Washington State Auditor's Office

Financial Statements Audit Report

Public Utility District No. 1 of Skagit County

Audit Period
January 1, 2010 through December 31, 2010

Report No. 1006792

Issue Date
December 5, 2011

WASHINGTON
BRIAN SONNTAG
STATE AUDITOR

Washington State Auditor
Brian Sonntag

December 5, 2011

Board of Commissioners
Public Utility District No. 1 of Skagit County
Mount Vernon, Washington

Report on Financial Statements

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

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

Sincerely,

BRIAN SONNTAG, CGFM
STATE AUDITOR

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Public Utility District No. 1 of Skagit County
January 1, 2010 through December 31, 2010

Status of Prior Audit Findings

Public Utility District No. 1 of Skagit County
January 1, 2010 through December 31, 2010

The status of findings contained in the prior years' audit reports of Public Utility District No. 1 of Skagit County is provided below:

1. The District should improve internal controls over financial statement accounting and reporting.

Financial Statement Audit, Report No. 1005284, dated March 28, 2011.

Background

The District did not perform a timely review of supporting documentation for journal entries prior to being entered into the general ledger system. The District also did not have a procedure to prevent or detect unauthorized adjustments to prior accounting periods in the system. District management was aware of the control weaknesses in its accounting system but had not taken sufficient steps to monitor or reduce those risks.

Additionally, the District did not have a control in place to ensure all reported capital assets existed and were properly valued. District management was not aware of the requirement to perform an inventory of capital assets.

Status

Conditions reported during the 2009 audit have been partially addressed. The District is in the process of implementing new procedures and systems to correct the control weaknesses identified. Journal entries for December 2010 were reviewed prior to entry into the system. The District's Auditor/Controller also now reviews a report of all journal entries entered into the system, to ensure supporting documentation for those adjustments has been reviewed and approved. Furthermore, the District is in the process of converting to a new accounting system.

The District began a comprehensive inventory of all capital assets during 2011, and made adjustments to 2010 balances based on inventory results. The inventory is still in progress, however results to date provided assurance that the 2010 reported balances are materially correct.

We did not identify any significant deficiencies in internal controls over financial reporting for fiscal year 2010. We will review the District's progress during our next audit.

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

Public Utility District No. 1 of Skagit County
January 1, 2010 through December 31, 2010

Board of Commissioners
Public Utility District No. 1 of Skagit County
Mount Vernon, Washington

We have audited the basic financial statements of Public Utility District No. 1 of Skagit County, Washington, as of and for the years ended December 31, 2010 and 2009, and have issued our report thereon dated October 25, 2011.

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.

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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

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

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

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of the District's compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

BRIAN SONNTAG, CGFM
STATE AUDITOR

October 25, 2011

Independent Auditor's Report on Financial Statements

Public Utility District No. 1 of Skagit County
January 1, 2010 through December 31, 2010

Board of Commissioners
Public Utility District No. 1 of Skagit County
Mount Vernon, Washington

We have audited the accompanying basic financial statements of Public Utility District No. 1 of Skagit County, Washington, as of and for the years ended December 31, 2010 and 2009, as listed on page 5. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our 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 opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Public Utility District No. 1 of Skagit County, as of December 31, 2010 and 2009, and the changes in financial position and 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 7 through 12 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

BRIAN SONNTAG, CGFM
STATE AUDITOR

October 25, 2011

Financial Section

Public Utility District No. 1 of Skagit County
January 1, 2010 through December 31, 2010

REQUIRED SUPPLEMENTAL INFORMATION

BASIC FINANCIAL STATEMENTS

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Management Discussion and Analysis of Public Utility District No. 1 of Skagit County (the District) provides an overview and analysis of the District's financial activities for the years ended December 31, 2010 and 2009. This information is presented in conjunction with the financial statements and notes that follow this section.

FINANCIAL HIGHLIGHTS

- During the year 2010, plant-in-service had a $27.0 million net increase or 18.92 percent. This follows a $5.8 million net increase in 2009 or 4.21 percent. Plant-in-service is a result of the combination of capital projects completed, including upgrades, and plant donated by developers. During the year 2010, the largest projects of plant-in-service were the addition of the Skagit River Diversion project ($19.0 million) and the Water Treatment Plant Upgrades ($7.4 million). During the year 2009, the largest plant-in-service projects were the completion of the District's retrofit of its touch read meters to mobile radio frequency meters ($1.9 million), the Hansen-Thomas Creek pipeline ($1.5 million), completion of Samish River Park LUD #30 ($0.45 million), and numerous projects to upsize service lines throughout the District ($1 million).

- During 2010, the District's restricted cash and investment assets decreased $96,552 or 17.26 percent, which is the result of paying off both Marblemount A and Bay View bonds.

- The District's Operating Revenue decreased 0.68 percent from $14,484,967 in 2009 to $14,386,461 in 2010. This decrease is believed to be attributable to a combination of factors including general economic distress, a high rate of home foreclosures, a seasonally wet summer, and the District's continued water conservation message to the public. Also, effective April 2010 the City of Mount Vernon began charging residential customers for sewer services based on water consumption. This change was likely incentive for the District's water customers to decrease their water usage.

- The District's operating expenses increased 6.75 percent during 2010 as compared to 3.05 percent in 2009. These increases are considered to be normal increases in materials and supplies, and depreciation.

- Capital contributions were lower in 2010 at $1,433,914 compared to $2,811,673 in 2009. The largest capital contributions were from system development fees of $534,130, which were $121,509 higher than 2009.

OVERVIEW OF THE FINANCIAL STATEMENTS

Basic Financial Statements

The District's basic financial statements are comprised of two components:

1) Proprietary fund financial statements and 2) Notes to the financial statements. The District is a single-enterprise fund with voter-approved authority for both water and sewer, although the District does not have sewer operations at this time. The District also has authority under the Revised Code of Washington[1] to provide fiber-optic telecommunication services within the District.

The financial statements of the District are designed to provide readers with a broad overview of the District's finances, similar to statements of a private-sector business. They have been prepared using the accrual basis of accounting in accordance with generally accepted accounting principles. Under this basis of accounting, revenues are recognized in the period in which they are earned and expenses are recognized in the period in which they are incurred, regardless of the timing of related cash flows. These statements offer both short-term and long-term financial statement information.

The Statement of Net Assets presents information on the District's assets and liabilities, with the difference between the two reported as "net assets". Increases or decreases in net assets are useful indicators of the financial position of the District. The statement also provides information about the nature and amount of investments in assets and about the obligations of the District.

The Statement of Revenues, Expenses, and Changes in Net Assets presents information on the District's current and prior year revenues and expenses. This statement measures the success of the District's operation and its ability to recover its costs through user fees and other charges.

The Statement of Cash Flows presents information about the District's cash receipts and cash payments. This statement reports net cash receipts from operations, investing, and financing operations, plus changes in cash balances during the year.

Notes to the Financial Statements

The Notes to the Financial Statements provide a more comprehensive assessment of the District's financial condition.

[1] RCW 54.16.330 Provision of Wholesale Telecommunication Services

FINANCIAL ANALYSIS

Presented are three tables of comparative financial information, followed by an analysis of the data:

CONDENSED FINANCIAL INFORMATION
December 31, 2010, 2009, and 2008

NET ASSETS

	2010	2009	2008
Current and other assets	$ 19,953,247	$ 18,661,999	$ 22,225,252
Capital assets	143,021,377	143,631,862	132,801,055
Total assets	$ 162,974,624	$ 162,293,861	$ 155,026,307
Current & other liabilities	$ 2,585,217	$ 2,795,560	$ 4,038,974
Current portion of long-term debt	2,220,940	2,281,606	1,952,281
Long-term debt	24,317,606	26,745,584	23,231,458
Total liabilities	$ 29,123,763	$ 31,822,750	$ 29,222,713
TOTAL NET ASSETS	$ 133,850,861	$ 130,471,111	$ 125,803,594

NET ASSET DETAIL

	2010	2009	2008
Invested in capital assets, net	$ 116,482,831	$ 114,604,672	$ 107,617,316
Restricted assets	629,269	559,426	335,441
Unrestricted assets	16,738,761	15,307,013	17,850,837
TOTAL NET ASSETS	$ 133,850,861	$ 130,471,111	$ 125,803,594

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

	2010	2009	2008
Operating Revenues	$ 14,386,461	$ 14,484,967	$ 13,590,402
Non-operating Revenues	382,639	382,192	735,670
Total revenues	$ 14,769,100	$ 14,867,159	$ 14,326,072
Operating Expenses	$ 13,335,018	$ 12,491,509	$ 12,121,653
Non-operating Expenses	788,246	519,806	567,821
Total expenses	$ 14,123,264	$ 13,011,315	$ 12,689,474
Income	$ 645,836	$ 1,855,844	$ 1,636,598
Capital Contributions	1,433,914	2,811,673	5,143,917
Special Item	1,300,000	0	0
CHANGE IN NET ASSETS	$ 3,379,750	$ 4,667,517	$ 6,780,515

Total Net Assets may serve as a useful indicator of the District's financial position. At the close of 2010, the District's total net assets were $133,850,861 as compared with $130,471,111 for 2009.

The largest portion of the District's net assets is the classification Invested in Capital Assets, Net of Debt. This classification reflects the District's investment in capital assets (land, plant, and equipment) less any remaining related debt. The District uses its capital assets to provide services to its customers. These assets are not available for future spending. Although the District's investments in capital assets are reported net of related debt, it should be noted that the resources needed to repay debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the District's Total Net Assets is in Restricted Assets (Other Assets in the Net Assets table) which represent resources that are subject to external restrictions on how the funds may be used. The District's Restricted Assets are generally restricted for Capital purposes derived from grants or loans and for debt purposes. The majority of 2010 Restricted Assets are associated with grants receivable and bond reserves amounting to $385,925, compared to $429,182 in 2009. The interest and principal payment due in 2011 for Water Revenue Bonds makes up the remaining portion of 2010 restricted assets.

The remainder of the District's Total Net Assets is Unrestricted Assets and may be used to meet the District's ongoing obligations to customers and creditors. Unrestricted Assets increased $1,431,748 in 2010 and decreased $2,543,824 in 2009.

The District's changes in its Capital Assets were smaller than in previous years. During 2010, capital assets (excluding depreciation) increased $2.3 million compared to a $12.9 million increase during 2009.

Non-operating Revenue increased 0.12 percent while Non-operating Expense increased 51.64 percent. The increase in Non-operating Expense is the result of an increase in taxes and debt interest.

The District continues to maintain a solid financial position, as indicated by the increase of Total Net Assets.

CAPITAL ASSETS AND DEBT ADMINISTRATION

At the end of 2010 and 2009, the District had $143.0 million and $143.6 million, respectively, of capital assets, net of depreciation, invested in a broad range of utility capital assets, including its water treatment plant, transmission and distribution mains, water storage facilities, pump stations, administration facilities, and vehicle and equipment fleet. This amount represents a decrease of $610,485 in 2010 and an increase of $10.8 million for 2009.

This year's major increases to depreciable assets (before depreciation) include:

· Plant increase	$	27,574,158
· Equipment increase	$	2,599,122

The major increases are primarily the result of the completion of a few multiyear projects and the corresponding removal from construction in progress.

The District's 2011 capital budget plans for investing an additional $3.3 million in capital improvements. This plan includes:

- Annual plant expansion/replacement/installation
- Begin implementation of new financial and customer service software system
- Completion of the Judy to Mount Vernon Transmission Line

The District plans to use existing cash and future revenues to fund the capital budget plan for its ongoing capital improvements program. The District adopted a general rate increase of 3 percent beginning January 1, 2010. There are no rate increases expected for 2011.
As of December 31, 2010 and 2009, the District had three outstanding bond issues with an aggregate total outstanding of $10,780,000 and $12,115,130, respectively, with interest rates ranging from 2.75 to 5.82 percent. The bonds are scheduled to be fully repaid by 2016, 2018 and 2029. The District also has aggregate outstanding loans of $15,758,546 and $16,912,062, for 2010 and 2009 respectively, with interest rates ranging from 0.5 to 1.5 percent and final maturity dates of 2021 and 2022.

In September 2010, the District received the remaining $200,000 in total for draws on Public Works Trust Fund Loans 2001 and 2002.

In January 2010, Marblemount B Bonds were paid in full. Both Marblemount A Bonds and the Bayview Bond were paid in full in October 2010.

Additional information on the District's Long-term Debt is included in Note 6, *Notes to the Financial Statement*. Additional information on the District's Capital Assets and Construction-in-progress is in Notes 3 and 4.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The District's annual budget, as approved by the Commission, outlines its plan for operations, maintenance, and growth, in order to provide quality potable water to the District's customers for the present and foreseeable future.

In considering the District's budget for the year 2011, the Board of Commissioners and management used the following estimates:

- Revenue from water sales and charges are expected to increase as a result of a 0.63 percent estimated growth factor for the District. There is no rate increase planned for the year 2011.
- Capital contributions are expected to be $923,600.
- Operating expenses, excluding depreciation, are expected to increase in 2011 approximately $61,405 over the 2010 year-end results.
- Capital improvements for 2011 are budgeted at $3.3 million as previously noted. These projects are expected to be paid for with existing assets.
- The District has previously initiated a phased approach to the construction of a transmission line. The project is not expected to proceed in 2011 unless a State of Washington low interest rate Public Works Trust Fund loan is successful.

REQUESTS FOR INFORMATION

This financial report is designed to provide the District's customers 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 any questions about the report or need additional financial information, contact the District Treasurer at:

Public Utility District No. 1 of Skagit County
Attention: Treasurer
Post Office Box 1436
Mount Vernon, Washington 98273-1436

PUBLIC UTILITY DISTRICT NO. 1 OF SKAGIT COUNTY

COMPARATIVE STATEMENT OF NET ASSETS

DECEMBER 31, 2010 AND 2009

ASSETS	2010	2009
Current Assets		
Cash and Cash Equivalents	$ 13,681,365	$ 11,636,850
Investments	-	493,687
Accounts Receivable (Net)	795,108	714,228
Federal Stimulus Credit Receivable	35,508	16,445
Accrued Unbilled Revenues	981,756	1,056,126
Inventory	1,156,371	1,334,543
Prepaid Insurance	22,832	17,346
Other Current and Accrued Assets	315,656	303,952
Total Current Assets	$ 16,988,596	$ 15,573,177
Restricted Assets		
Cash and Cash Equivalents	$ 462,874	$ 559,426
Grants Receivable	166,395	-
Total Restricted Assets	$ 629,269	$ 559,426
Non-current Assets		
Preliminary Survey and Investigation	$ 141,723	$ 21,099
Assessments Receivable	1,853,333	2,126,684
Unamortized Debt Expense	340,326	381,613
Capital Assets Not Being Depreciated		
Non-operating Property	61,203	61,203
Land and Land Rights	749,446	749,446
Construction in Progress	9,707,989	36,442,639
Eathern Impounding Reservoir	12,375,488	12,380,257
Capital Assets Net of Accumulated Depreciation		
Plant	113,421,804	89,561,817
Equipment	6,705,447	4,436,500
Total Non-current Assets	$ 145,356,759	$ 146,161,258
TOTAL ASSETS	$ 162,974,624	$ 162,293,861

The notes to the financial statements are an integral part of this statement.

PUBLIC UTILITY DISTRICT NO. 1 OF SKAGIT COUNTY

COMPARATIVE STATEMENT OF NET ASSETS

DECEMBER 31, 2010 AND 2009

	2010	2009
LIABILITIES		
Current Liabilities		
Warrants Payable	$ 302,235	$ 284,858
Accounts Payable	844,321	1,058,908
Customer Deposits	171,763	161,786
Accrued Taxes Payable	64,386	59,005
Accrued Interest on Debt	286,318	236,131
Accrued Compensated Absences	247,913	267,674
Deferred Revenue	145,554	154,193
Bonds and Loans Payable	2,220,940	2,281,606
Total Current Liabilities	$ 4,283,430	$ 4,504,161
Non-current Liabilities		
Accrued Compensated Absences	$ 308,684	$ 327,156
Unamortized Debt Premium	214,043	245,849
First Lien Bonds	9,930,000	10,780,000
Junior Lien Bonds	-	407,039
Long-term Loans	14,387,606	15,558,545
Total Non-current Liabilities	$ 24,840,333	$ 27,318,589
TOTAL LIABILITIES	$ 29,123,763	$ 31,822,750
NET ASSETS		
Invested in Capital Assets Net of Debt	$ 116,482,831	$ 114,604,672
Restricted for:		
Debt Service	462,874	559,426
Capital Projects	166,395	-
Unrestricted Assets	16,738,761	15,307,013
TOTAL NET ASSETS	$ 133,850,861	$ 130,471,111

The notes to the financial statements are an integral part of this statement.

PUBLIC UTILITY DISTRICT NO. 1 OF SKAGIT COUNTY

COMPARATIVE STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS

FOR YEARS ENDED DECEMBER 31, 2010 AND 2009

	2010	2009
OPERATING REVENUE		
Water Sales		
Residential - Multiple	$ 10,017,452	$ 10,162,024
Commercial - Industrial - Farms	3,276,755	3,269,545
Government	391,570	395,721
Resale	77,534	85,186
Irrigation	294,494	382,841
Total Water Sales	$ 14,057,805	$ 14,295,317
Other Water and Broadband Revenues	328,656	189,650
Total Operating Revenues	$ 14,386,461	$ 14,484,967
OPERATING EXPENSES		
Water Expenses		
Supply	$ 880,940	$ 640,454
Treatment	1,320,909	1,298,343
Transmission and Distribution	1,625,978	1,786,317
Broadband	12,927	7,882
Customer Accounts	828,355	873,145
Administrative and General	3,934,010	3,650,693
Utility Taxes	721,085	690,892
Depreciation Expense	4,010,814	3,543,783
Total Operating Expenses	$ 13,335,018	$ 12,491,509
OPERATING INCOME	$ 1,051,443	$ 1,993,458
NON-OPERATING REVENUE		
Interest Income	$ 44,042	$ 120,026
Interest, Penalty Income on LUDs	102,097	99,800
Amortization of Premiums	38,826	22,380
Misc Non-operating Income and Grants	197,674	139,986
Total Non-operating Revenue	$ 382,639	$ 382,192
NON-OPERATING EXPENSE		
Miscellaneous Non-operating Expense	$ 3,605	$ 10,717
Interest on Debt	627,626	447,499
Amortization of Discounts	41,286	34,513
Other Taxes	115,729	27,077
Total Non-operating Expense	$ 788,246	$ 519,806
INCOME (LOSS) BEFORE CONTRIBUTIONS AND SPECIAL ITEM	$ 645,836	$ 1,855,844

The notes to financial statements are an integral part of this statement.

PUBLIC UTILITY DISTRICT NO. 1 OF SKAGIT COUNTY

COMPARATIVE STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS

FOR YEARS ENDED DECEMBER 31, 2010 AND 2009

CAPITAL CONTRIBUTIONS		
Non-donated Plant	$ 160,962	$ 342,561
Donated Plant	456,268	916,099
System Development Fees	534,130	412,621
Services	116,159	132,396
Local Utility Districts	-	611,302
Grants	166,395	396,694
Total Capital Contributions	$ 1,433,914	$ 2,811,673
SPECIAL ITEM - See Note 15	$ 1,300,000	$ -
CHANGE IN NET ASSETS	$ 3,379,750	$ 4,667,517
TOTAL NET ASSETS, JANUARY 1	$ 130,471,111	$ 125,803,594
TOTAL NET ASSETS, DECEMBER 31	$ 133,850,861	$ 130,471,111

The notes to financial statements are an integral part of this statement.

PUBLIC UTILITY DISTRICT NO. 1 OF SKAGIT COUNTY, WASHINGTON

COMPARATIVE STATEMENT OF CASH FLOWS

For Years Ended December 31, 2010 and 2009

	2010	2009
Cash Flows from Operating Activities:		
Cash Received From Customers	$14,663,937	$ 14,456,885
Cash Payments To Suppliers for Goods and Services	(3,559,196)	(3,238,279)
Cash Payments To Employees for Services	(5,230,473)	(5,939,257)
Cash Payments for Taxes	(715,703)	(689,808)
Other Operating Income	29,891	102,193
Net Cash Provided By Operating Activities	$ 5,188,456	$ 4,691,734
Cash Flows From Capital Financing Activities:		
Acquisition and Construction of Capital Assets	$ (2,983,758)	$ (14,433,070)
Principal Paid on Revenue Bond Maturities/Notes	(2,688,644)	(2,006,590)
Interest and Related Charges Paid on Debt	(684,795)	(496,295)
Proceeds From Bonds/Government Loans	200,000	5,637,500
Proceeds From Grants/Fed Stimulus	51,881	566,343
Special Item- See Note 15	1,300,000	-
Proceeds from Customers for Capital Purposes(NetofRet)	811,251	1,498,880
Net Cash Provided (Used) For Capital Financing Activities	$ (3,994,065)	$ (9,233,232)
Cash Flows From Investing Activities:		
Purchase of Investment Securities	$ (490,000)	$ (1,953,078)
Proceeds From Sale and Maturities of Investment Securities	1,199,530	4,609,182
Interest on Investments	44,042	219,826
Net Cash Provided (Used) for Investing Activities	$ 753,572	$ 2,875,930
Net Increase (Decrease) in Cash and Cash Equivalents	$ 1,947,963	$ (1,665,568)
Cash and Cash Equivalents at Beginning of Year	$12,196,276	$ 13,861,844
Net Increase (Decrease) in Cash and Cash Equivalents	1,947,963	(1,665,568)
Cash and Cash Equivalents at End of Year	$14,144,239	$ 12,196,276

The notes to financial statements are an integral part of this statement.

PUBLIC UTILITY DISTRICT NO. 1 OF SKAGIT COUNTY, WASHINGTON
COMPARATIVE STATEMENT OF CASH FLOWS
For Years Ended December 31, 2010 and 2009

Reconciliation of Operating Income to Net Cash Provided by Operating Activities:		
Net Operating Income(Loss)	$ 1,051,443	$ 1,993,458
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:		
Depreciation	4,010,814	3,543,783
		-
Change in Assets and Liabilities		
(Increase)Decrease in Accts Receivable, Other Assets	180,767	139,511
(Increase)Decrease in Accrued Unbilled Revenues	74,370	1,855
(Increase)Decrease in Materials and Supplies	178,173	557,558
(Increase)Decrease in Prepayments and Advances	(5,486)	(8,243)
(Increase)Decrease in Preliminary Survey Charges	(120,624)	(211,120)
Increase (Decrease) In Warrants Payable	17,376	(625,900)
Increase(Decrease) in Accounts Payable, Taxes and Other	(198,377)	(699,168)
Total Adjustments	4,137,013	2,698,276
Net Cash Provided By Operating Activities	$ 5,188,456	$ 4,691,734

During the year 2010, plant assets of $456,268 were donated to the District.
During the year 2009, plant assets of $916,099 were donated to the District.

The notes to financial statements are an integral part of this statement.

NOTES TO FINANCIAL STATEMENTS
For the Years Ended December 31, 2010 and 2009

These notes are an integral part of the accompanying financial statements.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Public Utility District No. 1 of Skagit County (District) conform to generally accepted accounting principles (GAAP) 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 – 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 following is a summary of the most significant policies (including identification of those policies which result in material departures from generally accepted accounting principles):

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.

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 Accounts for Class A and B Water Utilities as prescribed by the National Association of Regulatory Utility Commissioners. The District's predominant business activity is the provision of water service to the residents of Mount Vernon, Burlington, Sedro Woolley, and surrounding rural areas. The accompanying financial statements include the financial position and results of operations of all enterprise operations, which the District manages. The financial statements include, as well, the assets and liabilities of all funds for which the District has a custodial or trust responsibility.

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

Unbilled utility service receivables are recorded at year end.

The District distinguishes between operating and non-operating revenues and expenses. Operating revenues and expenses are defined as related to the sale of water to customers and to other services that are usually provided under standard rate schedules or by contractual arrangements. Operating expenses for the District include the cost of sales and services, administrative expenses, utility taxes, and depreciation on capital assets. Non-operating revenues and expenses include merchandising and contract services, assessment revenues and expenses, rental of property, interest income, and expenses and other items not usually directly related to the provision of water service.

Cash and Cash Equivalents

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

Utility Plant and Depreciation

See Note 3 regarding capitalization, depreciation, and retirement policies.

Restricted Funds

In accordance with bond resolutions (and certain related agreements), separate restricted funds are required to be established. The assets held in these funds are restricted for specific uses, including construction, debt service and other special reserve requirements. Restricted Funds at year end 2010 and 2009 include the following:

	2010	2009
Bond Sinking Funds	$ 1,805	$ 196,687
Bond Reserve	217,725	232,495
Fiscal Agency Deposits	243,344	130,244
	$ 462,874	$ 559,426

Receivables

The District carries its receivables at actual billed amount. It is the District's policy to write off accounts as uncollectible after 90 days, at which time they are turned over to collection. Any subsequently collected accounts reduce bad debt expense.

At year end, the District calculates the percentage of sales during the year that have been referred to collection and the average recovery rate on those accounts so referred. From this information, the District is able to estimate the amount of uncollectible sales occurring during the final 90 days of the year. During 2010, the rate of accounts sent to collection was 0.26 percent and the recovery of those accounts was 35.66 percent. The 2009 rate for accounts sent to collection was 0.30 percent while the recovery rate was 35.16 percent.

Inventories

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

Investments

Investments are reported at fair value based on quoted market prices for those or similar securities. See Note 2 for additional investment disclosure.

Compensated Absences

Compensated absences are absences for which employees will be paid. The District maintains a Personal Leave Plan for vacation, sick, and family leave purposes, recording unpaid leave for compensated absences as an expense and liability when incurred. Personal Leave may be accumulated to a maximum of 800 hours. Any accumulated Personal Leave balance is paid to the employee at retirement or termination of employment. The exception is for employees retiring from the PERS 1 Retirement System. These employees may be paid a maximum of 240 hours compensated leave at retirement.

The District maintains a Supplemental Leave Bank balance to be used only for purposes supplementary to the District's short-term disability plan. The Supplemental Leave Bank originated with accumulated sick pay existing at the change January 1997 to the Personal Leave Plan. The old sick leave is non-accruing and no portion is payable at termination of employment. It is used solely to supplement short-term disability for those eligible. The District cannot determine the likelihood or the amount of future payments.

Unamortized Debt Premium or Expense

Premiums realized on bond issues and costs related to the sale of bonds are deferred and amortized over the lives of the various bond issues.

Construction Financing

The District is typically involved in the creation and construction of utility plant, to be paid by special assessments upon benefited properties, through the creation of local utility districts (LUDs). At December 31, 2010 and 2009, the District had no LUD projects in either the planning or construction stages.

Purchase Commitments

The District is currently not obligated under any long-term purchase or similar commitments.

Use of Estimates

The preparation of the financial statements, in conformity with generally accepted accounting principles, requires management to make estimates and assumptions that affect amounts reported in the financial statements. Actual results could differ from these estimates.

NOTE 2 – 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).

Investments

All investments of the District's funds are obligations of the U.S. Government and its agencies, deposits with the Washington State Treasurer's Local Government Investment Pool (LGIP), or deposits with Washington State financial institutions.

The LGIP is an un-rated 2a-7-like pool, as defined by GASB 31. As such, participants' balances in the LGIP are not subject to interest rate risk, as the weighted average maturity of the portfolio will not exceed 90 days. 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. Per GASB 40 guidelines, the balances are not subject to custodial credit risk. The credit risk of the LGIP is limited as most investments are obligations of the U.S. Government, or are government-sponsored enterprises, or insured demand deposit accounts and certificates of deposit. Investments are either insured or held by a third-party custody provider in the LGIP's name.
As of December 31, 2010 and 2009, the District had the following deposits and investments:

2010	Investments	Maturities	Fair Value
WA State Investment Pool	$ 12,532,893	n/a	$ 12,532,893
Certificates of Deposit	-	various	-
Cash and Cash Equivalents	1,611,346	n/a	1,611,346
Total	$ 14,144,239		$ 14,144,239

2009	Investments	Maturities	Fair Value
WA State Investment Pool	$ 10,821,904	n/a	$ 10,821,904
Certificates of Deposit	493,687	various	493,687
Cash and Cash Equivalents	1,374,372	n/a	1,374,372
Total	$ 12,689,963		$ 12,689,963

NOTE 3 - UTILITY PLANT AND DEPRECIATION – CAPITAL ASSETS

Capital assets are defined by the District as assets with initial individual cost of more than $5,000 and an estimated useful life in excess of one year.

Major expenses for capital assets, including capital leases (of which the District had none during the year) and major repairs that increase useful lives, are capitalized. Maintenance, repairs, and minor renewals are accounted for as expenses 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 contract price and donor cost or appraised value.

Utility plant activity for the years ended December 31, 2010 and 2009 was as follows:

2010	**1-Jan**	**Increase**	**Decrease**	**31-Dec**
Utility plant not being depreciated:				
Non-operating property	$ 61,203	$ -	$ -	$ 61,203
Land and land rights	749,446	-	-	749,446
Earthen impounding reservoir	12,380,257	-	(4,769)	12,375,488
Construction in progress	36,442,639	6,044,338	(32,778,988)	9,707,989
Total utility plant not being depreciated	$ 49,633,545	$ 6,044,338	$ (32,783,757)	$ 22,894,126
Utility plant being depreciated:				
Plant	$ 130,187,473	$ 27,574,159	$ (585,072)	$ 157,176,560
Equipment	7,016,062	2,599,122	(542,807)	9,072,377
Total utility plant being depreciated	$ 137,203,535	$ 30,173,281	$ (1,127,879)	$ 166,248,937
Less accumulated depreciation for:				
Plant	$ (40,506,663)	$ (3,861,690)	$ 760,502	$ (43,607,851)
Equipment	(2,579,562)	(211,169)	423,801	(2,366,930)
Salvage and Fiber	(118,993)	(27,912)	-	(146,905)
Total accumulated depreciation	$ (43,205,218)	$ (4,100,771)	$ 1,184,303	$ (46,121,686)
Total utility plant being depreciated, net	93,998,317	26,072,510	56,424	120,127,251
TOTAL UTILITY PLANT, NET	$ 143,631,862	$ 32,116,848	$ (32,727,333)	$ 143,021,377

2009	**1-Jan**	**Increase**	**Decrease**	**31-Dec**
Utility plant not being depreciated:				
Non-operating property	$ 61,203	$ -	$ -	$ 61,203
Land and land rights	749,446	-	-	749,446
Earthen impounding reservoir	12,380,257	-	-	12,380,257
Construction in progress	30,042,450	17,122,341	(10,722,152)	36,442,639
Total utility plant not being depreciated	$ 43,233,356	$ 17,122,341	$ (10,722,152)	$ 49,633,545
Utility plant being depreciated:				
Plant	$ 124,422,383	$ 7,290,511	$ (1,525,421)	$ 130,187,473
Equipment	6,281,292	764,400	(29,630)	7,016,062
Total utility plant being depreciated	$ 130,703,675	$ 8,054,911	$ (1,555,051)	$ 137,203,535
Less accumulated depreciation for:				
Plant	$ (38,634,898)	$ (4,019,467)	$ 2,147,702	$ (40,506,663)
Equipment	(2,416,903)	(185,632)	22,973	(2,579,562)
Salvage and Fiber	(84,175)	(36,051)	1,233	(118,993)
Total accumulated depreciation	$ (41,135,976)	$ (4,241,150)	$ 2,171,908	$ (43,205,218)
Total utility plant being depreciated, net	89,567,699	3,813,761	616,857	93,998,317
TOTAL UTILITY PLANT, NET	$ 132,801,055	$ 20,936,102	$ (10,105,295)	$ 143,631,862

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 reduced by the accumulated depreciation related to the property sold, and the net gain or loss on disposition is credited or charged against income.

An allowance for funds used during construction is capitalized as a part of the cost of utility plant. While cash is not received currently from such allowance, it is realized under the assessment and 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.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

Asset	Years
Structures and improvements	
(Treatment, pumping, transmission, and distribution)	50
Distribution mains, services, and meters	40
Intakes, wells, reservoirs, standpipes, and hydrants	30
Pumping equipment	20
General plant, furniture, tools, lab, and other equipment	10
Transportation and power-operated equipment	6.67

Initial depreciation on utility plant is recorded in the year subsequent to purchase/construction.

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.

The 2010 statements reflect asset retirements resulting from a 2011 inventory of capital assets, as well as retirement of assets that did not meet the District's capitalization threshold of $5,000. Retirements related to the results of the District's inventory of assets were $458,251. Retirements related to assets not meeting the District's capitalization threshold were $283,878. These amounts are considered immaterial to the District's financial statements taken as a whole. Additional adjustments may be made to the 2011 statements after the inventory process is completed. Total adjustments are expected to be immaterial.

NOTE 4 – CONSTRUCTION IN PROGRESS

Construction in progress represents expenses to date on projects whose authorizations total $18,619,413.

Construction in progress for 2010 was comprised of the following:

Project Description	Project Budget Authorization	Expended through 12/31/2010	Committed/ Remaining (Over)	Possible Future Financing
Judy to MV Trans Line	$ 7,269,000	$ 5,208,759	$ 2,060,241	$ -
Josh Wilson Rd, I-5 to Higgins Airport Way	5,441,980	205,312	5,236,668	4,687,000
Fredonia to I-5 Stage 2	1,600,000	1,360,626	239,374	-
Gilligan Intake 2009 Winter Storms	358,496	414,359	(55,863)	-
Fredonia to I-5 Stage 1	265,000	147,502	117,498	-
Washington St. to Skagit St.	249,000	225,478	23,522	-
Various other projects	3,435,937	2,145,953	1,289.984	-
Totals	$ 18,619,413	$ 9,707,989	$ 8,911,424	$4,687,000

Construction in progress for 2009 was comprised of the following:

Project Description	Project Budget Authorization	Expended through 12/31/2009	Committed/ Remaining (Over)	Possible Future Financing
WTP filters and expansion	$ 6,720,000	$ 6,282,087	$ 437,913	$ -
WTP control revisions	650,000	721,260	(71,260)	-
Skagit River Diversion	21,155,000	21,389,350	(234,350)	-
Judy to MV Trans Line	7,269,000	4,819,331	2,449,669	-
State Route 20 Fredonia	1,600,000	1,359,953	240,047	-
E College Way & Riverside	110,000	85,281	24,719	-
Gilligan Creek intake	358,496	225,508	132,988	-
Josh Wilson Road Prelim	180,000	187,174	(7,174)	-
Various other projects	3,437,596	1,372,695	2,064,901	-
Totals	$ 41,480,092	$ 36,442,639	$ 5,037,453	$ -

The Gilligan Intake project in 2010 is funded by federal and state grants, insurance proceeds, and revenues of the district. All other projects for the year ended 2010 are primarily funded by revenues of the district. In 2009, the additional Water Treatment Plant filters were funded by the State of Washington Public Works Trust Fund loans and revenues of the District. Per Note 6, the 2009 bonds were used for the Skagit River Diversion project and the Judy to Mount Vernon transmission line.

NOTE 5 – SHORT-TERM DEBT

During years 2010 and 2009, the District had no short-term debt, either new or continuing.

NOTE 6 – LONG-TERM DEBT AND LIABILITIES

Long-term Debt

The District's long-term debt at December 31, 2010 and 2009 are $26,538,546 and $29,027,190 respectively. The District's long-term debt is comprised of bonds and loans.

The District has one classification of secured bonds and those are the District's revenue/partial assessment publicly issued bonds. In October 2009, the district sold two issues of bonds: 2009A Bonds total $1,335,000, interest ranges from 2.75 to 4 percent, and matures in July 2016; and 2009B Bonds total $3,660,000 and require interest only payments until July 2017 when principal payments commence. Maturity is in July 2029. Interest ranges from 4.159 percent to 5.824 percent; however, a federal tax credit of 35 percent reduces the effective rate to 3.6 percent. Payments are due in January and July of each year. The proceeds from the 2009 bonds were used for the Skagit River Diversion project and the Judy to Mount Vernon transmission line.

The secured bonds classification also includes 2008 Water Revenue Bonds. The total outstanding at year end 2010 and 2009 are $5,915,000 and $6,555,000, respectively.

For the year 2010, net operating income, excluding depreciation, plus interest received on investments, exceeded the annual debt obligation of the District by a factor of 2.30 and therefore, complies with bond covenants requiring a minimum factor of 1.25. For the year 2009, the District's factor was 2.48.

There is $629,269 in restricted assets of the District as of December 31, 2010, of which $219,530 represent sinking funds and reserve requirements as contained in the various indentures. At December 31, 2009, restricted assets totaled $559,426, of which $429,182 represented sinking funds and reserve requirements.

In 2010, the Marblemount and the Bay View Bonds were paid in full.
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.

The schedules for first priority revenue/assessment bonds:

Water Revenue Refunding Bonds, 2008

Payment Date	Principal	Interest 3.5 to 4.25%	Total
	July 1	Jan 1/July 1	
2011	665,000	238,088	903,088
2012	690,000	214,813	904,813
2013	715,000	187,213	902,213
2014	745,000	158,613	903,613
2015	775,000	128,813	903,813
2016-2018	2,325,000	192,313	2,517,313
Total	$ 5,915,000	$ 1,119,853	$ 7,034,853

2009A Water Revenue Bonds

Payment Date	Principal	Interest 2.75 to 4.0%	Total
	July 1	Jan 1/July 1	
2011	185,000	45,700	230,700
2012	190,000	38,300	228,300
2013	200,000	30,700	230,700
2014	200,000	22,700	222,700
2015	210,000	17,200	227,200
2016	220,000	8,800	228,800
Total	$ 1,205,000	$ 163,400	$ 1,368,400

2009B Water Revenue Bonds

Payment Date	Principal	Interest 4.16 to 5.82%	Federal Tax Credit Pymt	Total
	July 1	Jan 1/July 1		
2011	-	202,901	(71,015)	131,886
2012	-	202,901	(71,015)	131,886
2013	-	202,901	(71,015)	131,886
2014	-	202,901	(71,015)	131,886
2015	-	202,901	(71,015)	131,886
2016-2020	955,000	954,231	(333,981)	1,575,250
2021-2025	1,395,000	631,322	(220,963)	1,805,359
2026-2029	1,310,000	194,230	(67,981)	1,436,249
Total	$ 3,660,000	$ 2,794,288	$ (978,000)	$ 5,476,288

In 2001, the District entered into a $10,000,000 loan agreement with the Public Works Trust Fund. Loan proceeds of $9,500,000 were received in May 2001, with the remaining $500,000 to be paid upon completion of the projects. Of the remaining amount, $400,000 was paid October 2009 and $100,000 was drawn in September 2010. The loan partially funds a source-replacement project for improvements and expansion to the District facilities, including the Skagit River Diversion and additional filters and improvements at the Water Treatment Plant. The loan has a 20-year repayment term with an interest rate of 0.5 percent.

Public Works Trust Fund 2001 Loan

Payment Date	Principal July 1	Interest 0.50% July 1	Total
2011	542,424	29,721	572,145
2012	542,424	27,121	569,545
2013	542,424	24,409	566,833
2014	542,424	21,697	564,121
2015	542,424	18,985	561,409
2016-2020	2,712,122	54,242	2,766,364
2021	542,424	2,712	545,136
Total	$ 5,966,666	$ 178,887	$ 6,145,553

In 2002, the District entered into a second $10,000,000 loan agreement with the Public Works Trust Fund. The original loan proceeds of $1,500,000 were received in June 2002. Additional payments of $8,000,000, $400,000, and $100,000 were drawn in May 2005, October 2009, and September 2010 respectively. The loan is partially funding a source-replacement project including improvements and expansion to District facilities, transmission lines, and control revisions at the Water Treatment Plant. The loan has a 20-year repayment term with an interest rate of 0.5 percent.

Public Works Trust Fund 2002 Loan

Payment Date	Principal July 1	Interest 0.50% July 1	Total
2011	562,494	33,637	596,131
2012	562,494	30,937	593,431
2013	562,494	28,125	590,619
2014	562,494	25,312	587,806
2015	562,494	22,500	584,994
2016-2020	2,812,473	70,312	2,882,785
2021-2022	1,124,989	8,437	1,133,426
Total	$ 6,749,932	$ 219,260	$ 6,969,192

In December 2001, the District received two loans from the Drinking Water State Revolving Fund to fund Skagit View Village LUD #27. The first, a $704,070 loan, financed the distribution system, and the second, for $64,619, funded corrosion control. Both loans carry interest rates of 1.5 percent and mature October 1, 2021.

Drinking Water State Revolving Fund Loan
Skagit View Village Distribution System LUD #27

Payment Date	Principal Oct 1	Interest 1.50% Oct 1	Total
2011	39,728	6,555	46,283
2012	39,728	5,959	45,687
2013	39,728	5,363	45,091
2014	39,728	4,767	44,495
2015	39,728	4,171	43,899
2016-2020	198,638	11,918	210,556
2021	39,728	596	40,324
Total	$ 437,006	$ 39,329	$ 476,335

Drinking Water State Revolving Fund Loan
Skagit View Village Corrosion Control LUD #27

Payment Date	Principal Oct 1	Interest 1.50% Oct 1	Total
2011	4,068	671	4,739
2012	4,068	610	4,678
2013	4,068	549	4,617
2014	4,068	488	4,556
2015	4,068	427	4,495
2016-2020	20,344	1,221	21,565
2021	4,068	61	4,129
Total	$ 44,752	$ 4,027	$ 48,779

In 2001, the District received a $1,803,360 loan from the Drinking Water State Revolving Fund to finance the Clearwell #3 project at the Water Treatment Plant. The original loan proceeds of $1,683,814.10 were received in October 2005. The remaining $119,545.90 was drawn in October 2006. The loan carries an interest rate of 1.5 percent and matures October 1, 2021.

Drinking Water State Revolving Fund Loan
Clearwell LUD #3

Payment Date	Principal Oct 1	Interest 1.50% Oct 1	Total
2011	106,520	17,576	124,096
2012	106,520	15,978	122,498
2013	106,520	14,380	120,900
2014	106,520	12,782	119,302
2015	106,520	11,185	117,705
2016-2020	532,595	31,956	564,551
2021	106,520	1,598	108,118
Total	$ 1,171,715	$ 105,455	$ 1,277,170

In 2002, the District received a $1,758,480 loan from the Drinking Water State Revolving Fund to finance construction of transmission lines. The original loan proceeds of $137,732.84 were received in October 2005. Additional payments of $1,239,203.68 and $381,543.48 were drawn in October 2007 and October 2008 respectively. The loan carries an interest rate of 1.5 percent and matures October 1, 2022.

Drinking Water State Revolving Fund Loan
Transmission Lines

Payment Date	Principal Oct 1	Interest 1.50% Oct 1	Total
2011	110,538	19,897	130,435
2012	110,538	18,239	128,777
2013	110,538	16,581	127,119
2014	110,538	14,923	125,461
2015	110,538	13,265	123,803
2016-2020	552,692	41,452	594,144
2021-2022	221,077	4,974	226,051
Total	$ 1,326,459	$ 129,331	$ 1,455,790

In February 2008, the District received a $77,520 loan from the Drinking Water State Revolving Fund to finance improvements to the Water Treatment Plant Controls. The loan carries an interest rate of 1.5 percent and matures October 1, 2022.

Drinking Water State Revolving Fund Loan
Water Treatment Plant Controls

Payment Date	Principal	Interest 1.50%	Total
	Oct 1	Oct 1	
2011	5,168	930	6,098
2012	5,168	853	6,021
2013	5,168	775	5,943
2014	5,168	698	5,866
2015	5,168	620	5,788
2016-2020	25,840	1938	27,778
2021-2022	10,336	233	10,569
Total	$ 62,016	$ 6,047	$ 68,063

SUMMARY OF LONG-TERM LIABILITIES

	Current Portion	Long-term Debt	Total
2008 Water Revenue Bonds	$ 665,000	$ 5,250,000	$ 5,915,000
2009A Water Revenue Bonds	185,000	1,020,000	1,205,000
2009B Water Revenue Bonds	-	3,660,000	3,660,000
2001 Public Works Trust Fund Loan	542,424	5,424,242	5,966,666
2002 Public Works Trust Fund Loan	562,494	6,187,438	6,749,932
DWSRF SVV LUD #27 Distribution Loan	39,728	397,278	437,006
DWSRF SVV LUD #27 Corrosion Loan	4,068	40,684	44,752
DWSRF Clearwell LUD #3 Loan	106,520	1,065,195	1,171,715
DWSRF Transmission Lines Loan	110,538	1,215,921	1,326,459
DWSRF WTP Control Revisions Loan	5,168	56,848	62,016
			-
Totals	$ 2,220,940	$24,317,606	$26,538,546

Changes in Long-Term Liabilities

During the year ended December 31, 2010, the following transpired in long-term liabilities:

	Beginning Balance 1/1/2010	Additions	Reductions	Ending Balance 12/31/2010	Due Within One Year
Revenue/Partial Assessment Bonds	$ 11,550,000	$ -	$ (770,000)	$ 10,780,000	$ 850,000
Assessment Debt	565,128	-	(565,128)	-	-
Total Bonds Payable:	$ 12,115,128	$ -	$ (1,335,128)	$ 10,780,000	$ 850,000
Public Works Trust Fund Loans	$ 13,604,093	$ 200,000	$ (1,087,495)	$ 12,716,598	$ 1,104,918
Drinking Water State Rev Fund Loans	3,307,969	-	(266,021)	3,041,948	266,022
Total Loans Payable:	$ 16,912,062	$ 200,000	$ (1,353,516)	$ 15,758,546	$ 1,370,940
Compensated Absences	$ 594,830	$ -	$ (38,233)	$ 556,597	$ 247,913
Total Long-term Liabilities	$ 29,622,020	$ 200,000	$ (2,726,877)	$ 27,095,143	$ 2,468,853

During the year ended December 31, 2009, the following transpired in long-term liabilities:

	Beginning Balance 1/1/2009	Additions	Reductions	Ending Balance 12/31/2009	Due Within One Year
Revenue/Partial Assessment Bonds	$ 7,205,000	$4,995,000	$ (650,000)	$11,550,000	$ 770,000
Assessment Debt	577,261	-	(12,133)	565,128	158,091
Total Bonds Payable:	$ 7,782,261	$4,995,000	$ (662,133)	$12,115,128	$ 928,091
Public Works Trust Fund Loans	$13,827,485	$ 800,000	$(1,023,392)	$13,604,093	$1,087,495
Drinking Water State Rev Fund Loans	3,573,993	-	(266,024)	3,307,969	266,020
Total Loans Payable:	$17,401,478	$ 800,000	$(1,289,416)	$16,912,062	$1,353,515
Compensated Absences	622,351	-	(27,521)	594,830	267,674
Total Long-term Liabilities	$25,806,090	$5,795,000	$(1,979,070)	$29,622,020	$ 2,549,280

NOTE 7 – LOCAL UTILITY DISTRICTS

The District receives annual installments on outstanding assessments, which have remaining terms ranging from 3 to 20 years. Outstanding assessment balances carry annual interest rates ranging from 1.75 to 7.25 percent. On eight LUDs (Cedargrove #10, Big Lake #16, Panorama #20, Big Rock #21, Alger #22, Stackpole/Cedardale Road #25, Skagit View #27 and Bay View #29,), there are 19 participants who are more than two years in arrears on their installment payments with a cumulative total of $69,763.74. At 2009 year end these same eight LUDs were more than two years delinquent. RCW 35.50.030 instructs that, where such delinquencies exist, the District "shall proceed" with foreclosure. The District presents a list of properties in arrears to the Commissioners in January of each year. The Commissioners review the documentation and refer the list to the District's attorney so that he can initiate proceedings. It is noted that there is minimal risk of collection on any LUD amounts since the LUD forms a lien on each individual property.

NOTE 8 – TELECOMMUNICATION SERVICES

The District provides wholesale telecommunications (fiber optic) services within the District to Diversint Inc, an Internet Service Provider (ISP), for resale. Service commenced in 2009. Revenue, expense, and capital investment activity for years 2010 and 2009 are as follows:

	2010	**2009**
Operating Revenues:		
Wholesale Fiber Services to ISP	$5,500	$6,009
Operating Expenses:		
Administration and General	$12,927	$7,882
Capital Investment:		
Current Year	$8,000	$444,372
Cumulative (since 2000)	$575,286	$567,286

NOTE 9 - RESTRICTED NET ASSETS

At December 31, 2010 and 2009, the District's statement of net assets reports restricted net assets of $629,269 and $559,426, respectively. None of the assets are restricted by enabling legislation.

NOTE 10 – PENSION PLAN

Substantially all (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; or it may be downloaded from the DRS website at www.drs.wa.gov. The following disclosures are made pursuant to GASB Statements No. 27, *Accounting for Pensions by State and Local Government Employers* and No. 50, *Pension Disclosures, an Amendment of GASB Statements No. 25 and No. 27*.

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 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 members 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 members 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. Notwithstanding, PERS Plan 2 and Plan 3 members may opt out of plan membership if terminally ill, with less than five years to live.

PERS Plan 1 and Plan 2 defined benefit retirement benefits are financed from a combination of investment earnings and employer and employee contributions. PERS retirement benefit provisions are established in Chapters 41.34 and 41.40 RCW and may be amended only by the State Legislature.

PERS Plan 1 members are vested after the completion of five years of eligible service. Plan 1 members are eligible for retirement 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 monthly benefit is 2 percent of the average final compensation (AFC) per year of service. (AFC is the monthly average of the 24 consecutive highest-paid service credit months.) The retirement benefit may not exceed 60 percent of AFC. The monthly benefit is subject to a minimum for PERS Plan 1 retirees who have 25 years of service and have been retired 20 years, or who have 20 years of service and have been retired 25 years. Plan 1 members retiring from inactive status prior to the age of 65 may receive actuarially reduced benefits. If a survivor option is chosen, the benefit is further reduced. A cost-of living allowance (COLA) is granted at age 66 based upon years of service times the COLA amount, which is increased 3 percent annually. Plan 1 members may also elect to receive an optional COLA that provides an automatic annual adjustment based on the Consumer Price Index. The adjustment is capped at 3 percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

PERS Plan 1 provides duty and non-duty disability benefits. Duty disability retirement benefits for disablement prior to the age of 60 consist of a temporary life annuity payable to the age of

60. The allowance amount is $350 a month, or two-thirds of the monthly AFC, whichever is less. The benefit is reduced by any workers' compensation benefit and is payable as long as the member remains disabled or until the member attains the age of 60. A member with five years of covered employment is eligible for non-duty disability retirement. Prior to the age of 55, the allowance amount is 2 percent of the AFC for each year of service reduced by 2 percent for each year that the member's age is less than 55. The total benefit is limited to 60 percent of the AFC and is actuarially reduced to reflect the choice of a survivor option. A cost-of living allowance is granted at age 66 based upon years of service times the COLA amount (based on the consumer Price Index), capped at 3 percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

PERS Plan 1 members can receive credit for military service while actively serving in the military, if such credit makes them eligible to retire. Members can also purchase up to 24 months of service credit lost because of an on-the-job injury.

PERS Plan 2 members are vested after the completion of five years of eligible service. Plan 2 members are eligible for normal retirement at the age of 65 with five years of service. The monthly benefit is 2 percent of the AFC per year of service. (AFC is the monthly average of the 60 consecutive highest-paid service months.)

PERS Plan 2 members who have at least 20 years of service credit and are 55 years of age or older are eligible for early retirement with a reduced benefit. The benefit is reduced by an early retirement factor (ERF) that varies according to age, for each year before age 65.

PERS Plan 2 members who have 30 or more years of service credit and are at least 55 years old can retire under one of two provisions:

- With a benefit that is reduced by 3 percent for each year before age 65.
- With a benefit that has a smaller (or no) reduction (depending on age) that imposes stricter return-to-work rules.

PERS Plan 2 retirement benefits are also actuarially reduced to reflect the choice, if made, of a survivor option. There is no cap on years of service credit; and a cost-of-living allowance is granted (based on the Consumer Price Index), capped at 3 percent annually.

The surviving spouse or eligible child or children of a PERS Plan 2 member who dies after leaving eligible employment having earned ten years of service credit may request a refund of the member's accumulated contributions. Effective
July 22, 2007, said refund (adjusted as needed for specified legal reductions) is increased from 100 percent to 200 percent of the accumulated contributions if the member's death occurs in the uniformed service to the United States while participating in Operation Enduring Freedom or Persian Gulf, Operation Iraqi Freedom.

PERS 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 monthly benefit that is 1 percent of the AFC per year of service. (AFC is the monthly average of the 60 consecutive highest-paid service months.)

Effective June 7, 2006, PERS 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 for normal retirement at age 65, or they may retire early with the following conditions and benefits:

- If they have at least ten service credit years and are 55 years old, the benefit is reduced by an ERF that varies with age, for each year before age 65.

- If they have 30 service credit years and are at least 55 years old, they have the choice of a benefit that is reduced by 3 percent for each year before age 65; or a benefit with a smaller (or no) reduction factor (depending on age) that imposes stricter return-to-work rules.

PERS Plan 3 defined benefit retirement benefits are also actuarially reduced to reflect the choice, if made, 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.

PERS Plan 3 defined contribution retirement benefits are solely dependent upon the results of investment activities.

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 Director of the Department of Retirement Systems.

PERS Plan 2 and Plan 3 provide disability benefits. There is no minimum amount of service credit required for eligibility. The Plan 2 monthly benefit amount is 2 percent of the AFC per year of service. For Plan 3, the monthly benefit amount is 1 percent of the AFC per year of service.

These disability benefit amounts are actuarially reduced for each year that the member's age is less than 65, and 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 (based on the Consumer Price Index) capped at 3 percent annually.
PERS Plan 2 and Plan 3 members may have up to ten years of interruptive military service credit; five years at no cost and five years that may be purchased by paying the required contributions. Effective July 24, 2005, a member who becomes totally incapacitated for continued employment while serving the uniformed services, or a surviving spouse or eligible children, may apply for interruptive military service credit. Additionally, PERS Plan 2 and Plan 3 members can also purchase up to 24 months of service credit lost because of an on-the-job injury.

PERS members may also purchase up to five years of additional service credit once eligible for retirement. This credit can only be purchased at the time of retirement and can be used only to provide the member with a monthly annuity that is paid in addition to the member's retirement benefit.

Beneficiaries of a PERS Plan 2 or Plan 3 member with ten years of service who is killed in the course of employment receive retirement benefits without actuarial reduction, if the member was not at normal retirement age at death. This provision applies to any member killed in the course of employment, on or after June 10, 2004, if found eligible by the Department of Labor and Industries.

A one-time duty-related death benefit is provided to the estate (or duly designated nominee) of a PERS member who dies in the line of service as a result of injuries sustained in the course of employment, or if the death resulted from an occupational disease or infection that arose naturally and proximately out of said member's covered employment, if found eligible by the Department of Labor and Industries.

There are 1,189 participating employers in PERS. Membership in PERS consisted of the following as of the latest actuarial valuation date for the plans of June 30, 2009:

Retirees and Beneficiaries Receiving Benefits	74,857
Terminated Plan Members Entitled to But Not Yet Receiving Benefits	28,074
Active Plan Members Vested	105,339
Active Plan Members Non-vested	53,896
Total	262,166

Funding Policy

Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates, Plan 2 employer and employee contribution rates, and Plan 3 employer contribution rates. Employee contribution rates for Plan 1 are established by statute at 6 percent for state agencies and local government unit employees, and at 7.5 percent for state government elected officials. The employer and employee contribution rates for Plan 2 and the employer contribution rate for Plan 3 are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. All employers are required to contribute at the level established by the Legislature. Under PERS Plan 3, employer contributions finance the defined benefit portion of the plan and member contributions finance the defined contribution portion. The Director of the Department of Retirement Systems sets Plan 3 employee contribution rates. Six rate options are available ranging from 5 percent 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 payroll, as of December 31, 2010, are as follows:

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

* The employer rates include the employer administrative expense fee currently set at 0.16%.
** The employer rate for state elected officials is 7.89% for Plan 1 and 5.31% for Plan 2 and Plan 3.
*** Plan 3 defined benefit portion only.
**** The employee rate for state elected officials is 7.50% for Plan 1 and 3.90% for Plan 2.
***** Variable from 5.0% minimum to 15.0% maximum based on rate selected by the PERS 3 member.

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

	PERS Plan 1	PERS Plan 2	PERS Plan 3
2010	$ 14,731.08	$199,856.38	$ 20,165.74
2009	$ 25,985.56	$284,810.78	$ 29,124.97
2008	$ 34,093.10	$295,866.23	$ 23,915.50

NOTE 11 – LAWSUITS AND CONTINGENCIES

The District's financial statements include all material liabilities. There are no material contingent liabilities to record.

In 2009, the District filed a lawsuit in Federal District Court seeking damages from the engineering firm responsible for the Skagit River Diversion project. In September 2010, a $1.3 million settlement agreement was paid to the District. See Note 15 – Special Item.

The District is also involved in ordinary and routine litigation incidental to its operations and believes the resolution of these matters will not materially affect the financial position of the District. In the opinion of management, the District's insurance policies are adequate to pay all known or pending claims.

The District participates in a number of federal and state-assisted programs. These grants are subject to audit by the grantors or their representatives. Such audits could result in requests for reimbursement to grantor agencies for expenditures disallowed under the terms of the grants. District management believes that such disallowances, if any, will be immaterial.

NOTE 12 – SUBSEQUENT EVENTS

The District has evaluated subsequent events through the report date. The District experienced damage to its Skagit River Pump Station cofferdam during the November 2006 severe storms and flooding event. At that time, the Federal Emergency Management Agency (FEMA) denied the District's request for assistance to repair the damage. In 2011, the District appealed the decision. FEMA has reversed its original decision and the District will be awarded $1,348,942. The funds are expected to be received in 2011.

In 2011, the District entered into a contract for new financial and customer billing software. The District has set aside a budget of $1 million for the project, excluding the cost of District labor related to implementation. The financial software is expected to be implemented in 2012 and the customer billing software in 2013.

NOTE 13 – RISK MANAGEMENT

The District is a member of the Public Utility Risk Management Services Self-Insurance Fund (PURMS). Chapter 48.62 RCW authorizes the governing body of any one or more governmental entities to form together into or join a pool or organization for the joint purchasing of insurance, and/or joint self-insuring, and/or joint hiring or contracting for risk management service to the same extent that they may individually purchase insurance, self insure, or hire or contract for risk management services. An agreement to form a pooling arrangement (Pool or Liability Pool) was made pursuant to the provisions of Chapter 54.16 RCW, and interlocal government agreements. The Pool was formed on December 31, 1976, when certain Public Utility Districts (PUDs) in the State of Washington joined together by signing an Agreement to pool their self-insured losses and jointly purchase insurance and administrative services. As of December 31, 2010 there were 19, 18, and 12 members in the Liability, Property, and Health & Welfare pools, respectively. For 2009 year end there were 19, 18, and 13 members in the Liability, Property, and Health & Welfare pools, respectively.

The Pool provides liability, property, and health and welfare insurance coverage for its members and their employees under an agreement entitled “PURMS Joint Self-Insurance Agreement” (SIA).

Liability Risk Pool

Under the SIA, from 1977 through 1995, the Liability Pool’s self-insured retention (or Liability Coverage Limit) was $500,000 per occurrence. Effective January 1, 1996, PURMS increased the Liability Coverage Limit to $1,000,000 per occurrence. This was the Coverage Limit in effect for 2010, and in effect as of December 31, 2010.

The Liability Pool is financed through assessments of its participating members (Liability Assessment) in accordance with the terms of the Liability General Assessment Formula. Liability Assessments are levied at the beginning of each calendar year to replenish the Liability Pool to the Designated Liability Pool Balance. In addition, Liability Assessments are levied at any time during the year that the actual Liability Pool Balance becomes $500,000 less than the Designated Liability Pool Balance. For 2010, the Designated Liability Pool Balance was $2,000,000. As a result, during 2009, the Liability Pool maintained cash reserves between $1,500,000 and $2,000,000 to pay for operating expenses and liability claims.

In November 2008, the PURMS Board approved an increase in the liability pool balance to $3,000,000. This will be affected by additional assessments of $165,000 for five years and $175,000 for the sixth year. The first assessment was due January 2009. The $3 million pool balance is expected to be achieved in 2011.

Property Risk Pool

PURMS provides property insurance coverage for its members participating in the Property Risk Pool in accordance with the terms of the SIA. Under the SIA, from its inception in 1997 to the present, the Property Pool has had a self-insured retention (or Property coverage Limit) of $250,000 per property loss.

At all times, PURMS maintains Excess Property Insurance for its members in the Property Pool. For 2010, the amount of the Excess Property Insurance was $150 million, with excess coverage attaching at the $250,000 Property Coverage Limit for all Property Losses except those subject to increased retention levels for certain property risks.

In accordance with Washington State regulatory requirements applicable to public entity risk pools, on an annual basis, PURMS engages an independent qualified actuary to determine the claim financing levels and liabilities for unpaid claims and claims adjustments expense for the Liability Pool. A copy of the Liability Pool Actuarial Report is provided to the Washington State Risk Manager and made available to the Washington State Auditor's Office.

Health & Welfare Risk Pool

PURMS provides health and welfare insurance coverage for the employees of each of its members participating in the Health & Welfare Risk Pool (H&W Pool) in accordance with the terms of the SIA and the terms of each member's respective coverage booklet provided to its employees. The H&W Pool was established as one of PURMS' risk pools effective March 31, 2000.

Under the H&W assessment formula, each month, each member of the H&W Pool is assessed for (a) the cost the H&W Pool incurred during the preceding month for the H&W claims for such member's employees; and (b) for such member's share of Shared H&W Costs. Shared H&W Costs are administrative expenses incurred by the H&W Pool, premiums for stop-loss insurance, PPO charges, and Shared H&W Claims.

The exposure of each H&W Pool Member to the H&W Claims Costs of its employees is limited by two different stop-loss points. The first is established annually by the Excess Stop-Loss Insurance that the H&W Pool acquires and maintains for its members. For 2010 the H&W Pool Individual Stop Loss Point was $200,000 per employee and the H&W Pool Aggregate Stop Loss Point was $12,032,316 for the combined H&W Claims Costs of the employees of members of the H&W Pool.

Each of PURMS risk pools is audited annually by the State Auditor's Office. In addition, as required by State regulations, PURMS provides quarterly financial reports to the State Risk Manager reflecting the claims and administrative expenses of the Risk Pools. Bi-annually, the State Risk Manager performs its own audit of PURMS' risk pools. There have been no settlements in excess of the District's insurance coverage in any of the three preceding years.

Unemployment Benefits

Unemployment benefits are provided by the District as a "reimbursable employer" with the Washington State Department of Employment Security. Unemployment compensation is paid to eligible individuals by the Washington State Department of Employment Security and the District is subsequently billed for actual costs. As a result, the District will experience periods of fluctuating costs, depending on the number and size of eligible claims each year. These costs are immaterial to the District's financial statements.

NOTE 14 –POST-EMPLOYMENT BENEFITS OTHER THAN PENSION BENEFIT

The District implemented Governmental Accounting Standards Board (GASB) 45 *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, prospectively, as of December 31, 2009.

Plan Description

In addition to the pension benefits described in Note 10, the District provides other post-employment benefits (OPEB), in accordance with RCW 41.04.208, to all employees who are vested members in the Public Employees Retirement System (PERS), who leave the employment of the District and are eligible to immediately receive benefits under PERS. This single-employer health and welfare benefit plan is provided through the Public Utility Risk

Management Services (PURMS). Commissioners who serve at least one six-year term and have been re-elected for a second term of office shall be eligible for coverage under this policy. Plan benefits for retirees are reduced upon eligibility for Medicare, regardless of whether or not Medicare enrollment occurs. The surviving spouse of a retiree who is covered at the time of the retiree's death may continue his/her coverage until the time of the surviving spouse's death. A new spouse to a surviving spouse is not eligible for this coverage. In the event of a divorce after retirement, the spouse of the retired employee will not be eligible to remain on the District's plan. COBRA benefits will be offered to the divorced spouse according to statutory regulations.

Funding Policy

The District establishes contribution requirements on an annual basis. As of December 31, 2010 and 2009, the District had sixteen and fifteen retirees, respectively, enrolled in the District's health and welfare plan. The premium charged to the retirees is based on the District's experience for all members of its health and welfare plan, as determined by the PURMS Self-Insurance Fund. Costs in excess of the retirees' contributions are covered by the District on a pay-as-you-go financing plan.

Annual OPEB Cost and Net OPEB Obligation

For both 2010 and 2009, the District's annual OPEB costs of $180,714 and $180,124 were greater than the required retiree contributions. The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2010 and 2009 were as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2010	$180,714	43.86%	$208.404
2009	$180,124	40.63%	$106,944
2008	n/a	n/a	n/a

Funded Status

As of December 31, 2009, the most recent actuarial valuation date, the plan was 0% funded. The accrued liability for benefits was $2.5 million, and the actuarial value of assets was $0, resulting in an Unfunded Actuarial Accrued Liability and Amortization (UAAL) of $2.5 million. Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

Valuation Date	12/31/2009
Actuarial Value of Assets	$ -
Actuarial Accrued Liability	$2,481,348
Unfunded Actuarial Accrued Liabilities (UAAL)	$2,481,348
Funded Ratio	0%
Covered Payroll	N/A
UAAL As A Percentage of Covered Payroll	N/A

Actuarial Methods and Assumptions
Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities, consistent with the long-term perspective of the calculations.

In the December 31, 2009 actuarial valuation, the Entry Age Normal Actuarial Cost method was used. The actuarial assumptions used included a 4.00% discount rate, which is based upon the long-term investment yield on the investments that are expected to be used to finance the payment of benefits. Claims costs were estimated using a weighted average of actual payments made by the District from January 1, 2008 through December 31, 2010. These were adjusted using an 8.3 percent annual medical trend.

The UAAL is being amortized on a closed basis at the assumed discount rate. The remaining amortization period at December 31, 2009 was 30 years.

Annual OPEB Cost and Net OPEB Obligation

		December 31, 2009		December 31, 2010
Determination of Annual Required Contribution				
Normal Cost at year end	$	97,412	$	97,412
Amortization of UAAL		82,712		82,712
Annual Required Contribution (ARC)	$	180,124	$	180,124
Determination of Net OPEB Obligation				
Annual Required Contribution	$	180,124	$	180,124
Interest on prior year Net OPEB Obligation		-		4,278
Adjustment to ARC		-		3,688
Annual OPEB Cost	$	180,124	$	180,714
Contribution made		73,180		79,254
Increase in Net OPEB Obligation	$	106,944	$	101,460
Net OPEB Obligation - beginning of year	$	-	$	106,944
Net OPEB Obligation - end of year	$	106,944	$	208,404

There is no corresponding liability reported on the financial statements because the amount is immaterial.

NOTE 15 – SPECIAL ITEM

In 2010, the District completed a large capital project (known as the Skagit River Diversion project) that began in 1999 and was put into use in late January 2010. The project was complex and included legal conflicts. In September 2010, the District received a $1.3 million settlement.

NOTE 16 –OTHER

Certain fiscal year 2009 balances have been reclassified, retitled, or combined with other financial statement line items for consistency with current year presentation. The changes are as follows:

- Accrued compensated absences were separated between current and non-current.
- Federal stimulus credit receivable was moved from restricted assets to current assets.
- Capital investment in telecommunication services for 2009, both current year and cumulative were revised (See Note 8 Telecommunication Services).
- Bond reserve and bond sinking fund were moved from restricted investments to restricted cash and cash equivalents.

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

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

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

The results of our work are widely distributed through a variety of reports, which are available on our Web site and through our free, electronic subscription service.

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

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