Washington State Auditor's Office

Financial Statements and Federal Single Audit Report

Tri-County Economic Development District

Audit Period
January 1, 2010 through December 31, 2010

Report No. 1006372

Issue Date
September 26, 2011

WASHINGTON
BRIAN SONNTAG
STATE AUDITOR

Washington State Auditor
Brian Sonntag

September 26, 2011

Board of Directors
Tri-County Economic Development District
Colville, Washington

Report on Financial Statements and Federal Single Audit

Please find attached our report on the Tri-County Economic Development District's financial statements and compliance with federal laws and regulations.

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

Sincerely,

BRIAN SONNTAG, CGFM
STATE AUDITOR

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Table of Contents

Tri-County Economic Development District
January 1, 2010 through December 31, 2010

Federal Summary

Tri-County Economic Development District
January 1, 2010 through December 31, 2010

The results of our audit of the Tri-County Economic Development District are summarized below in accordance with U.S. Office of Management and Budget Circular A-133.

FINANCIAL STATEMENTS

An unqualified opinion was issued on the financial statements of the governmental activities and each major fund.

Internal Control Over Financial Reporting:

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

- ***Material Weaknesses:*** We identified no deficiencies that we consider to be material weaknesses.

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

FEDERAL AWARDS

Internal Control Over Major Programs:

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

- ***Material Weaknesses:*** We identified no deficiencies that we consider to be material weaknesses.

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

We reported no findings that are required to be disclosed under section 510(a) of OMB Circular A-133.

Identification of Major Programs:

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

CFDA No.	Program Title
11.307	Public Works and Economic Development Cluster - Economic Adjustment Assistance

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

The District qualified as a low-risk auditee under OMB Circular A-133.

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

Tri-County Economic Development District
January 1, 2010 through December 31, 2010

Board of Directors
Tri-County Economic Development District
Colville, Washington

We have audited the financial statements of the governmental activities and each major fund of the Tri-County Economic Development District, Stevens County, Washington, as of and for the year ended December 31, 2010, which collectively comprise the District's basic financial statements, and have issued our report thereon dated August 31, 2011. During the year ended December 31, 2010, the District implemented Governmental Accounting Standards Board Statement No. 54 - *Fund Balance Reporting and Governmental Fund Type Definitions*.

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

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

A *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, the Board of Directors, federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

BRIAN SONNTAG, CGFM
STATE AUDITOR

August 31, 2011

Independent Auditor's Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133

Tri-County Economic Development District
January 1, 2010 through December 31, 2010

Board of Directors
Tri-County Economic Development District
Colville, Washington

COMPLIANCE

We have audited the compliance of the Tri-County Economic Development District, Stevens County, Washington, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on its major federal program for the year ended December 31, 2010. The District's major federal program is identified in the Federal Summary. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, the District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2010.

INTERNAL CONTROL OVER COMPLIANCE

The management of the District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the District’s internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

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

This report is intended for the information of management, the Board of Directors, federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

BRIAN SONNTAG, CGFM
STATE AUDITOR

August 31, 2011

Independent Auditor's Report on Financial Statements

Tri-County Economic Development District
January 1, 2010 through December 31, 2010

Board of Directors
Tri-County Economic Development District
Colville, Washington

We have audited the accompanying financial statements of the governmental activities and each major fund of the Tri-County Economic Development District, Stevens County, Washington, as of and for the year ended December 31, 2010, which collectively comprise the District's basic financial statements as listed on page 9. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Tri-County Economic Development District, as of December 31, 2010, and the respective changes in financial position, and the respective budgetary comparison for the General Fund and Loan Fund, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1, during the year ended December 31, 2010, the District implemented Governmental Accounting Standards Board Statement No. 54 - *Fund Balance Reporting and Governmental Fund Type Definitions*.

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

The management's discussion and analysis on pages 10 through 14 and budgetary comparison information on page 34 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. This schedule is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

BRIAN SONNTAG, CGFM
STATE AUDITOR

August 31, 2011

Financial Section

Tri-County Economic Development District
January 1, 2010 through December 31, 2010

TRI COUNTY ECONOMIC DEVELOPMENT DISTRICT

Management Discussion and Analysis

This section of Tri County Economic Development District's financial report presents a narrative overview and analysis of the financial activities of the District for the fiscal year ending December 31, 2010. Please read it in conjunction with the District's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- Total assets for the District increased by $252,738, a 4.6 % increase from prior year.
- The District finalized the sales of all the remaining foreclosure properties held for resale in 2010.
- The District completed major renovation and remodel (capital expenditure of $227,792) of an existing building which it now occupies along with additional tenants.
- The District continued to experience decreases in State and Federal grant awards during the course of the fiscal year.
- The District's lending programs continue to see healthy increases in loan activity with few collections and write offs.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements are comprised of three components: 1) government-wide financial statements; 2) fund financial statements; and 3) notes to financial statements. In addition to the basic financial statements, this report also contains required and other supplemental information.

1) Government wide financial statements – The government-wide financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

- The Statement of Net Assets presents information on the District's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.
- The Statement of Activities presents information showing how the District's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods (e.g. uncollected grant reimbursements and earned but unused vacation leave).

Both the government-wide financial statements distinguish functions of the District that are principally supported by grants and contracts. The governmental activities of the District are considered economic environment in nature e.g. economic development, transportation planning, technical and financial assistance for businesses.

2) Fund financial statements – A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The District only maintains governmental funds.

- Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government–wide financial statements, governmental funds financial statements focus on near-term inflows and outflows of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both of the Governmental Funds Balance Sheet and the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances provide a reconciliation to facilitate this comparison between governmental funds and government activities.

The District maintains two governmental funds. Information is presented separately in the Governmental Funds Balance Sheet (Generally Accepted Accounting Principles - GAAP) and in the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances (GAAP) for the General and Loan Funds, which are considered the major funds.

The District adopts an annual appropriated budget for both funds. A Budgetary Comparison Statement has been provided for these funds to demonstrate compliance with the budget.

3) Notes to financial statements – The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Supplementary information – This Management Discussion and Analysis and the schedules represent financial information which provides to the users of the report additional data that supplements the government-wide statements, funds financial statements, and notes.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of the government's financial position. In the case of the District, assets far exceeded liabilities by $5,722,290. A condensed version of the Statement of Net Assets is seen below and it compares the governmental activities for fiscal years 2009 and 2010. While the results of fiscal year 2010 governmental activities show a very small positive overall percentage increase, a number of factors contributed to the variances of the restricted, unrestricted and investment in capital assets.

The increase in capital assets investment is the direct result of the remodel of our Southtown incubator building; subsequently, the loss of unrestricted assets is due to this same remodel and the cost of the move into the new location. An additional reason for the change in unrestricted assets is due to the cost overrun incurred in the completion of the Coordinated Public Transit Human Services Plan.

The apparent increase in current liabilities is due to a balloon payment that is due in August 2011. This balloon payment also accounts for a large part of the reduction in long term liabilities.

The increase in restricted net assets resulted from program income in excess of administration expenses experienced within the Loan Fund.

TRI COUNTY ECONOMIC DEVELOPMENT DISTRICT				
Statement of Net Assets				
	Governmental Activities		**2010 Change**	
	2009	**2010**	**Amount**	**Percent**
ASSETS				
Current and other assets	$6,377,194	$6,354,017	-$23,177	-.4 %
Capital assets	1,112,516	1,308,317	195,801	17.6 %
Total assets	**$7,489,710**	**$7,662,334**	**$172,624**	**2.3 %**
LIABILITIES				
Current and other liabilities	$152,217	$311,473	$159,256	104.6%
Long-term liabilities outstanding	1.867,941	1.628,571	-239,370	-12.8%
Total liabilities	**$2,020,158**	**$1.940,044**	**-$80,114**	**-4.0%**
NET ASSETS				
Invested in capital assets, net of related debt	$970,078	$1,177,294	$207,216	21.4%
Restricted	4,300,423	4,476,117	175,694	4.1%
Unrestricted	199,051	68,879	-130,172	-65.4%
Total net assets	**$5,469,552**	**$5,722,290**	**$252,738**	**4.6%**

TRI COUNTY ECONOMIC DEVELOPMENT DISTRICT				
Changes in Net Assets				
	Governmental Activities		**2010 Change**	
	2009	**2010**	**Amount**	**Percent**
REVENUES				
Program Revenue				
Charges of services	$385,535	$422,250	$36,715	9.5%
Grants and contributions	555,102	380,840	-174,262	-31.4%
Capital grants and contributions	0	183,000	183,000	100.0%
General Revenue				
Investment Interest	17,971	6,938	-11,033	-61.4%
Total Revenues	**$958,608**	**$993,028**	**$34,420**	**3.6%**
EXPENDITURES				
Economic Environment	$890,816	$706,236	-$184,580	-20.7%
Interest on long-term debt	31,421	29,465	-1,956	-6.2%
Total Expenditures	**$922,237**	**$735,701**	**-$186,536**	**-20.2%**
Gain on sale of foreclosure property	0	414	414	100.0%
Write off expense	-12,007	-5,003	7,004	-58.3%
CHANGES IN NET ASSETS	**$24,364**	**$252,738**	**$228,374**	**937.3%**
NET ASSETS – DECEMBER 31	**$5,469,552**	**$5,722,290**	**$252,738**	**4.6%**

Restricted funds are restricted by legal or contractual requirements and unrestricted are those which are not restricted or invested in capital assets.

GOVERNMENT FUNDS FINANCIAL ANALYSIS

As noted earlier, the District uses fund accounting to ensure and demonstrate compliance with finance related legal requirements. The District's basic operations are reported in the General Fund. The District's Revolving Loan Fund activities are reported in the Loan Fund. Governmental fund information helps to determine whether there are more or less financial resources that can be spent in the near future to finance the District's programs and/or services.

In 2010, the District followed the generally accepted accounting principles and implemented Government Accounting Standard Board (GASB) Statement 54. These financial statements use the five new fund balance categories: non-spendable, restricted, committed, assigned and unassigned. Attention to detail was given and additional information can be found in the financial statements under Note I (E-12).

Overall revenue changes are a result of the termination of the USDA/ Rural Development Five Star Community Enterprise grant and a one-time injection of Stevens County financial assistance earmarked for the remodel of the current office location.

Overall expenditure change is the direct result of the loss of the Five Star Program.

BUDGETARY HIGHLIGHTS

The District did not overspend its legal spending authority for Fiscal Year 2010.

- General Fund - The District did three budget amendments in 2010. Because the original budget was completed in October 2009, the budgeted beginning fund balance was adjusted to reflect unspent capital outlays in fiscal year 2009. Intergovernmental revenues were increased by the aforementioned unexpected funds from Stevens County earmarked for the adjustment of expenditures to capital improvements. The miscellaneous revenues were decreased by the Intrafund transfers for program rents which accounts for the corresponding adjustment in Intrafund transfers and other services and charges.
- Loan Fund – There was one budget change to account for a minor line item adjustment.

CAPITAL ASSETS AND LONG-TERM DEBT ACTIVITY

- Capital Assets – The investment in capital assets includes land, three buildings and other improvements and equipment. The District does not have any intangible assets to report. The investment in capital assets in 2010 amounted to $227,792. Additional information on the District's capital assets can be found in the financial statements under Note V.

  The remaining foreclosure properties reported in the 2009 financials that were held for resale were sold in 2010 at a small gain.

- Long-Term Debt - The District has long term debt for both the General Fund and the Loan Fund. The District has a note on one of the facilities owned by the District. The current year principal and interest payments from the General Fund were $22,519 of which $11,102 is interest. The balance of this loan is $131,023 at the end of 2010. This loan does have a balloon payment due in 2011.

  The Loan Fund principal and interest payments totaled $126,600. In 2010 the interest paid by the Loan Fund was $18,363 and the principal paid was $108,237. These amounts represent the total principal and interest paid on four separate notes for funds used to capitalize the USDA Intermediary Lending Program. Detailed information on the District's long-term debt is found in financial note VIII.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

In the coming year, management will continue to work with the Board on a number of key challenges that face the District.

- Additional cuts are forecasted in both State and Federal grants.
- After approval of the 2011 budget, personnel changes resulted in two key vacant positions. Management continues to analyze the personnel structure taking into account increased workloads and further potential funding reductions.
- A continued depressed economy may affect the District's ability to fill unoccupied rental suites.
- The three counties in the District continue to experience double-digit unemployment rates which have previously shown an increase in the demand for potential start up businesses that can lead to loans that carry a higher risk for the lending program and an increased demand in business training.

Contacting the District

The financial report is designed to provide a general overview of the District's finances and to show the District's accountability for the money it receives. If you have any questions about this report, contact the District's Finance Manager or the Executive Director at 986 South Main, Suite A, Colville, WA 99114 or at (509) 684-4571.

TRI COUNTY ECONOMIC DEVELOPMENT DISTRICT
STATEMENT OF NET ASSETS
DECEMBER 31, 2010

	Governmental Activities
ASSETS	
Cash and Cash Equivalents	0
Petty Cash	4,000
Investments	2,614,203
Receivables (Net)	3,531,094
Due From Other Governments	76,076
Foreclosed Property Held For Resale	0
Restricted Assets-Investments For Bad Debt Expense	128,644
Total Current Assets	**6,354,017**
Capital Assets (Not Being Depreciated)	
Land	249,028
Capital Assets (Net of Accumulated Depreciation)	
Buildings	1,054,644
Improvements Other Than Buildings	1,413
Machinery and Equipment	3,232
Total Capital Assets	**1,308,317**
TOTAL ASSETS	**7,662,334**
LIABILITIES	
Accounts Payable	49,287
Damage Deposits	3,000
Deferred Credits	2,925
Compensated Absences	16,585
Liabilities Payable From Restricted Assets:	
Due Within One Year	239,676
Due In More Than One Year	1,628,571
TOTAL LIABILITIES	**1,940,044**
NET ASSETS	
Invested In Capital Assets, Net Of Related Debt	1,177,294
Restricted For:	
Loan Loss / Bad Debt	211,774
Loan Purposes	4,264,343
Unrestricted	68,879
TOTAL NET ASSETS	**5,722,290**

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

TRI COUNTY ECONOMIC DEVELOPMENT
Statement of Activities
Year Ended December 31, 2010

		Program Revenues			Net (Expense) Revenue and Changes in Net Assets
			Operating	Capital Grants	
		Charges	Grants and	and	Governmental Activities
Functions/Programs	**Expenses**	**for Services**	**Contributions**	**Contributions**	**Total**
PRIMARY GOVERNMENT:					
Governmental Activities					
Economic Environment	$706,236	$422,250	$380,840	$183,000	$279,854
Interest on Long-Term Debt	$29,465				($29,465)
TOTAL GOVERNMENTAL ACTIVITIES	**$735,701**	**$422,250**	**$380,840**	**$183,000**	**$250,389**

General Revenues:	
Unrestricted Investment Interest	$6,938
Contributions not restricted to Specific Items	$0
Special Items:	$0
Gain on Sale of Foreclosure Property	$414
Insurance Recoveries	$0
Recovery of Bad Debt	$0
Writeoffs	($5,003)
Transfers	$0
Extrodinary Items:	
Total General Revenues, Extraordinary, Special Items, and Transfers	$2,349
Change in Net Assets	**$252,738**
Net Assets Beginning	$5,469,552
Net Assets Ending	$5,722,290

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

TRI COUNTY ECONOMIC DEVELOPMENT DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
December 31, 2010

	Governmental Fund Types		
Assets	**General Fund**	**Loan Fund**	**Total Governmental Funds**
Cash			0
Petty Cash	3,000	1,000	4,000
Cash in Transit			0
Temporary Investments, At Cost	60,585	2,682,262	2,742,847
Foreclosed Property Held for Resale			0
Customer Accounts (Net of Allowance for Doubtful Accounts)	1,532	3,529,562	3,531,094
Notes / Contracts Receivable			0
Due From Other Fund	46,776		46,776
Due From Other Government Units	75,517	559	76,076
Long Term Receivables			0
Total Assets	**187,410**	**6,213,383**	**6,400,793**
Liabilities			
Due To Other Funds		46,776	46,776
Vouchers Payable	8,313	42	8,355
Salaries Payable	31,471		31,471
Benefits Payable	7,364		7,364
Revenue Received in Advance	2,925		2,925
Accrued Leave Payable	2,097		2,097
Customer Deposits	3,000		3,000
Total Liabilities	**55,170**	**46,818**	**101,988**
Fund Balances			
Non-Spendable		3,196,837	3,196,837
Restricted	3,000	2,969,728	2,972,728
Unassigned	129,240		129,240
Total Fund Balance	**132,240**	**6,166,565**	**6,298,805**
Total Liabilities and Fund Balance	**187,410**	**6,213,383**	**6,400,793**

Amounts reported for governmental activities in the statement of net assets are different bacause of balances in government funds	6,298,805
Capital assets used in governmental activities are not financial resources and therefore not reported in the funds.	1,308,317
Some liabilities, including long term payables are not due and payable in the current period and therefore are not reported in the fund.	-1,884,832
Net Assets of governmental activiites.	5,722,290

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

TRI COUNTY ECONOMIC DEVELOPMENT DISTRICT

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED DECEMBER 31, 2010

	General Fund	Loan Fund	Total
REVENUES			
Intergovernmental Services	549,841		549,841
Charges for Services	12,650		12,650
Miscellaneous Revenue	103,218	327,320	430,538
Total Revenues	**665,709**	**327,320**	**993,029**
EXPENDITURES			
Current:			
Economic Development	653,210	6,044	659,254
Debt Service:			
Principal	11,417	108,237	119,654
Interest	11,102	18,363	29,465
Capital Outlay	227,792		227,792
Total Expenditures	**903,521**	**132,644**	**1,036,165**
Excess (Deficiency) of Revenues over Expenditures	-237,812	194,676	-43,136
OTHER FINANCING SOURCES (USES)			
Transfers In	137,135		137,135
Recovery of Write off			0
Gain in Sale of Foreclosed Property Held		414	414
Transfers Out		-137,135	-137,135
Insurance Recovery			0
Inter-local Agreements	-17,485		-17,485
Write Offs		-5,003	-5,003
Total Other Financing Sources and Uses	**119,650**	**-141,724**	**-22,074**
Net Changes in Fund Balance	**-118,162**	**52,952**	**-65,210**
Fund Balance Beginning	**250,402**	**6,113,613**	**6,364,015**
Fund Balances - Ending	**132,240**	**6,166,565**	**6,298,805**

*The reconciliation of the net changes in fund balances of government funds to the change in net assets in the statement of activities is presented below:

Net change in Fund balances - total governmental funds	(65,210)
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures.	227,791
However in the statement of activities, the cost of those assets is allocated over their estimated useful life as depreciation expense. The current year depreciation expense is:	(31,991)
Governmental funds report debt payments as expenditures.	
Current Year Debt Payment General and Loan Fund	119,654
Decrease (Increase) in Accrued Leave	2,494
Change in net assets of governmental activities	252,738

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

TRI COUNTY ECONOMIC DEVELOPMENT DISTRICT

NOTES TO THE FINANCIAL STATEMENTS
JANUARY 1, 2010 THROUGH DECEMBER 31, 2010

NOTE I - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Tri County Economic Development District (TEDD) have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The significant accounting policies are described below. TEDD reports in conformity with GASB 34 since 2005.

A. Reporting Entity

TEDD is a governmental agency organized to assist and carry out various community and economic development programs under grants received from various agencies of federal, state and local governments.

TEDD was formed under authority of Washington State law, Chapter 39.34 RCW, known as the Inter-local Cooperative Act. The Acceptance of these grants requires compliance with prescribed grant conditions and other special requirements. As required by the generally accepted accounting principles the financial statements present TEDD as the primary government.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of inter-fund activity has been removed from these statements. Governmental activities which normally are supported by taxes and/or intergovernmental revenue are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Our policy is to allocate indirect costs to a specific function or segment. Program revenues include 1) member dues, charges to clients or applicants who use or directly benefit from services provided by a specific function or segment, rental income derived from the incubator and 2) grants and contributions that are restricted to meeting the operational or capital requirements for a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate fund financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. The Loan Fund is considered a major individual governmental fund and is reported in a separate column in the fund financial statement.

Grants and interest associated within the current period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available when cash is received by the District.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, TEDD considers revenues to be available if they are collected within 120 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

The district reports the following major governmental funds:

- General Fund - this is the general operating fund of TEDD and is used to account for all financial resources of the general government, except those required to be accounted for in another fund.

- Loan Fund - this fund accounts for revenues derived from specific grants, loan interest payments, late fees, and investment interest which are designated to finance the loan programs. This fund is reported as a special revenue fund.

D. Budgetary Information

1. Scope of Budget

Annual appropriated budgets are adopted for both the General and the Loan fund on the GAAP basis of accounting. Budgets are adopted at the fund level.

Appropriations for general and special revenue funds lapse at year-end.

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year end are reported as reservation of fund balances and do not constitute expenditures or liabilities because the commitments will be re-appropriated and honored during the subsequent year.

2. Amending the Budget

The budget is adopted by TEDD's Governing Board, any revisions that alter the total expenditures of a fund, or that affect the number of authorized employee positions, salary ranges, hours, or other conditions of employment must be approved by the governing board.

When the Board determines that it is in the best interest of the district to increase or decrease the appropriation for a particular fund it may do so by resolution according to the by-laws which require a public meeting.

The budget amounts shown in the financial statements are the final authorized amounts as revised during the year.

The financial statements contain the original/final budget information. The original budget is the first complete appropriated budget. The final budget is the original budget adjusted by all reserves, transfers, allocations, supplemental appropriations, and other legally authorized changes applicable for the fiscal year.

In 2010, the TEDD Board approved three budget revisions for the General Fund and one budget revision for the Loan Fund.

E. Assets, Liabilities, Fund Balance, Net Assets or Equities

1. Cash and Equivalents

TEDD deposits all receipts with the Stevens County Treasurer. It is the policy of TEDD to invest all temporary cash surpluses with the County Treasurer. On December 31, 2010, TEDD had all its cash invested totaling $2,742,847. The General fund and the Loan fund have $3,000 and $1,000 in petty cash/advance travel respectively.

2. Temporary Investments

See Deposits and Investments Note IV.

3. Receivables

Customer accounts receivable consist of amounts owed from private individuals or organizations for dues or services including amounts owed for which billings have not been prepared.

4. Amounts Due To and From other Funds and Governmental Units

These accounts include amounts due to or from other governments for grants, entitlements, dues, interest earned on investments, and charges for services. Amounts due to and from other funds are representative of tracking activities between funds. A separate schedule of Inter-fund receivables and payables are furnished in Interfund Balances and Transfers Note XII. Any expenditure not directly related to a specific loan is paid by the general fund and charged back to the loan fund.

5. Inventories

Inventories in governmental funds consist of expendable supplies held for consumption. The cost is recorded as expenditure at the time individual inventory items are purchased. Ending inventories of materials and supplies were not sufficient in the governmental funds to be material and were not recorded.

6. Restricted Assets and Liabilities

These accounts contain the resources for the bad debt reserve for the loan program excluding EDA. The restricted asset of the Loan fund balance is in the amount of $211,774. The current portion of related liabilities is shown as Payables from Current Restricted Assets. Specific debt service reserve requirements are described in Changes in Long-Term Liabilities Note X.

7. Capital Assets

See Capital Assets Note V.

Capital assets, which include property, plant, equipment, and infrastructure assets, are reported in the applicable governmental column in the government-wide financial statements. Capital assets are defined by the district as assets with an initial, individual cost of more than $5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased and constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Costs for additions or improvements to capital assets are capitalized when they increase the effectiveness or efficiency of the asset.

The cost for normal maintenance and repairs are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

Property, plant and equipment of the primary government are depreciated using the straight line method over the following estimated useful lives:

ASSETS	**YEARS**
Improvements	7
Buildings	40
Equipment	5

8. Compensated Absences

Compensated absences are absences for which employees will be paid, such as vacation and sick leave. All vacation and sick pay is accrued when incurred in the government-wide financial statements.

Vacation pay, which may be accumulated up to 30 days, is payable upon resignation, retirement or death. Upon retirement or death up to 24 days of sick leave will be paid. The compensated absences liability consists of $8,708 and $7,877 of vacation and sick leave respectively.

9. Other Accrued Liabilities

These consist of accrued wages and accrued employee benefits.

10. Long-Term Debt

See Long-Term Note VIII.

11. Deferred Revenues

This account includes amounts recognized as receivables but not revenues in governmental funds because the revenue recognition criterion has not been met.

12. Fund Balance Classifications

The Governmental Accounting Standards Board (GASB) Statement 54 requires local governments to focus on the constraints imposed upon resources when reporting fund balance in governmental funds. The new fund balance classifications will indicate the level of constraints placed upon how resources can be spent and identify the sources of those restraints.

Constraints are broken down into five different classifications:

- Non-spendable – consists of resources that are not spendable in form. For example, prepaid expenses or the corpus of an endowment.
- Restricted – consists of amounts that are restricted by an external source. For example, federal or state grants, Gas Tax, Impact fees, REET or Hotel Motel Tax.
- Committed – consists of amounts that have a constraint placed by the governing body. For example, property tax committed to street fund by specific resolution or ordinance.
- Assigned – consists of amounts that are decisions by management to use for a specific purpose. For example, the residual amount in special revenue, debt service and capital project funds.
- Unassigned - represents the residual amount for the government's general fund.

13. Fund Balance Details

The following fund balance details are available to show how the District is bound to honor the constraints for specific fund balance purposes as of December 31, 2010.

- Non-spendable – The District's non-spendable funds are the long term portion of the loan receivable contracts.
- Restricted – The District's restricted funds are comprised of incubator damage deposits (required by law to be held in trust) and the entire loan fund balance minus its non-spendable portion. The loan fund is a special revenue fund and the use of its resources is contractually limited for the sole purpose of operating the Rural Opportunities Loan Fund program.
- Unassigned – This represents the residual amount for the District's general fund.

NOTE II - RECONCILIATION OF GOVERNMENT WIDE & FUND FINANCIAL STATEMENTS

A. Explanation of Certain Differences between the Governmental Funds Balance Sheet and the Government-Wide Statement of Net Assets:

The governmental funds' balance sheet includes reconciliation between fund balance - total governmental funds and net assets-governmental activities as reported in the government-wide statement of net assets.

Loans receivable on the balance sheet are listed as Customer accounts (Net of allowance for doubtful accounts).

B. Explanation of Certain Differences between the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances and the Government Wide Statement of Activities:

The governmental funds' statement of revenues, expenditures, and changes in fund balances includes reconciliation between net changes in fund balances- total governmental funds and changes in net assets of governmental activities as reported in the government wide statement of activities

NOTE III - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

There have been no material violations of finance-related legal or contractual provisions, and there have been no expenditures exceeding legal appropriations.

NOTE IV - DEPOSITS AND INVESTMENTS

All deposits and investments of TEDD are made with the Stevens County Treasurer, who complies with Washington State laws. Investments are administered and managed by the County Treasurer, who invests in the Washington State Investment Pool. Investments are carried at cost. The districts deposits are entirely covered by federal depository insurance (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (PDPC).

As of December 31, 2010, TEDD had the following Investments in the Washington State Investment Pool:

GENERAL FUND	LOAN FUND	TOTAL
$60,585	$2,682,262	$2,742,847

NOTE V - CAPITAL ASSETS

Capital assets activity for the year ended December 31, 2010 is as follows:

GOVERNMENTAL ACTIVITIES	BEGINNING BALANCE 01/01/2010	INCREASES	DECREASES	ENDING BALANCE 12/31/2010
Capital Assets, not being depreciated:				
Land	$249,028			$249,028
Capital Assets, being depreciated:				
Buildings	$1,135,118	$227,792		$1,362,910
Improvements (not buildings)	$53,619			$53,619
Equipment	$8,079			$8,079
Total Capital Assets being depreciated	$1,196,816	$227,792		$1,424,608
Less Accumulated Depreciation for:				
Buildings	($ 280,713)		($27,553)	($308,266)
Improvements (not buildings)	($49,383)		($2,823)	($52,206)
Equipment	($3,232)		($1,615)	($4,847)
Total Accumulated Depreciation	($ 333,328)		**($31,991)	($365,319)
Total Capital Assets, being depreciated, Net	$863,488	$227,792	($31,991)	$1,059,289
Governmental Activities Capital Assets, Net	$1,112,516	$227,792	($31,991)	$1,308,317

Note: The $31,991 decrease includes the 2010 depreciation amount of $35,355 and prior years correction was made for $3,364.

The District does not have any intangible assets to report.

NOTE VI - PENSION PLANS

Substantially all of TEDD's full-time and qualifying part-time employees participate in one of the following statewide retirement systems administered by the Washington State Department of Retirement Systems, under cost-sharing multiple-employer public employee defined benefit and defined contribution retirement plans. The Department of Retirement Systems (DRS), a department within the primary government of the State of Washington, issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for each plan. The DRS CAFR may be obtained by writing to the Department of Retirement Systems, Communications Unit, P.O. Box 48380, Olympia, WA 98504-8380 or may be downloaded from the DRS website at www.drs.wa.gov. The following disclosures are made pursuant to GASB Statements 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) Plan 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 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. Participants 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. Notwithstanding, PERS Plan 2 and Plan 3 members may opt out of Plan membership if terminally ill, with less than 5 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 State Legislature.

PERS Plan 1 members are vested after the completion of 5 years of eligible service. Plan 1 members are eligible for retirement after 30 years of service, or at age 60 with 5 years of service, or at age 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 by 3 percent annually. Plan 1 members may also elect to receive an optional COLA amount 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 time 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.

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 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 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 b 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.

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 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 as of June 30, 2009:

Retirees & 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**

<u>Funding Policy:</u>

Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates, Plan 2 employer and employee contribution rates, and Plan 3 employer contribution rates. Employee contribution rates for Plan 1 are established by statute at 6 percent for state agencies and local government unit employees, and 7.5 percent for state government elected 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. The methods used to determine the contribution requirements are established under state statue 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 TEDD and the employees made the required contributions. The district's required contributions for the year ended December 31 were as follows:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
2010	0	$ 9,928	$4,544
2009	0	$10,318	$8,226
2008	0	$10,980	$8,415

NOTE VII - RISK MANAGEMENT

The district has two insurance policies with American States Insurance Company. One is a commercial Fire, Liability, Property, Crime, and Auto policy and the other is an Umbrella policy. The Deductible on the Commercial policy is $1,000 for fire, property, and auto and a $500 deductible for crime. The District has not had any significant settlements exceeding coverage in the past three years. In June 2008, the District purchased a Directors and Officers insurance policy from Arch Insurance. Due to an endorsement which held a lending exclusion, the District chose not to renew the policy with Arch Insurance. A search is being conducted for other available Director/Officer insurance which does not incorporate a lending exclusion.

NOTE VIII - LONG-TERM DEBT

Utilizing a loan and matching grant, the District purchased incubator buildings in 2001. The corresponding loan term is ten years, at an adjustable interest rate which is currently 7.98% and a scheduled balloon payment in 2011 of approximately $156,000 in the contract. However, a principal buy down was done resulting in a decrease to the balloon payment. The balloon is now estimated at

$119,000. The principal balance on this loan at the end of 2010 is $131,023. At the end of 2010, there are no options for the loan refinance, but the District's management continues to vigorously investigate refinancing the loan.

In addition to the above mentioned EDA match loan funds, the District loan program has four (4) loans from USDA Rural Development. The loans range in size from $300,000 to $1,000,000. These loans are 30-year loans with a one percent interest rate. The maturity dates range from 2021 to 2028. The balance for all four (4) loans at the end of 2010 is $1,737,225.

Loans currently Outstanding are as follows:

LOAN DESCRIPTION	MATURITY DATE	INTEREST RATE	ORIGINAL AMOUNT	ANNUAL
IRP Revolving Loan Proceeds #2	2021	1%	$300,000	$12,735
IRP Revolving Loan Proceeds #3	2023	1%	$1,000,000	$41,700
IRP Revolving Loan Proceeds #5	2026	1%	$1,000,000	$42,450
IRP Revolving Loan Proceeds #7	2028	1%	$700,000	$29,715
KEY BANK Purchase Incubator Buildings	2011	7.98%	$225,000	$131,023

The Annual debt service requirements to maturity for loans are as follows:

YEAR	PRINCIPAL	INTEREST
2011	$239,676	$24,656
2012	$110,239	$16,360
2013	$111,344	$15,256
2014	$112,415	$14,185
2015	$113,587	$13,013
2016-2020	$585,368	$47,632
2021-2025	$466,347	$19,020
2025-2028	$129,271	$2,171
TOTALS	**$1,868,247**	**$152,293**

NOTE IX - LEASES

Operating Leases:

TEDD leases an office building in Republic, Washington under a not cancelable year to year operating lease. Total cost for such lease was $5,400 for the year ending December 31, 2010.

NOTE X – CHANGES IN LONG-TERM LIABILITIES

Changes in Long-Term Liabilities:

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

GOVERNMENTAL ACTIVITIES	BEGINNING BALANCE 01/01/2010	ADDITIONS	REDUCTIONS	ENDING BALANCE 12/31/2010	DUE WITHIN 1 YEAR
Loans	$1,987,901		$119,654	$1,868,247	$239,676
Compensated Absences	$19,079		$2,494	$16,585	
TOTALS	$2,006,980		$122,148	$1,884,832	$239,676

NOTE XI - CONTINGENCIES AND LITIGATION

TEDD has recorded in its financial statements all material liabilities. There are no material contingent liabilities to record.

TEDD 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. The District's Management believes that such disallowances, if any, will be immaterial.

NOTE XII - INTERFUND BALANCES AND TRANSFERS

Intrafund transactions involve movement of dollars between programs within a fund as a way of tracking costs and revenues between programs. This is not reflected in the financial statements. They are for managerial purposes only.

Interfund transactions are administrative costs for the loan fund paid out of the general fund and reflected in the fund financial statements as operating transfers in and out.

A. Interfund Balances

Interfund balances at December 31, 2010 were as follows:

DUE TO	DUE FROM
General Fund	Loan Fund
$46,776	$46,776

B. Interfund Transfers

Interfund transfers at December 31, 2010 were as follows:

TRANSFER TO	TRANSFER FROM
General Fund	Loan Fund
$137,135	$137,135

NOTE XIII - RECEIVABLE AND PAYABLE BALANCES

A. Receivables:

Receivables at December 31, 2010 were as follows:

	CUSTOMER ACCOUNTS	DUE FROM OTHER GOVERNMENTS	LOANS	TOTAL
Governmental Activities	$1,532	$76,076	$332,725	$410,333
Amounts not scheduled for collection during the subsequent year			$3,196,837	$3,196,837

The amount reflected in the table above for loans is the amount of long term receivables shown in the loan fund. TEDD operates a revolving loan program, which has been funded by three federal agencies. They are the U.S. Department of Commerce/Economic Development Administration, the U.S. Department of Agriculture/Rural Development, and the U.S. Department of Housing and Development.

Financial Statements – Money received from these agencies is recorded as loan proceeds when received. When a loan is made, it is recorded on the Balance Sheet as a long-term loan receivable and is reported on the Statement of Net Assets as a long-term receivable.

New Loans, Loan Restructuring and Cancellations/Write Offs – The loan advisory committee approves the loans to be made, restructured and/or written off. Beginning in 2008, the loan officer was charged with presenting the monthly activity to the full Board of Directors. In October of each year, the Committee Chair gives a yearly review to the Board and requests approval by resolution to recertify the loan fund.

Bad Debt – restricted Cash and Investments. This amount is in reserve to replace loan principal including any expenditure that may be needed for the loan to be written off. This allows the District to maintain a constant money supply (cash flow) to make new loans. This is set at 6% of loans outstanding an all loan funds with the exception of the EDA revolving loan fund which does not allow the reservation of cash. In the EDA program TEDD reserves/restricts fund balance only.

A. Payables:

Payables at December 31, 2010 were as follows:

	VENDORS	SALARIES & BENEFITS	TOTAL
Governmental Activities	$8,355	$40,932	$49,287

Note XIV – TERMINATION BENEFITS

In 2010 the District entered into a separation agreement and release for one employee that was to equal three months salary subject to all lawful deductions. December 2010 payroll included, December payroll with benefits, plus accrued and unused vacation, plus an additional two month's severance pay. All of these liabilities were recognized and recorded in these 2010 financial statements.

Note XV - OTHER DISCLOSURES

A. <u>Subsequent Events</u>

As mentioned under Note VII Risk Management, the District continued to search for other carriers who would insure the District Directors & Officers without a lending exclusion. The District did find RSUI who would provide this coverage; however the yearly premium went from $3,292 with Arch to $5,050 with RSUI and the retention from loss changed from $5,000 to $7,500 respectively. The District did sign the contract and the policy coverage began on January 1, 2012.

As mentioned under Note VIII Long Term Debt, the due date for the Key Bank loan balloon payment was scheduled for August 1, 2011. The District continued to search for contract terms and conditions that would be acceptable to refinance the remaining balance. At the end of the 2010 the District had still not found a carrier; however, in late March 2011, Key Bank is willing to proceed with a new loan contract under terms and conditions that are considered acceptable to the Board of Directors. The loan is for $132,000 which includes the closing costs and at a fixed interest rate at the time of closing (currently at 4.72%) to be amortized over 120 months with a set monthly payment (currently estimated to be $1,382.00). This loan is for the sole purpose of continuance of the incubator expansion program.

TRI COUNTY ECONOMIC DEVELOPMENT DISTRICT
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED DECEMBER 31, 2010

General Fund	Original Budget	Final Budget	Actuals	
Fund Balance At January 1	**186,840**	**250,402**	**250,402**	
Resources (inflows):				
Intergovernmental Revenues	413,756	600,777	549,840	Note 1
Private Sources	12,000	12,000	12,650	
Interest Received	500	275	268	
Miscellaneous	140,980	101,249	102,949	
Transfers (Intra Fund)	0	32,564		Note 2
Transfers (inter Fund)	140,515	140,515	137,135	
Amount Available for Appropriation	**707,751**	**887,380**	**802,842**	
Changes to Appropriations (outflows):				
Salary & Wages	279,066	285,250	284,958	
Personnel Benefits	89,201	91,585	90,803	
Supplies	7,570	14,245	11,964	
Other Services and Charges	335,278	305,795	252,407	Note 3
Intergovernmental Services	14,000	13,080	13,078	
Intergovernmental Agreements (Projects)	10,000	17,485	17,485	
Debt Payment	22,525	22,520	22,519	
Capital Outlays	50,000	227,795	227,792	Note 1
Transfers (Intra Fund)	0	32,564		Note 2
Total Changes to Appropriations	**807,640**	**1,010,319**	**921,006**	
Fund Balance At December 31	**86,951**	**127,463**	**132,238**	

Loan Fund	Original Budget	Final Budget	Actuals	
Fund Balance At January 1	**0**	**0**	**6,113,613**	
Resources (inflows):				
Interest Received	279,615	279,615	292,860	
Miscellaneous	27,500	27,500	34,461	
Recovery of Bad Debt / Loan Modifications	300,000	300,000		Note 4
Gain on Foreclose Property			414	Note 4
Amount Available for Appropriation	**607,115**	**607,115**	**327,735**	
Changes to Appropriations (outflows):				
Supplies	0	0	0	
Other Services and Charges	40,000	38,000	4,554	
Intergovernmental Services	0	2,000	1,490	
Debt Payment	126,600	126,600	126,600	
Transfers (Inter Fund)	140,515	140,515	137,135	
Write Offs			5,003	
Total Changes to Appropriations	**307,115**	**307,115**	**274,782**	
Fund Balance At December 31	**300,000**	**300,000**	**6,166,566**	

Notes:

The District did three budget adjustments in the General Fund and one budget adjustment in the Loan Fund in 2010.

Note 1: The District requested and was approved for .09 funds from the County to do an incubator building remodel.

Note 2: The District budgets for intrafund transfers but they are not reflected on the fund statements.

Note 3: The District budgeted $52,000 for an earmarked grant which has now been delayed until fiscal year 2011.

Note 4: The District budgeted for Recovery of foreclsoure property that was reflected on balance sheet.

TRI COUNTY ECONOMIC DEVELOPMENT DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2010

Schedule 16

Federal Agency Name/ Pass-Through Agency Name	Federal Program Name/Title	CFDA Number	Other Identification Number/Information	Expenditures			Notes
				From Pass-Through Awards	From Direct Awards	Total	
U.S. Department of Agriculture - Forest Service	Rural Development, Forestry and Communities	10.672	USDA/USFS Cost Sharing Agreement (AmeriCorp)		$5,000	$5,000	1 & 2
U.S. Department of Agriculture - Rural Development	Rural Business Enterprise Grants	10.769	USDA Rural Business Enterprise Grant for Newport Business Park		$34,794	$34,794	1 & 2
U.S. Department of Commerce - Economic Development Administration	Economic Development Support for Planning Organizations	11.302	07-83-06369-01 EDA		$65,047	$65,047	1 & 2
U.S. Department of Commerce - Economic Development Administration	Economic Adjustment Assistance	11.307	07-39-02713 EDA RLF		$1,125,070	$1,125,070	1 & 4
U.S. Department of Housing & Urban Development - Pass-through Washington State Department of Commerce	Community Development Block Grant	14.228	01-97-733-001 & 96-745-091 Micro & Business Loans	$98,640		$98,640	1 & 3
Department of Transportation Federal Transit Administration - Pass-through Washington State Department of Transportation	Capital Assistance Program for Elderly Persons & Persons with Disabilities	20.513	FTA/WSDOT Coordinated Human Services Transportation Plan	$30,000		$30,000	1 & 2
TOTAL OF FEDERAL AWARDS EXPENDED				**$128,640**	**$1,229,911**	**$1,358,551**	

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

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR YEAR ENDED DECEMBER 31, 2010

NOTE 1 - BASIS OF ACCOUNTING

The Schedule of Expenditures of Federal awards is prepared on the same basis of accounting as the District's financial statements. TEDD uses Governmental Accepted Accounting Principles (GAAP) for all funds represented on this schedule.

NOTE 2 - PROGRAM COSTS

The amounts shown as current year expenditures represent only the federal portion of program costs. Entire program costs, including the District's portion, are more than shown.

NOTE 3 – COMMUNITY DEVELOPMENT BLOCK GRANT REVOLVING LOAN-PROGRAM INCOME

The District has a revolving loan program for business and micro loans. Under this federal program, repayments to the District are considered program revenues (income) and loans of such funds to eligible recipients and administration costs are considered expenditures. The amount of loan funds disbursed to program participants for the year was $82,500 and the administrative expense was $16,140 totaling $98,640 and is presented in this schedule. The amount of principal and interest received in loan repayments for the year was $61,426.

Note 4 – ECONOMIC ADJUSTMENT ASSISTANCE REVOLVING LOAN-PROGRAM INCOME

The District received $600,000 from prior year's Economic Development Administration grants and provided its own matched funds in the amount of $200,000 for a total of $800,000. These moneys were the basis for a revolving loan fund. The amount presented in this schedule is the 75% of the amount of outstanding loans, administrative expenses, current year write offs and the cash and investments held at year end. The amount of loans funds disbursed to program participants was $390,000 and the amount of write offs for this fiscal year was $5,003. These totals are included in the schedule. The amount of principal and interest received in loan repayments for the year was $187,671.

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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