

ANNUAL REPORT

EAST WENATCHEE WATER DISTRICT

2199
MCAG No.

Submitted pursuant to RCW 43.09.230

to the

STATE AUDITOR'S OFFICE

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2008

Certified correct this 11th day of April 2009

to the best of my knowledge and belief:

NAME David E. Smith

TITLE Controller

PREPARED BY David E. Smith

TELEPHONE NUMBER 509-884-3569

FAX NUMBER 509-886-0550

E-MAIL ADDRESS dauids@ewwd.org

TABLE OF CONTENTS

Management's Discussion and Analysis.....	1
Statement of Cash Flows.....	6
Statement of Net Assets.....	8
Statement of Revenues, Expenses and changes in Fund Net Assets.....	10
Notes to Financial Statements.....	12
Directory of Officials.....	23

INTRODUCTION

The East Wenatchee Water District is a Special Purpose District servicing within the city limits of East Wenatchee and in Douglas County, Washington. The District's operating authority comes from State Law. It serves approximately 27 square miles with a population of approximately 27,000 people. It is the second largest District in terms of square miles in the State. It has approximately 200 miles of pipe in both the transmission and distribution systems.

The District provides water service to the area residents. The primary source of water comes from the Regional Aquifer located up the Columbia River at Rocky Reach Dam. The District owns 1/3 common interest in this aquifer along with the City of Wenatchee and the Chelan PUD. Two well facilities that the District owned are now Regional assets. These two facilities, located on Cascade Ave NW (Well 7) and S. Kentucky Ave (Wells 4 & 5), are used as emergency and peaking supplies.

The District currently has 11 reservoirs where water is stored. These reservoirs hold 6,500,000 gallons of water. The District has a history of having excellent water quality. The water is treated with chlorine at the sources. We serve approximately 9,000 customers.

A three member Board of Commissioners governs the District. Each Board member is elected by voters to serve a six-year term. The Board acting as a body sets the general policies for the District's operation. The District Manager, who is appointed by the Board, administrates the day-to-day function of the District.

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the East Wenatchee Water District's (the District) annual financial report presents the analysis of the District's financial performance during the fiscal year that ended on December 31, 2008. Please read it in conjunction with the financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- The District's Net Capital Assets increased by \$23,030 or .08%
- The District's Net Assets increased by \$259,860 or 1.01%
- The District's total revenues increased to \$4.162 million or by 1.77%, while expenses increased to \$4.366 million or by 1.00%
- Capital contributions to the District increased by \$464,007 for the year.

REQUIRED FINANCIAL STATEMENTS

The financial statements of the District report information about the District, using accounting methods similar to those used by private sector companies. These statements offer short- and long-term financial information about its activities.

The **Balance Sheet** includes all of the District's assets and provides information about the nature and amounts of investments in resources (assets) and the obligations to District creditors (liabilities). It also provides the basis for computing rate of return, evaluating the capital structure of the District and assessing the liquidity and financial flexibility of the District.

All of the current year's revenues and expenses are accounted for in the **Statement of Revenues, Expenses, and Change in Net Assets**. These statements measure the success of the District's operations over the past year and can be used to determine whether the District has successfully recovered all its costs through its user fees and other charges, profitability, and credit worthiness.

The other required financial statement is the **Statement of Cash Flows**. The primary purpose of this statement is to provide information about the District's cash receipts and cash payments during the reporting period. This statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing and financing activities, and provides answers to such questions as "where did cash come from?", "what was cash used for?", and "what was the change in cash balance during the reporting period?".

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

One of the most important questions asked about the District's finances is, "Is the District, as a whole, better off or worse off as a result of this year's activities?". The Balance Sheet and the Statement of Revenue, Expenses, and Net Assets report information about the District's activities in a way that will help answer this question. These two statements report the net assets of the District and changes in them. You can think of the District's net assets – the difference between assets and liabilities – as one way to measure financial health or financial position. Over time, increases or decreases in the District's net assets are one indicator of whether it's financial health is improving or deteriorating. However, you will need to also consider other non-financial factors such as changes in economic conditions, customer growth, and legislative mandates.

The Districts total net assets increased from last year by \$259,860. The analysis below focuses on the District's net assets (Table 1) and changes in net assets (Table 2) during the year.

TABLE 1
NET ASSETS

	31-Dec-08	31-Dec-07	INCREASE (DECREASE)	
			\$	%
CURRENT AND OTHER ASSESTS	5,989,805	6,204,652	(214,847)	-3.46%
CAPITAL ASSESTS	29,541,880	29,518,850	23,030	0.08%
TOTAL ASSETS	35,531,685	35,723,502	(191,817)	-0.54%
LONG-TERM LIABILITIES	8,826,472	9,317,293	(490,821)	-5.27%
OTHER LIABILITIES	737,192	698,046	39,146	5.61%
TOATL LIABILITES	9,563,664	10,015,339	(451,675)	-4.51%
INVESTED IN CAPITAL ASSESTS				
NET OF DEBT	23,598,184	23,134,178	464,006	2.01%
RESTRICTED	1,867,900	1,867,900	0	0.00%
UNRESTRICTED	501,937	706,085	(204,148)	-28.91%
TOTAL NET ASSETS	25,968,021	25,708,163	259,858	1.01%

The District changed the way it finances long term projects in 2004 by refunding its three outstanding bond issues with one bond called the 2004 Refunding Bond. By insuring the required Bond Reserve, the Bond Reserve Fund was used to lower the bond dept. By securing Public Trust Fund Loans for future projects the District has released restricted assets.

Changes in the District's net assets can be determined by reviewing the following condensed Statement of Revenue, Expenses, and Changes in Net Assets for the year.

TABLE 2
STATEMENT OF REVENUES, EXPENSES, AND CHANGE IN NET ASSETS

	FY 2008	FY 2007	INCREASE (DECREASE)	
			\$	%
OPERATING REVENUE	3,950,226	3,849,880	100,346	2.61%
NONOPERATING REVENUE	212,163	240,004	(27,841)	-11.60%
TOTAL REVENUE	4,162,389	4,089,884	72,505	1.77%
WATER PURCHASED FOR RESALE	444,478	440,783	3,695	0.84%
COST OF POWER	63,585	63,809	(224)	-0.35%
OPERATIONS	441,337	360,830	80,507	22.31%
MAINTENANCE	138,828	147,448	(8,620)	-5.85%
GENERAL ADMINISTRATION	1,261,758	1,442,056	(180,298)	-12.50%
DEPRECIATION / AMORTIZATION	1,440,848	1,350,019	90,829	6.73%
INTEREST EXPENSES	293,729	268,132	25,597	9.55%
OTHER OPERATING EXPENSES	281,973	250,867	31,106	12.40%
TOTAL OPERATING EXPENSES	4,366,536	4,323,944	42,592	0.99%
INCOME BEFORE CAPITAL CONTRIBUTIONS AND EXTRAORDINARY ITEMS	(204,147)	(234,060)	29,913	-12.78%
CAPITAL CONTRIBUTIONS	464,007	1,695,060	(1,231,053)	-72.63%
INCOME (LOSS) BEFORE EXTRAORDINARY ITEMS	259,860	1,461,000	(1,201,140)	-82.21%
EXTRAORDINARY ITEMS	-	-	-	
CHANGE IN NET ASSETS	259,860	1,461,000	(1,201,140)	-82.21%
BEGINNING NET ASSETS	25,708,163	24,247,163	1,461,000	6.03%
ENDING NET ASSETS	25,968,023	25,708,163	259,860	1.01%

In the past the District has relied on its own labor force for much of the capital replacement, but with the large projects being required in our 6 year Performa, the District has used outside contractors due to the project restrictions placed on water districts. This has resulted in operation losses. The increase in the change in Net Assets is due primarily to contractor constructed development. Current year projects now completed totaled over \$821,000.

BUDGETARY HIGHLIGHTS

The District's water rates have been a flat base amount for all meter sizes with a use fee for consumption over 1200cuft. In 2004 the base rate reflects a higher rate for larger meters and is the start to phase in a meter size base rate increase over 3 years. In 2003 the base rate was \$39 for all meters, in 2008 a 3/4" meter was \$43.00 and a 4" meter had a base rate of \$228.25. All meter sizes will still have the same excess usage rate of \$1.35 per 100cuft of water over the 1200cuft base usage. In 2003 all multiple dwelling units were charged the same base rate, the new schedule will reduce the second and greater number of family units to a lower unit rate. In 2003 these additional units all received the same \$39 charge; in 2008 these additional units were charged \$34.75 each regardless of meter size.

Capital improvements have been done with in-house funds and major projects were funded with bond issues. The District is now utilizing, in addition to these sources, the low or no interest State Public Works Trust Fund (PWTF) money. Over \$3.3 million in PWTF money will be used in 2008 and 2009. Over \$2.8 million of this amount will be recovered from a ULID, called the “Baker Flats ULID”.

CAPITAL ASSETS AND DEBT ADMINISTRATION

At the end of FY 2008, the District had \$44.547 million invested in it’s utility assets, including land, transmission and distribution mains, buildings, equipment, and construction-in-progress. This amount represents an increase of over \$1.3 million, or .03% over last year.

The following table summarizes the District’s capital assets, net of accumulated depreciation and changes therein, for the year ended December 31, 2008.

TABLE 3
CAPITAL ASSETS, NET OF ACCUMULATED DEPRECIATION

	FY 2008	FY 2007	CHANGE
NET UTILITY PLANT:			
LAND	552,766	552,766	-
TRANSMISSION AND DISTRIBUTION	24,880,045	25,356,122	(476,077)
BUILDINGS	1,910,460	2,008,056	(97,596)
EQUIPMENT	915,054	1,370,667	(455,613)
CONSTRUCTION WORK IN PROGRESS	553,294	231,238	322,056
TOTAL NET UTILITY PLANT	28,811,619	29,518,849	(707,230)

This year’s major additions include:

Meters replaced by Radio Read meters	250,110
Main/Service/Valve Replacement	611,392

Since many of the projects rehabilitate deteriorating mains and increase the flow within the District, the impact on operating and maintenance is expected to be favorable. New revenue from growth will continue to play a favorable role in the strength of the District.

The District’s FY 2009 capital budget plans for investing \$5.88 million in capital projects, including the following:

Plant and Equipment	\$ 351,500
Baker Flats Transmission and Storage	4,300,000
Main Replacement	1,225,250

The District plans on using existing cash, \$3,370,000 PWTF Loans and a \$1,500,000 ULID Bond to fund the capital budget for the upcoming year.

At December 31, 2008, the District had outstanding insured revenue bonds in the amount of \$6,980,000. Debt service schedules go out to 2024. Interest rates range from 2.00% to 4.45% on the bonds. All outstanding bonds are insured and rated A3. Principal payments are due February 1 of each year. Principal on the bonds of \$335,000 will be due February 1, 2009. On January 20, 2004 the Moody's Rating Committee affirmed its underlying "A3" rating on the District's Refunding Bond. The General Obligation Loans total \$2,266,306. A net decrease of \$99,935. Refer to the **Notes to Financial Statements** for more detail.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

For the past 2 years the District has added over 160 new connections each year and expects to add that many for the next 2 years. Water rates have been going up by \$.75 per billing on the base rate and by \$.05 per 100cuft on excess water usage over this same time frame. Given all factors, water sales have increased by an average of 5.9%. The District is expecting the same increase pattern over the next 2 to 3 years. The change in the rate structure from the same base rate being charged to all "equivalent dwelling units" (EDU), to a rate structure based on the size of meter for the first EDU and a reduction in the rate for additional EDU's has been engineered in such a way that the District does not expect any change in revenue up or down. The rate change is designed to shift the cost of providing water to a user based on the demand for water that user is requiring i.e. larger meter, larger fire demand.

The FY 2009 budget has a 0.34% increase for Operations and Maintenance. Payroll will have a (1.58%) decrease in pay and benefits. Capital expenditures are planned at \$5.88 million.

The annexation of 1,000 acres in the Baker Flats area will call for \$4.3 million to construct mains and a reservoir. This will be funded by Public Works Trust Fund loans and \$300,000 of District funds. A ULID will be formed to reimburse the District for the payback of the cost of the project.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the District's ratepayers and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the District's Controller at the East Wenatchee Water District, PO Box 7190, E. Wenatchee, WA 98802.

East Wenatchee Water District
Statement of Cash Flows
For the Year Ended December 31, 2008

CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from customers	\$ 3,961,143
Other operating cash receipts	
Cash paid to suppliers	(1,214,649)
Cash paid to employees	(1,435,501)
Net cash provided by operating activities	1,310,993
 CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Proceeds from bonds issued	
Payments on bonds issued	(325,000)
Borrowings from long-term debt	
Payments on long-term debt	(99,935)
Interest paid	(284,081)
Proceeds from sale of property	
Acquisition of land, facilities and equipment	(414,267)
Capitalized wages paid	(429,905)
Net cash used by capital and related financing activities	(1,553,188)
 CASH FLOWS FROM INVESTING ACTIVITIES	
Interest received	200,828
Purchase of investments	(5,243,378)
Proceeds from sale of investments	5,263,697
	221,147
INCREASE IN CASH	(21,048)
CASH - BEGINNING	126,501
CASH - ENDING	\$ 105,453

THE NOTES TO FINANCIAL STATEMENTS ARE AN INTREGAL PART OF THE STATEMENT

East Wenatchee Water District
Statement of Cash Flows
For the Year Ended December 31, 2008

RECONCILIATION OF NET OPERATING LOSS TO NET
CASH PROVIDED BY OPERATING ACTIVITIES

Net operating income	\$ (122,582)
Non cash and non-operating income	
Revenue from construction inspection	11,334
Non-cash and non-operating expenses	
Depreciation and amortization	1,440,848
Decrease (increase) in operating assets	
Accounts receivable	(417)
Prepaid expenses	(2,527)
Inventory	20,724
Increase (decrease) in operating liabilities	
Accounts payable	<u>(36,387)</u>
Net cash provided by operating activities	<u>\$ 1,310,993</u>

THE NOTES TO FINANCIAL STATEMENTS ARE AN INTREGAL PART OF THE STATEMENT

STATEMENT OF NET ASSETS
December 31, 2008

ASSETS

Current Assets:

Cash and Cash Equivalents	\$105,453
Deposits with Fiscal Agents/Trustees	
Temporary Investments	4,108,396
Receivables (Net):	
WATER A/R	255,060
OTHER A/R	40,225
99 ULID A/R	291,679

Restricted Assets

Bond Payment	460,217
--------------	---------

Inventories	347,504
Prepayments	65,872
Other Current Assets	315,399
TOTAL CURRENT ASSETS	<u>5,989,805</u>

NON-CURRENT ASSETS

Capital Assets:

Land	552,767
Plant	41,359,243
Capital Leases	
Machinery and Equipment	2,081,388
Construction in Progress	553,294

Less Accumulated Depreciation	<u>-15,004,812</u>
Total Capital Assets (Net)	29,541,880

TOTAL NONCURRENT ASSETS	<u>29,541,880</u>
-------------------------	-------------------

TOTAL ASSETS	<u>35,531,685</u>
--------------	-------------------

STATEMENT OF NET ASSETS

December 31, 2008

LIABILITIES

Current Liabilities:

Warrants Payable	\$ -
Accounts/Vouchers Payable	99,562
Construction Retainage	0
Construction Deposits	86,161
Debt Principal	420,133
Debt Interest	131,336

TOTAL CURRENT LIABILITIES	<u>737,192</u>
---------------------------	----------------

Noncurrent Liabilities

Payables from Restricted Assets:

Deposits and Other Payables	
Compensated Absences	
Regional Wells Contract	82,166
PWTF Loans	2,104,306
04 Revenue Bond	6,640,000

TOTAL NONCURRENT LIABILITIES	<u>8,826,472</u>
------------------------------	------------------

TOTAL LIABILITIES	<u>9,563,664</u>
-------------------	------------------

NET ASSETS

Invested in Capital Assets, Net of Related Debt	23,598,184
Reserved Assets (Capital projects)	1,867,900
Unrestricted	501,937

TOTAL NET ASSETS	<u>25,968,021</u>
------------------	-------------------

TOTAL NET ASSETS AND LIABILITIES	<u>35,531,685</u>
----------------------------------	-------------------

THE NOTES TO FINANCIAL STATEMENT ARE AN INTERGRAL PART OF THE STATEMENT

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS

For The Year Ended December 31, 2008

OPERATING REVENUES:

Sales of Merchandise		
Utility Sales and Service Fees	\$	3,950,226
Other Charges for Services		
Other Operating Revenue		
		<hr/>
Total Operating Revenue		<u>3,950,226</u>

OPERATING EXPENSES:

Operations:		
General Operations		237,523
Water Purchased for Resale		444,478
Contracted Processing and Operations		
Cost of Power		63,585
Cost of Goods Sold		
Maintenance		138,828
Customer Services and Marketing		
Administration:		
General Administration		1,261,758
Planning, Conservation, Research and Development		
Depreciation/Amortization/Depletion		1,440,848
Property, Excise and B&O Taxes		203,814
Other Operating Expenses		281,973
		<hr/>
Total Operating Expenses		<u>4,072,807</u>
OPERATING INCOME (LOSS)		<u>(122,581)</u>

THE NOTES TO FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS

For The Year Ended December 31, 2008

NONOPERATING REVENUES (EXPENSES):

Operating Assessments and Tax Levies	
External Operating Subsidies	
Revenue from Merchandising, Jobbing and Contract Work	
(Costs and Expenses of Merchandising, Jobbing and Contract Work)	
Interest and Dividend Income	\$ 200,828
(Interest Expense and Related Charges)	(293,729)
Equity in Income (Loss) of Joint Ventures/ Subsidiaries	
Gains (Losses) on Capital Asset Disposition	0
Other Non-operating Revenues	11,334
(Other Non-operating Expenses)	
	<hr/>
Total Non-operating Revenues (Expenses)	<u>(81,567)</u>
Income Before Contributions, Transfers	<u>(204,148)</u>
Capital Contributions	464,007
Transfers In (Out)	
Extraordinary	
CHANGE IN NET ASSETS	<u>259,859</u>
TOTAL NET ASSETS, January 1	<u>25,708,163</u>
TOTAL NET ASSETS, December 31	<u>25,968,022</u>

THE NOTES TO FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT

**EAST WENATCHEE WATER DISTRICT
OF DOUGLAS COUNTY**

NOTES TO FINANCIAL STATEMENTS
JANUARY 1, 2008 THRU DECEMBER 31, 2008

THESE NOTES ARE AN INTEGRAL PART OF THE ACCOMPANYING FINANCIAL STATEMENT.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNT POLICIES:

The accounting policies of the East Wenatchee Water District (hereafter noted as District) conform to generally accepted accounting principles as applicable to proprietary funds of governments. The District has elected to apply Financial Accounting Standards Board (FASB) guidance issued after November 30, 1989 to the extent that it does not conflict with or contradict guidance of the Governmental Accounting Standards Board (GASB). 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 – 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 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 municipal corporation governed by an elected three member board. As required by generally accepted accounting principles, management has considered all potential component units in defining the reporting entity. The District has no component units.

b. 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 uses the Uniform System of Account for Class A & B Water Utilities.

The District used the full accrual basis of accounting where revenues are recognized when earned and expenses are recognized when incurred. Fixed asset purchases are capitalized and long-term liabilities are accounted for in the appropriate funds.

Non-billed District utility service receivable is not recorded at year-end, which is a departure from generally accepted accounting principles. Operating income includes revenue and service fees related to water sales. All other income is recorded as non-operating revenue.

The District's financial statements include the financial position and results of operations of all enterprise operations that the District manages. The financial statements include as well as assets and liabilities all funds for which the District has a custodial of trust responsibilities.

c. Cash and Cash Equivalents

For purposes of the statement of cash flows, the District considered all highly liquid investments (including restricted assets) with a maturity of three month or less when purchased to be cash equivalents.

d. Utility Plant and Depreciation:

Utility plant in service is recorded at cost. Donations by contractors are recorded at contractors cost. When contractor cost is not obtainable, the District estimates the cost based on its own construction costs.

The original cost of operating property retired or otherwise disposed of, or the sale of a significant operating unit or system is handled as follows: 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.

Water mains and service lines are recorded in total dollars in the year they are put into service. When these assets are abandoned, the plant value is not reduced in that the actual value is not known. It is assumed that the cost of abandoned water line is fully depreciated and that the accumulated depreciation account offsets the abandoned asset and thus decreases the value of the plant.

Depreciation is computed on the straight-line method with useful lives of 5 to 50 years. Initial depreciation on utility plant is recorded as if it has been in use for one half of the year.

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.

e. Restricted and Reserved Funds:

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

DEBT SERVICE FUNDS:

Revenue Bond Retirement	\$416,725
Public Works Trust Loan Retirement	\$134,100
Total Regional Well Note	<u>\$ 16,432</u>
TOTAL	<u>\$567,257</u>

CONSTRUCTION FUNDS:

Currently the District does not have any restricted construction funds, due to bonds, on the books.

RESERVED FUNDS:

The District “ear marks” funds as reserved for budget purposes. The current reserved funds are:

1. Retainage and payables	\$ 185,723
2. 2009 Construction and Plant projects	<u>\$1,114,920</u>
TOTAL	\$1,300,643

The total of these funds is \$1,867,900 as noted in the Statement of Net Assets and the cash is included in the \$4,108,396 of temporary invested Current Assets.

f. Receivable:

The “Other Accounts Receivable” account is credited when a developer or customer pays a down payment on a requested construction or miscellaneous service. When the construction or service has been completed, the account is debited as earned. The year end deposits totaling \$86,161(credit) and completed project balances due is \$40,225(debit).

Non-collectible accounts are expensed as they are determined to be uncollectible.

The 1999 Bond funded a Utility Local Improvement District (ULID). Resolution No. 471 created this ULID No. 1, as approved and confirmed by Resolution No. 496. There are 20 years of equal installments of principal. The assessment interest rate is fixed at 5.25% per annum. The first installment with interest was due August 6, 2001. There were 19 customers with a total ULID amount of \$876,377.74.

At year end the balance due on the ULID No. 1 was \$291,679. The amount of \$10,867.26 was paid within the first 30 days of the notice.

g. Inventories:

Inventories are valued at first-in first-out (FIFO), which approximates cost. The year-end book to actual inventory adjustment is capitalized to the plant asset accounts based on the years installation percentage mix. The meter inventory adjustment is expensed to meter maintenance. Large differences are held in an inventory adjustment account until the end of the following year to see if they will clear. A small balance of \$1,722 was left to clear in 2007. This amount cleared, but left a \$30,214 debit balance to clear in 2009.

h. Investments:

All investments of the District funds are in the form of TCD’s or passbook accounts with bank and savings and loan associations, or direct obligations of the U.S. Government pursuant to the requirements of Chapter 39.58 R.C.W. Interest income has been accrued for year-end reports. The State of Washington’s Pool is also used at the desecration of the Douglas County Treasurer. Investments are valued at fair market value.

i. Amortization of Contributed Capital:

The proprietary funds of the District do not amortize contributed capital.

j. Compensated Absences:

The District recognizes vacation benefits only when paid, although this practice does not conform to generally accepted, accounting principles. The unrecorded liability for unpaid vacation benefits at December 31, 2008 was approximately \$96,702. Starting in the year 2000, sick leave became redeemable at time of separation from employment at 25% of earned hours at the annualized hourly pay rate. The unrecorded liability for unpaid sick leave benefits at December 31, 2008 was approximately \$81,211. Comp-time benefits at December 31, 2008 were \$15,329.

The District accrual schedule and maximums are as follows:

VACATION		SICK LEAVE
0-3 years	8 Hrs	Earn 8 Hrs/month
4-5 years	11 Hrs.	Max. accrued - 1,000 Hrs.
6-10 years	12 Hrs.	Max cash in is 25%
11-15 years	14 Hrs.	
16-19 years	16 Hrs.	
20+ years	20 Hrs.	

Maximum accrued is 300 Hrs. at year end
Maximum at retirement is 240 Hrs.
Maximum cash in is 240 Hrs.

The on-call/standby compensation is in the form of Comp Time. When an employee takes a 7-day shift, he/she is given the next Friday off. If the employee chooses too, the day off can be “banked” and used as a day off during the winter months.

k. Deferred Compensation and Sick Leave Buy Back:

The District offers a 3% matching deferred compensation plan to its full time employees. In 2008, 20 of 20 employees participated at a total cost to the District of \$32,796. The sick leave maximum is 1,000 hours. For those employees that max out, the District will deposit the monthly overage at the employee’s hourly rate into an IRS approved Medical Savings Account (MSA-VEBA). In 2008, there were five employees that qualified at a total cost of \$15,100. In 2008 the sick leave buy back was changed, so that in the case of a retiree, the balance of the employee’s sick leave (remaining 75%) would be deposited into the employees MSA-VEBA account. One person took advantage of this and retired in 2008 with a cost to the District of \$19,385. It is projected that the cost of the District over the next 20 years will be as follows:

2009	\$14,500
2010	\$16,400
2013	\$24,500
2014	\$19,500

After 2014 there will be no cost for the next nine years. The plan has already seen a decrease in the use of sick leave as anticipated.

The District retiree sick leave buy back has an accrual schedule for earning the potential 75% balance. It is as follows:

<u>Years of Service</u>	<u>Percentage</u>
5-10	15%
11-15	25%
16-20	50%
21-25	75%
26-99	100%

l. Un-amortized Debt Expense:

Costs relating to the sale of bonds are deferred and amortized over the lives of the various bond issues. Bond fees 2008 balance was \$274,293. Also, the cost of the District's 6 year Comprehensive Plans are deferred and amortized. The District deferred comprehensive plan balance was \$41,106 for the completed 2005-2010 plan.

m. Purchase Commitments:

In the year 2000, an agreement was reached between the City of Wenatchee, Chelan PUD, and the District to share on a 1/3 basis, the wells being operated as the Regional Water System. The District's buy-in was for \$246,485 at 0% interest, over a 15-year contract. This shifted the District's water supply from its existing wells to the water supplied by the Regional system.

NOTE 2 - LONG TERM DEBT:

THE LONG TERM LOAN AND BOND DEBT AT DECEMBER 31, 2007 WAS AS FOLLOWS:

	<u>OUTSTANDING BALANCE</u> <u>12/31/08</u>
1996 Public Works Trust Fund loan from Washington State for 20 years at 5% was issued in the amount of \$186,000	78,319
2000 Regional Water System with an issued amount of \$246,486	98,598
2004-2008 Public Works Trust Fund Loans from Washington State	2,089,389
2004 Revenue Bond issued February 1, 2004 at interest rates averaging 3.9145331% with an issue amount of \$8,245,000	6,980,000
This Bond refunded the following Bonds:	
1993 Revenue Bond 1,315,000	
1997 Revenue Bond 1,110,000	
1999 Revenue Bond <u>6,255,000</u>	
Total Refunded Bonds 8,680,000	
TOTAL LONG TERM DEBT	<u>9,246,306</u>

The schedule of activity for the above LONG TERM DEBT is as follows

ID No.	PURPOSE	DATE ISSUED	DATE OF MATURITY	2008 OPEN	ISSUED (REDEEMED)	2008 BALANCE
263-53	CHLORINATION EQUIP	4/1/1996	7/1/2016	\$88,108	(\$9,789)	\$78,319
263-53	REGIONAL WATER NOTE	1/1/2000	1/1/2015	115,030	(16,432)	98,598
263-53	GRANT RD MAIN ENG	4/1/2004	4/1/2024	4,780	(4,780)	0
263-53	CBD/15TH MAIN	4/1/2004	4/1/2024	401,905	(24,586)	377,319
263-53	15TH BPS	5/1/2004	5/1/2025	458,678	(28,059)	430,619
263-53	GRANT RD MAIN CONST	12/1/2005	5/1/2025	293,200	(16,289)	276,911
263-53	BAKER FLATS PRE-NOTE	12/1/2007	7/1/2027	450,000	0	450,000
263-53	BAKER FLATS ULID CONST	12/1/2007	7/1/2027	554,540	0	554,540
TOTAL G.O. DEBT				\$2,366,241	(\$99,935)	\$2,266,306
REVENUE DEBT						
252-11	REVENUE BOND	2/1/2004	2/1/2024	\$7,305,000	(\$325,000)	\$6,980,000

The annual requirements to amortize all debts (including \$2 million approved PWTF Loans for 2009 and 2010) as of December 31, 2008 including interest are as follows:

YEAR	YEARS ENDING DECEMBER 31		
	INT	PRENC	TOTAL
2008	288,740	422,786	711,526
2009	294,391	605,517	899,908
2010	283,764	610,518	894,282
2011	272,088	620,550	892,638
2012	259,256	635,517	894,773
2013 – 2025	1,700,185	8,964,877	10,665,062

The District's Bond Reserve has been met with a one-time purchase of an insurance bond. There are a number of other limitations and restrictions contained in the various bond indentures. The District is in compliance with all significant limitations and restrictions.

NOTE 3 – DEPOSITS AND INVESTMENTS

DEPOSITS

The District's deposits and certificates of deposit 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). The District's Treasurer is the Douglas County Treasurer and all cash funds are controlled and invested by that office.

INVESTMENTS

As of December 31, 2008, the District had the following investments:

<u>Investments</u>	<u>Value</u>
State investment pool	<u>2,503,601</u>
U.S. Treasuries	<u>2,049,000</u>
Bankers' acceptance	_____
Bank Money Market	_____
In transit to Treasurer	<u>16,029</u>
Total	<u><u>4,568,630</u></u>

NOTE 4 - UTILITY PLANT AND DEPRECIATION

Major expenses for capital assets, including capital leases and major repairs that increase useful lives, are capitalized. Maintenance, repairs, and minor renewals are accounted for as expenses when incurred. The capitalization threshold amount determining expense or capitalization is \$500.

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 Market Value. Donations by developers are recorded at the contract price and donor cost or appraised value.

	<u>Beg Bal</u>	<u>In 2008</u>	<u>End Bal</u>
Utility plant not being depreciated:			
Land	552,766		552,766
Construction in progress	231,238	322,056	553,294
Total utility plant not being	784,004		1,106,060
Utility plant being depreciated:			
Buildings	3,008,755	6,443	3,015,198
Equipment	3,141,990	38,647	3,180,637
Plant	36,303,762	941,038	37,244,800
Total utility plant being depreciated	42,454,507	986,128	43,440,635
Less accumulated depreciation for:			
Buildings	1,000,366	104,372	1,104,738
Equipment	1,771,323	494,260	2,265,583
Plant	10,947,640	1,417,115	12,364,755
Total accumulated depreciation	13,719,329	2,015,747	15,735,076
Total utility plant being depreciated,	28,735,178		27,705,559
TOTAL UTILITY PLANT, NET	<u>29,519,182</u>		<u>28,811,619</u>

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, 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.

An allowance for funds used during construction is capitalized as part of the cost of utility plant. While cash is not received currently from such allowance, it is realized under the rate-making process over the service life of the related property through increased revenue resulting from a higher rate base and higher depreciation expense. The procedure is intended to remove the cost of financing construction activity from the income statement and to treat such cost in the same manner as construction labor and material costs.

Depreciation is computed on the Straight Line method with useful lives of 5 to 50 years. Initial depreciation on utility plant is recorded in the year it is put into use and charged for one half year of service.

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 related to abandoned projects are expensed.

The District expenses include impairment losses that may arise. There were no impairment losses to report for 2008.

NOTE 5 - CONSTRUCTION IN PROGRESS

The annexation of 1,000 acres in the Baker Flats area will call for \$3.5 million to construct mains and a reservoir. This will be funded by Public Works Trust Fund loans, a \$1,500,000 ULID Bond and \$300,000 of District funds. A ULID will be formed to reimburse the District for the payback of the loans. As of December 2008, an amount of \$1,020,372 has been spent on the project and loans totaling \$1,004,500 have been received.

NOTE 6 – SHORT-TERM DEBT

The District does not have any short-term debt.

NOTE 7 - PENSION PLAN

Substantially all (city/county/district) 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 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 retirement 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.

Judicial Benefit Multiplier

Beginning January 1, 2007 through December 31, 2007, judicial members of PERS may choose to participate in the Judicial Benefit Multiplier Program (JBM). Current justices or judges in PERS Plan 1 and 2 may make a one-time irrevocable election to pay increased contributions that would fund a retirement benefit with a 3.5 percent multiplier. The benefit would be capped at 75 percent of average financial compensation. Judges in PERS Plan 3 can elect a 1.6 percent of pay per year of service benefit, capped at 37.5 percent of average compensation.

Members who choose to participate in JBM will accrue service credit at the higher multiplier beginning with the date of their election, pay higher contributions, stop contributing to the Judicial Retirement Account (JRA), and be given the option to increase the multiplier on past judicial service. Members who do not choose to participate will: continue to accrue service credit at the regular multiplier; continue to participate in JRA, if applicable; never be a participant in the JBM Program; and continue to pay contributions at the regular PERS rate.

Justices and judges who are newly elected or appointed to judicial service and choose to become PERS members on or after January 1, 2007, or who have not previously opted into PERS membership, are required to participated in the JBM Program.

Justices and judges who are newly elected or appointed to judicial service will: return to prior PERS Plan if membership had previously been established; be mandated into Plan 2 and not have a Plan 3 transfer choice, if a new PERS member; accrue the higher multiplier for all judicial service; not contribute to JRA; and not have the option to increase the multiplier for past judicial service.

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 But Not Yet Receiving Benefits	25,610
Active Plan Members Vested	105,215
Active Plan Members Non-vested	49,812
Total	250,838

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’s 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. As a result of the implementation of the Judicial Benefit Multiplier Program in January 2007, a second tier of employer and employee rates was developed to fund, along with investment earnings, the increased retirement benefits of those justices and judges that participate in the program. 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 payrolls, as of December 31, 2007, were as follows:

Jan 1 - Jun 30	PERS Plan 1	PERS Plan 2	PERS Plan 3
Employer*	6.13%	6.13%	
Employee	6.00%	4.15%	
Jul 1 - Aug 31			
Employer	8.31%	8.31%	
Employee	6.00%	5.45%	

* The employer rates include the employer administrative expense fee currently set at 0.16%.

** Plan 3 defined benefit portion only.

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

End of DRS insert.

Both the District and the employees made the required contributions. The District's required contributions for the year ending December 31, 2007 were as follows:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
2008	\$16,838	\$61,454	
2007	\$17,209	\$47,488	
2006	\$8,401	\$24,973	
2005	\$5,438	\$13,237	

NOTE 8 – DEFERRED DEBTS

In accordance with generally accepted accounting principles for regulated businesses, the district has deferred the 2005-2010 Comprehensive Plan costs of \$82,211. This amount will be amortized using the straight line method over the six year life of the plan. The 2008 expensed amount was \$13,702. Bond costs are also amortized over a 20-year life with the total expensed in 2008 of \$141,996.

EAST WENATCHEE WATER DISTRICT

ADDENDUM A

DIRECTORY OF OFFICIALS

<u>COMMISSIONERS:</u>	<u>ELECTIVE:</u>	<u>TERM:</u>	<u>EXPIRATION:</u>
President	Mike McCourt	6yrs	Dec. 31, 2011
Vice President	John Sterk	11/21/07 to end of term 12/31/09	
Secretary	Terry Barnes	6yrs	Dec 31, 2013

APPOINTIVE

Manager	Greg Brizendine
Attorney	Mike Arch

MAILING ADDRESSES

District	P. O. Box 7190 E. Wenatchee, WA 98802
Attorney	Mike Arch PO Box 3125 Wenatchee, WA 98807