \$5,000 deductible on boiler and machinery loss. The member is responsible for the first \$1,000 of the deductible amount of each claim, while the Pool is responsible for the remaining \$499,000 on liability losses, \$99,000 on property loss, \$4,000 deductible on boiler and machinery loss. Insurance carriers cover all losses over the deductibles as shown to the policy maximum limits. Since the Pool is a cooperative program, there is a joint liability among the participating members.

The contract requires members to continue membership for a period of not less than one (1) year and must give notice 60 days before terminating participation. The Intergovernmental Contract is automatically renewed after the initial one (1) full fiscal year commitment. Even after termination, a member is still responsible for contribution to the Pool for any unresolved, unreported and in-process claims for the period they were a signatory to the Intergovernmental Contract.

The Pool is fully funded by its member participants. Claims are filed by members with the Washington Governmental Entity Pool, and are administered in house.

A Board of Directors consisting of seven (7) board members governs the Pool. Its members elect the Board and the positions are filled on a rotating basis. The Board meets quarterly and is responsible for conducting the business affairs of the Pool.

11. RISK MANAGEMENT

The District maintains insurance against most normal hazards except for unemployment insurance where it has elected to become self-insured. Claims are processed by the District. The District does not have any material outstanding claims as of December 31, 2007 and 2006. There were no claim settlements in the last three years that exceeded the District's insurance coverage.

12. ADJUSTMENT TO NET ASSETS – PURCHASED POWER ACCRUAL

The financial statements as of December 31, 2005 did not include an accrual for the December 2005 transmission bill received from the Bonneville Power Administration. This error results in Accounts Payable and Purchased Power Expense being understated by \$88,093 as of December 31, 2005. The net assets as of January 1, 2006 were adjusted accordingly.

13. SUBSEQUENT EVENT

The District's Board of Directors awarded a bid for approximately \$865,000 to Kirby-Hunt Construction for the 900,000 Gallon Reservoir Loop Project at a special meeting on February 22, 2008.

14. SEGMENT ACTIVITY - ENTERPRISE FUNDS (2007)

The District Operates 3 utilities which are primarily financed by user charges. The key financial data for the year ended December 31, 2007 for these utilities are as follows:

	<u>ELECTRIC DIVISION</u>	<u>WATER DIVISION</u>	<u>SEWER DIVISION</u>	<u>INTER- DIVISION ACTIVITY</u>	<u>TOTAL UTILITY</u>
<u>Condensed Statement of Net Assets:</u>					
Current Assets	\$7,175,537	\$2,677,491	\$35,727		\$9,888,755
Total Capital Assets, Net	19,142,041	16,917,751	26,290		\$36,086,082
Other Noncurrent Assets	99,764	740,814	0		\$840,578
TOTAL ASSETS	26,417,342	20,336,056	62,017	0	46,815,415
Total Current Liabilities	2,747,177	762,401	0		\$3,509,578
Total Noncurrent Liabilities	5,135,910	1,534,746	0		\$6,670,656
TOTAL LIABILITIES	7,883,087	2,297,147	0	0	10,180,234
Invested in capital assets, net of related debt	16,899,069	11,410,649	26,336		\$28,336,054
Restricted Net Assets – Debt Service	2,250,000	5,500,028			\$7,750,028
Unrestricted	2,705,688	-2,192,224	35,635		\$549,099
TOTAL NET ASSETS	\$21,854,757	\$14,718,453	\$61,971	\$0	\$36,635,181

	<u>ELECTRIC DIVISION</u>	<u>WATER DIVISION</u>	<u>SEWER DIVISION</u>	<u>DIVISION ACTIVITY</u>	<u>TOTAL UTILITY</u>
<u>Condensed Stmt. Of Revenues, Expenses and Changes in Net Assets</u>					
Utility Sales	\$12,016,236	\$1,596,650	\$5,781		\$13,618,667
Other Operating Revenues	289,392	246,497		(6,941)	528,948
TOTAL OPERATING REVENUES	12,305,628	1,843,147	5,781	(6,941)	14,147,615
Operating Expenses	10,227,587	1,108,417	11,146	(6,941)	11,340,209
Depreciation & Amortization Expense	804,355	344,039	1,614		1,150,008
TOTAL OPERATING EXPENSES	11,031,942	1,452,456	12,760	(6,941)	12,490,217
OPERATING INCOME (LOSS)	1,273,686	390,691	(6,979)	0	1,657,398
NONOPERATING REVENUES AND EXPENSES					
Debt Discount Amortization Expense	(9,656)	(8,850)			(18,506)
Interest Income	214,485	44,254			258,739
Interest Expense	(97,113)	(125,557)			(222,670)
TOTAL NONOPERATING REV. AND EXPENSES	107,716	(90,153)	0	0	17,563
INCOME BEFORE CONTRIBUTIONS AND SPECIAL ITEMS	1,381,402	300,538	(6,979)	0	1,674,961
Capital Contributions by Developers		587,839			587,839
Change in LID Capital Contributions		(22,456)			(22,456)
Write-off of Prior Year Receivables		(10,801)			(10,801)
Change in Net Assets	1,381,402	855,120	(6,979)	0	2,229,543
Net Assets, January 1, 2007	20,275,897	14,060,793	68,948	0	34,405,638
Total Net Assets, December 31, 2007	\$21,657,299	\$14,915,913	\$61,969	\$0	\$36,635,181
<u>Condensed statement of cash flows:</u>					
Net cash provided (used) by:					
Operating activities	\$2,456,939	\$509,409	(5,322)		\$2,961,026
Capital and related financing activities	(1,539,858)	1,469,240			(70,618)
Investing activities	214,486	44,253			258,739
Beginning cash and cash equivalents	4,962,251	520,613	41,049		5,523,913
Ending cash and cash equivalents	\$6,093,818	\$2,543,515	\$35,727	\$0	\$8,673,060

14. SEGMENT ACTIVITY (2006)

The District Operates three utilities which are primarily financed by user charges. The key financial data for the year ended December 31, 2006 for these utilities are as follows:

	<u>ELECTRIC</u>	<u>WATER</u>	<u>SEWER</u>	<u>INTER-</u>	<u>TOTAL</u>
	<u>DIVISION</u>	<u>DIVISION</u>	<u>DIVISION</u>	<u>DIVISION</u>	<u>UTILITY</u>
				<u>ACTIVITY</u>	
<u>Condensed Statement of Net Assets:</u>					
Current Assets	\$6,155,840	\$634,369	\$41,046		\$6,831,255
Total Capital Assets, Net	18,585,349	15,715,293	27,904		34,328,546
Other Noncurrent Assets	107,102	883,422	0		990,524
TOTAL ASSETS	24,848,291	17,233,084	68,950	0	42,150,325
Total Current Liabilities	2,567,218	177,292	0		2,744,510
Total Noncurrent Liabilities	2,005,177	2,995,000	0		5,000,177
TOTAL LIABILITIES	4,572,395	3,172,292	0	0	7,744,687
Invested in capital assets, net of related debt	16,250,348	12,625,294	27,904		28,903,546
Restricted Net Assets – Debt Service	2,335,000	3,090,000			5,425,000
Unrestricted	1,690,548	(1,654,502)	41,046		77,092
TOTAL NET ASSETS	\$20,275,896	\$14,060,792	\$68,950	\$0	\$34,405,638

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	<u>ELECTRIC DIVISION</u>	<u>WATER DIVISION</u>	<u>SEWER DIVISION</u>	<u>INTER- DIVISION</u>	<u>TOTAL UTILITY</u>
<u>Condensed Stmt. Of Revenues, Expenses and Changes in Net Assets</u>					
Utility Sales	\$11,743,716	\$1,324,708	\$5,658		\$13,074,082
Other Operating Revenues	321,585	265,676		(6,496)	580,765
TOTAL OPERATING REVENUES	12,065,301	1,590,384	5,658	(6,496)	13,654,847
Operating Expenses	10,320,613	1,193,560	5,940	(6,496)	11,513,617
Depreciation & Amortization Expense	771,976	315,114	1,615		1,088,705
TOTAL OPERATING EXPENSES	11,092,589	1,508,674	7,555	(6,496)	12,602,322
OPERATING INCOME (LOSS)	972,712	81,710	(1,897)	0	1,052,525
NONOPERATING REVENUES AND EXPENSES					
Debt Discount Amortization Expense	(9,567)	(7,513)			(17,080)
Interest Income	187,953	51,314			239,267
Interest Expense	(102,157)	(70,515)			(172,672)
TOTAL NONOPERATING REV. AND EXPENSES	76,229	(26,714)	0	0	49,515
INCOME BEFORE CONTRIBUTIONS AND SPECIAL ITEMS	1,048,941	54,996	(1,897)	0	1,102,040
Capital Contributions by Developers		463,953			463,953
Change in LID Capital Contributions		(23,996)			(23,996)
Purchased Power Accrual	(88,675)				(88,675)
Change in Net Assets	960,266	494,953	(1,897)	0	1,453,322
Net Assets, January 1, 2006	19,315,631	13,565,840	70,845	0	32,952,316
Total Net Assets, December 31, 2006	\$20,275,897	\$14,060,793	\$68,948	\$0	\$34,405,638
<u>Condensed statement of cash flows:</u>					
Net cash provided (used) by:					
Operating activities	\$1,646,405	\$388,721	(281)		\$2,034,845
Capital and related financing activities	(2,939,472)	(1,079,469)			(4,018,941)
Investing activities	187,952	51,315			239,267
Beginning cash and cash equivalents	6,067,366	1,160,046	41,330	0	7,268,742
Ending cash and cash equivalents	\$4,962,251	\$520,613	\$41,049	\$0	\$5,523,913

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VERA WATER & POWER

Schedule 09

Schedule of Long-Term Debt (Revenue Debt)

For Year Ended December 31, 2007

I.D. No.	Purpose	Date of Original Issue	Date of Maturity	Average Rate	1/1/2007 Balance	Issued	Redeemed	12/31/2007 Balance
263.81	Drinking Water Loan	2007	2024	1.50%	0	656,500	(36,472)	620,028
252.15	2002 Refunding Bonds Water Main Project, Refund 1992 Bonds	2002	2014	4.95%	740,000	0	(60,000)	680,000
252.15	2003 Refunding Bonds Refund 1995 and 1996 Bonds	2003	2015	3.00%	1,055,000	0	(275,000)	780,000
252.15	2005 Refunding Bonds Water Loop Projects, Refund 1998 Bonds	2005	2026	4.64%	2,950,000	0	(15,000)	2,935,000
252.15	2007 Refunding Bonds Water Projects, Refund 2002 Bonds	2007	2026	4.45%	0	2,220,000	0	2,220,000
					4,745,000	2,876,500	(386,472)	7,235,028

VERA WATER & POWER

Schedule 09

MCAG NO. 1596

Schedule of Long-Term Debt (Revenue Debt)

For Year Ended December 31, 2006

I.D. No.	Purpose	Date of Original Issue	Date of Maturity	Average Rate	1/1/2006 Balance	Issued	Redeemed	12/31/2006 Balance
263.82	1986 Public Works Loan Water Main Construction	1986	2006	3.00%	\$21,624	\$0	\$(21,624)	\$0
252.15	1998 Revenue Bonds Purchase Substations	1998	2019	5.34%	1,370,000	0	(1,370,000)	0
252.15	2002 Refunding Bonds Water Main Project, Refund 1992 Bonds	2002	2014	4.95%	795,000	0	(55,000)	740,000
252.15	2003 Refunding Bonds Refund 1995 and 1996 Bonds	2003	2015	3.00%	1,315,000	0	(260,000)	1,055,000
252.15	2005 Refunding Bonds Water Loop Projects, Refund 1998 Bonds	2005	2026	4.64%	2,950,000	0	0	2,950,000
					\$6,451,624	\$0	\$(1,706,624)	\$4,745,000

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**VERA WATER & POWER
Schedule of Assessment Debt**

**Schedule 09
MCAG NO. 1596**

For Year Ended December 31, 2007

I.D. No.	Purpose	<u>Original Issue Date</u>	<u>Date of Maturity</u>	<u>Average Rate</u>	<u>1/1/2007 Balance</u>	<u>Issued</u>	<u>Redeemed</u>	<u>12/31/2007 Balance</u>
253.11	LID #4 Bonds Water Main - Saltese Flats	2003	2013	4.24%	325,000	0	(80,000)	245,000
253.11	LID #5 Bonds Water Main - The Crest	2004	2019	4.66%	355,000	0	(85,000)	270,000
					680,000	0	(165,000)	515,000

**VERA WATER & POWER
Schedule of Assessment Debt**

**Schedule 09
MCAG NO. 1596**

For Year Ended December 31, 2006

I.D. No.	Purpose	<u>Original Issue Date</u>	<u>Date of Maturity</u>	<u>Average Rate</u>	<u>1/1/2006 Balance</u>	<u>Issued</u>	<u>Redeemed</u>	<u>12/31/2006 Balance</u>
253.11	LID #3 Bonds Reservoir Construction	1996	2006	5.39%	\$55,000	\$0	\$(55,000)	\$0
253.11	LID #4 Bonds Water Main - Saltese Flats	2003	2013	4.24%	425,000	0	(100,000)	325,000
253.11	LID #5 Bonds Water Main - The Crest	2004	2019	4.66%	470,000	0	(115,000)	355,000
					\$950,000	\$0	\$(270,000)	\$680,000

VERA WATER AND POWER

Schedule 16

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For Year Ended December 31, 2007**

Federal Agency Name / Pass- Through Agency Name	Federal Program Name	CFDA Number	Other I.D. Number	Expenditures			Foot- note Ref.
				From Pass- Through Awards	From Direct Awards	Total	
U.S. Environmental Protection Agency / pass through from WA CTED	Capitalization Grants For Drinking Water State Revolving Fund	66.468	03-65103- 055	\$656,500		\$656,500	2
Total Federal Awards Expended				\$656,500		\$656,500	

The accompanying notes to the Schedule of Expenditures of Federal Awards are an integral part of this Schedule.

**VERA WATER AND POWER
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

NOTE 1 - BASIS OF ACCOUNTING

This schedule is prepared on the same basis of accounting as the District's financial statements. The District uses general accepted accounting principles.

NOTE 2 - FEDERAL LOANS

The District was approved for the following loan for a capital project:

EPA (WA Public Works Board) \$656,500

The amount listed on the schedule includes loan proceeds received during the year. The current loan is also reported on the District's Schedule of Long-Term Debt.



ABOUT THE STATE AUDITOR'S OFFICE

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 has 300 employees who are located around the state to deliver our services effectively and efficiently. Approximately 65 percent of our staff are certified public accountants or hold other certifications and advanced degrees.

Our regular 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. We also perform fraud and whistleblower investigations. In addition, we have the authority to conduct performance audits of state agencies and local governments.

The results of our audits are widely distributed through a variety of reports, which are available on our Web site. 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 program to coordinate audit efficiency and to ensure high-quality audits.

State Auditor
Chief of Staff
Chief Policy Advisor
Director of Administration
Director of State and Local Audits
Director of Performance Audit
Director of Special Investigations
Director for Legal Affairs
Local Government Liaison
Communications Director
Public Records Officer
Main number
Toll-free hotline for government efficiency

Brian Sonntag, CGFM
Ted Rutt
Jerry Puggnetti
Doug Cochran
Chuck Pfeil, CPA
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