Washington State Auditor's Office

Financial Statements Audit Report

Three Rivers Regional Wastewater Authority

Cowlitz County

Audit Period

January 1, 2010 through December 31, 2011

Report No. 1009322

Issue Date

March 18, 2013

WASHINGTON
TROY KELLEY
STATE AUDITOR

Washington State Auditor
Troy Kelley

March 18, 2013

Board of Appointed Representatives
Three Rivers Regional Wastewater Authority
Longview, Washington

Report on Financial Statements

Please find attached our report on the Three Rivers Regional Wastewater Authority's financial statements.

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

Sincerely,

Troy X. Kelley

TROY KELLEY
STATE AUDITOR

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Cowlitz County
January 1, 2010 through December 31, 2011

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Three Rivers Regional Wastewater Authority
Cowlitz County
January 1, 2010 through December 31, 2011

Board of Appointed Representatives
Three Rivers Regional Wastewater Authority
Longview, Washington

We have audited the basic financial statements of the Three Rivers Regional Wastewater Authority, Cowlitz County, Washington, as of and for the years ended December 31, 2011 and 2010, and have issued our report thereon dated February 13, 2013.

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 Authority'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 Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority'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 Authority'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 Authority's financial statements are free of material misstatement, we performed tests of the Authority'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 Appointed Representatives. 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.

Troy X. Kelley

TROY KELLEY
STATE AUDITOR

February 13, 2013

Independent Auditor's Report on Financial Statements

Three Rivers Regional Wastewater Authority
Cowlitz County
January 1, 2010 through December 31, 2011

Board of Appointed Representatives
Three Rivers Regional Wastewater Authority
Longview, Washington

We have audited the accompanying basic financial statements of the Three Rivers Regional Wastewater Authority, Cowlitz County, Washington, as of and for the years ended December 31, 2011 and 2010, as listed on page 5. These financial statements are the responsibility of the Authority'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 the Three Rivers Regional Wastewater Authority, as of December 31, 2011 and 2010, 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 Authority'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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 6 through 10 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during the audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Troy X. Kelley

TROY KELLEY
STATE AUDITOR

February 13, 2013

Financial Section

Three Rivers Regional Wastewater Authority
Cowlitz County
January 1, 2010 through December 31, 2011

REQUIRED SUPPLEMENTARY INFORMATION

BASIC FINANCIAL STATEMENTS

Three Rivers Regional Wastewater Authority (TRRWA) discussion and analysis is intended to serve as an introduction and overview of the utility's basic financial statements for the fiscal years ended December 31, 2011 and 2010. TRRWA's financial statements include the basic financial statements and the notes to the financial statements.

TRRWA is a special purpose government that is a discretely presented component unit of Cowlitz County. The Authority provides treatment of wastewater from the Cities of Longview and Kelso, Beacon Hill Water and Sewer District and Cowlitz County.

Overview of the financial statements

Condensed financial position information

The statement of net assets presents information concerning TRRWA's assets, liabilities and net assets. Net assets are the difference between assets and liabilities. Increases or decreases in net assets may indicate, over time, if either the financial position of TRRWA is improving or deteriorating.

The following condensed financial information provides an overview of TRRWA's financial position for the years ended December 31, 2011, 2010 and 2009.

NET ASSETS
December 31, 2011, 2010,and 2009

	2011	2010	2009
Assets:			
Current and other assets	$ 11,313,697	$ 10,405,220	$ 11,165,267
Capital assests, net	67,561,363	70,873,481	72,749,740
Total Assets	78,875,060	81,278,701	83,915,007
Liabilities:			
Other liabilities	610,571	776,916	653,878
Long-term liabilities	42,080,272	48,528,641	52,174,937
Total Liabilities	42,690,843	49,305,557	52,828,815
Net Assets:			
Invested in capital assets, net of related debt	25,660,568	25,439,540	23,701,797
Restricted for debt purposes	5,391,364	5,385,927	5,567,224
Unrestricted	5,132,285	1,147,677	1,817,171
Total Net Assets	$ 36,184,217	$ 31,973,144	$ 31,086,192

Both assets and liabilities decreased between 2011 and 2010. Capital assets decreased 5% or $4 million due to depreciation of assets exceeding additions. Debt decreased 13% with payment of normal debt service and payment of a $2.9 million loan to Cowlitz County during 2011. Cash increased nearly $1 million or 12% between 2011 and 2010. This was due to significant system development fees collected during 2011.

Assets and liabilities both decreased between 2010 and 2009. Debt decreased 7% as long term debt payments were made in 2010, with no additional debt incurred. Capital assets decreased 4% or $3 million due to depreciation of assets exceeding additions.

At December 31, 2011, total net assets were $36 million, an increase of 13% over 2010. This resulted from the $4.2 million system development fees collected in 2011. The 2010 total net assets were $32.0 million, a slight decrease of over $270,000 (less than one percent). The 2009 total net assets were $32.2 million, an increase in TRRWA's financial position of nearly $1.9 million (6%). Overall, TRRWA's position is holding steady.

At December 31, 2011, 2010 and 2009, the net assets restricted for debt purposes are $5.4 million, $5.4 million and $5.6 million, respectively. This decrease occurred in the amount reserved for rate stabilization. The net assets restricted for debt purposes should continue to increase as TRRWA sets aside reserves to meet bond coverage requirements.

Unrestricted net assets represent the amount that may be used to meet the Authority's ongoing non-capital obligations. At the end of the current fiscal year, TRRWA reported unrestricted net assets of $5.1 million, which is a increase of $4 million. Again, this is a result of the $4.2 million system development fee earned in 2011.

At the end of 2010, TRRWA reported unrestricted net assets of $1.1 million, which is a decrease of $700,000. This is due to use of unrestricted cash for debt and capital outlays.

Summary of operations and changes in net assets

The statement of revenues, expenses and changes in fund net assets shows how TRRWA's net assets changed during the most recent fiscal year. These changes are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, some revenues and expenses reported in this statement will only affect future period cash flows (e.g. uncollected receivables).

CHANGE IN NET ASSETS

	2011	2010	2009
Revenues			
Operating revenues	$ 8,517,952	$ 8,259,909	$ 8,347,588
Non-operating revenues			
Interest revenue	14,140	21,942	72,153
Miscellaneous revenue	11,885	10,691	1,802
Total revenues	8,543,977	8,292,542	8,421,543
Expenses			
Operating expenses	6,737,314	6,565,091	5,764,942
Non-operating expenses			
Loss on disposal of assets	11,129	211,018	
Interest expense	1,548,200	1,656,558	1,837,453
Amortization of debt expense	213,059	217,888	218,225
Total expenses	8,509,702	8,650,555	7,820,620
Excess or deficiency before contributions	34,275	(358,013)	600,923
Capital Contributions	4,176,798	85,989	95,776
Change in net assets	4,211,073	(272,024)	696,699
Net asssets - January 1	31,973,144	31,086,192	30,389,493
Prior period adjustment	-	1,158,976	-
Net assets-December 31	$ 36,184,217	$ 31,973,144	$ 31,086,192

Operating revenue for TRRWA decreased 1% between 2010 and 2009, whereas, it increased nearly 3% between 2011 and 2010. Between 2011 and 2010; and 2010 and 2009, operating expenses have increased 3% and 14%, respectively. This is due to a 5% and 56% increase in depreciation during 2011 and 2010. Other operating expenses remained fairly stable.

Interest revenues continue to decrease with the rate of return of investments and use of cash for capital projects. Interest expense continues to decrease as principal balances on long-term debt is paid down.

At December 31, 2011, TRRWA presented operating income of $1.8 million. This is an over $85,000 increase from 2010. Operating revenues are increasing at a similar rate than operating expenses in 2011.

At December 31, 2010, TRRWA presented operating income of $1.7 million, an $800,000 decrease over 2009. Revenues remained fairly stable, but depreciation expense doubled.

Notes to the basic financial statements

The notes to the basic financial statements can be found on pages 9-21 of this report. These notes provide additional information that is essential to a full understanding of the basic financial statements.

Capital Assets and Debt Administration

Capital Assets

TRRWA's total investment in capital assets (net of accumulated depreciation) including construction work in progress at December 31, 2011 and 2010 totals $67.0 and $70.9 million, respectively. The Authority's investment in capital assets includes land, buildings, utility systems, machinery and equipment and construction in progress. The total decrease in investment in capital assets for the current year was five percent. During 2011, minor assets were completed. The decrease resulted from depreciating assets at a higher rate than asset additions. During 2010, the North Plant Clarifier Project was completed, moving from Construction in progress to Buildings and Systems. Major capital asset events during 2009 include completion of the Biosolids Project and continued construction of the North Plant Clarifier.

CAPITAL ASSETS, NET
December 31, 2011, 2010 and 2009

	2011	2010	2009
Land	$ 586,540	$ 586,540	$ 586,540
Buildings and Systems	66,656,658	69,829,762	63,720,758
Machinery and Equipment	196,106	231,525	256,263
Construction in progress	122,059	225,654	8,186,179
	$ 67,561,363	$ 70,873,481	$ 72,749,740

Detailed information on the changes in capital assets is presented in the notes to financial statements, Note 5.

Long-Term Debt

TRRWA has $41.9 million in long-term debt outstanding at December 31, 2011 consisting of:

Revenue Refunding Bonds Payable	$19.6 million
Due to Primary Govt. Cowlitz County	11.5 million
Notes Payable to other governments	10.8 million

TRRWA has $48.3 million in long-term debt outstanding at December 31, 2010 consisting of:

Revenue Refunding Bonds Payable	$21.6 million
Due to Primary Govt. Cowlitz County	15.0 million
Notes Payable to other governments	11.7 million

The debt of the TRRWA is paid from revenues collected from the users consisting of the Cities of Longview and Kelso, Beacon Hill Water and Sewer District and Cowlitz County. All of the debt is issued for capital purposes.

Additional information on TRRWA's long-term debt can be found in Note 4 of this report.

Economic Outlook

The TRRWA has a positive economic outlook. There are no capacity issues that would currently require future expansion. The TRRWA will be undergoing Phase II of a study to collect data to determine if there is a need for future expansion related to more complex treatment of wastewater. Based on the draft study of Phase I, it is not expected that an expansion will be required. Additionally, the current rates support the operations and debt service requirements of the Authority.

Requests for Information

The financial report is designed to provide a general overview of Three Rivers Regional Wastewater Authority's finances for all those with an interest in the entity's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Three Rivers Regional Wastewater Authority, 207 4th Avenue North, Kelso, WA 98626.

Three Rivers Regional Wastewater Authority
A Discretely Presented Component Unit of Cowlitz County, Washington
Comparative Statement of Net Assets
December 31, 2011 and 2010

	2011	2010
Assets		
Current assets		
Cash, cash equivalents and pooled investments	$ 3,783,481	$ 2,819,595
Accounts receivable	12,858	-
Inventory	301,291	-
Due from other governments	70,159	232,661
Interest receivable	-	1,525
Prepaid items	25,700	23,608
Total current assets	4,193,489	3,077,389
Noncurrent assets:		
Restricted cash, cash equivalents and pooled investments	5,391,364	5,385,927
Deferred charges (debt expense)	1,728,844	1,941,904
Capital assets		
Land	586,540	586,540
Depreciable assets, net of accumulated depreciation	66,852,764	70,061,287
Construction in progress	122,059	225,654
Total noncurrent assets	74,681,571	78,201,312
Total assets	78,875,060	81,278,701
Liabilities		
Current liabilities		
Accounts payable	49,396	230,500
Accrued interest payable	384,638	408,657
Due to other governments	88,787	53,466
Other accrued liabilities	87,752	84,293
Notes payable - current	906,057	966,794
Revenue bonds payable - current	2,062,456	1,987,456
Notes payable - due to primary government - current	598,895	578,895
Total current liabilities	4,177,981	4,310,061
Long-term liabilities		
Notes payable	9,888,046	10,794,103
Revenue bonds payable - net	17,522,617	19,585,074
Notes payable - due to primary government - net	10,922,724	14,466,144
Employee leave benefits	179,475	150,175
Total long-term liabilities	38,512,862	44,995,496
Total liabilities	42,690,843	49,305,557
Net Assets		
Invested in capital assets net of related debt	25,660,568	25,439,540
Restricted, for debt purposes	5,391,364	5,385,927
Unrestricted	5,132,285	1,147,677
Total net assets	$ 36,184,217	$ 31,973,144

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

Three Rivers Regional Wastewater Authority
A Discretely Presented Component Unit of Cowlitz County, Washington
Comparative Statement of Revenues, Expenses
And Changes in Net Assets

For The Year Ended December 31, 2011 and 2010

	2011	2010
Operating revenues		
Charges for services	$ 8,517,952	$ 8,259,909
Total operating revenues	8,517,952	8,259,909
Operating expenses		
Personal services	1,886,117	1,749,670
Supplies	349,046	523,846
Other services and charges	1,088,344	1,049,460
Depreciation	3,413,807	3,242,115
Total operating expenses	6,737,314	6,565,091
Operating income (loss)	1,780,638	1,694,818
Non-operating revenues (expenses)		
Interest revenue	14,140	21,942
Interest expense	(1,548,200)	(1,656,558)
Amortization of debt expenses	(213,059)	(217,888)
Miscellaneous revenue	11,885	10,691
Gain(loss) on disposal of fixed assets	(11,129)	(211,018)
Total non-operating revenues (expenses)	(1,746,363)	(2,052,831)
Operating income (loss) before contributions	34,275	(358,013)
Capital Contributions - System development fees	4,176,798	85,989
Change in net assets	4,211,073	(272,024)
Net assets January 1	31,973,144	31,086,192
Prior Period Adjustment	-	1,158,976
Net assets, December 31	$ 36,184,217	$ 31,973,144

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

Three Rivers Regional Wastewater Authority
A Discretely Presented Component Unit of Cowlitz County, Washington
Comparative Statement of Cash Flows
For The Year Ended December 31, 2011 and 2010

		2011		2010
Cash flows from operating activities				
Cash received from customers	$	8,667,596		8,100,380
Cash payments to suppliers for goods and services		(1,775,431)		(1,484,854)
Cash payments to employees for services		(1,853,358)		(1,782,351)
Miscellaneous revenue		11,885		10,691
Net cash provided by operating activities		5,050,692		4,843,866
Cash flows from noncapital financing activities				
Net cash provided by noncapital financing activities		-		-
Cash flows from capital and related financing activities				
Acquisition and construction of capital assets		370,306		(365,081)
System development fees & hookup fees		4,176,798		85,989
Principal paid on bonds and loans		(6,336,319)		(3,472,651)
Interest paid on borrowing		(1,713,570)		(1,815,927)
Net cash used for capital and related financing activities		(3,502,785)		(5,567,670)
Cash flows from investing activities				
Interest on investments		15,667		22,503
Net cash provided (used) by investing activities		15,667		22,503
Net increase (decrease) in cash and cash equivalents		1,563,574		(701,301)
Cash and cash equivalents, January 1		8,205,522		8,906,823
Cash and cash equivalents, December 31	$	9,769,096	$	8,205,522
Reconciliation to statement of net assets				
Cash, cash equivalents and pooled investments		3,783,481		2,819,595
Restricted cash, cash equivalents and pooled investments, non-current		5,391,364		5,385,927
Cash and cash equivalents, December 31	$	9,174,845	$	8,205,522
Reconciliation of operating income to net cash provided (used) by operating activities				
Operating income (loss)		1,780,638		1,694,818
Adjustments to reconcile operating income to net cash provided (used) by operating income				
Depreciation		3,413,807		3,242,115
(Increase) decrease in accounts receivable		(12,858)		5,418
(Increase) decrease in due from other governments		162,502		(164,947)
(Increase) decrease in prepaid expense		(2,092)		(175)
Increase (decrease) in accounts payable		(181,104)		80,565
(Increase) decrease in inventories		(301,291)		-
Increase (decrease) in due to other governments		35,321		8,062
Increase (decrease) in other accrued liabilities		32,759		(32,681)
Miscellaneous revenues and adjustments		123,010		10,691
Total adjustments		3,270,054		3,149,048
Net cash provided by operating activities	$	5,050,692	$	4,843,866

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Three Rivers Regional Wastewater Authority (TRRWA) conform to generally accepted accounting principles (GAAP) as applicable to proprietary funds of governments. The TRRWA has not elected to apply Financial Accounting Standards Board (FASB) guidance issued after November 30, 1989. FASB guidance issued prior to December 1, 1989 generally are followed to the extent those standards do 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.

A. REPORTING ENTITY

Three Rivers Regional Wastewater Authority (TRRWA) is a municipal corporation governed by a four-member board. The Three Rivers Regional Wastewater Authority was established February 15, 1972 under the Interlocal Cooperation Act (RCW 39.34) between the City of Longview, City of Kelso, Beacon Hill Water and Sewer District and Cowlitz County. It was initially organized under the title “Cowlitz Sewer Operating Board” (CSOB) until 2005 when the board authorized a change in name only. The four-member board consists of appointees from the Cities of Longview and Kelso, Beacon Hill Water and Sewer District, and Cowlitz County. The Authority provides treatment of wastewater from the Cities of Longview, Kelso, and Beacon Hill Water and Sewer District and Cowlitz County. The Authority is considered a component unit of Cowlitz County. The County has a financial burden as it is obligated for some of the Authority’s debt. Services provided do not exclusively benefit Cowlitz County; therefore, TRRWA is presented as a discretely presented component unit of Cowlitz County’s financial statements.

B. BASIS OF ACCOUNTING AND PRESENTATION

The accounting records of TRRWA are maintained in accordance with methods prescribed by the State Auditor under the authority of Chapter 43.09 RCW.

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

The TRRWA distinguishes between operating and non-operating revenues and expenses. Operating revenues and expenses result from providing services and producing and delivering goods in connection with the Authority’s principal ongoing operations. TRRWA’s operating revenues are derived from treatment of wastewater. Operating expenses include the direct expenses of treatment of wastewater and the general and administrative expenses of the Authority as a whole. The TRRWA accounts for all other revenue and expense as non-operating. Items included as non-operating include bond interest expense and interest revenue.

C. ASSETS, LIABILITIES AND NET ASSETS

Deposits & Investments

The TRRWA's cash and cash equivalents are considered to be cash on hand, demand deposits and short term investments with original maturities of three months or less from date of acquisition.

State statutes authorize municipal governments to invest in obligations of the U.S. Treasury, commercial paper, banker's acceptances, repurchase agreements and the State Treasurer's Investment Pool.

Investments are reported at cost. However, if market value is materially different, they are reported at fair value. The State Treasurer's Investment Pool operates in accordance with appropriate state laws and regulations. The reported value of the pool is the same as the fair value of the pool shares. For the purposes of the statement of cash flows, TRRWA considers cash and cash equivalents to include cash and cash deposits, as well as pooled investments with original maturities of three months or less from the date of purchase.

Restricted Funds

In accordance with bond resolutions separate restricted funds are required to be established. The assets held in these funds are restricted for specific uses as described in Note 4.

Inventory

Inventories are valued by the FIFO method (which approximates the market value).

Receivables

Customer receivables consist primarily of receivables for sewer and storm drainage from the Cities of Longview, Kelso and Beacon Hill Water and Sewer District along with private septic dumps at the site which represent 98 percent of the revenues.

Prepaid Insurance

This consists of medical insurance premiums paid on employees one month in advance of service.

Capital Assets

Property, plant and equipment of the Authority are recorded at cost. Capital assets donated are recorded at their estimated fair value at the date donated.

Major outlays for capital assets and improvements, including major repairs that increase the useful lives are capitalized if the construction or purchased price exceeds $5,000. Interest incurred during the construction phase of fixed assets is reflected in the capitalized value of the asset constructed, net of interest earned on the invested proceeds over the same period.

Property, plant and equipment are depreciated using the straight line method with the following estimated useful lives:

Assets	Years
Buildings	50
Pressure Lines & Collection System	30
Pumps	20
Other Equipment	5-10

Compensated Absences

All TRRWA employees may accumulate up to 248 hours of vacation pay. Accumulated vacation pay is payable when the employee leaves employment.

Sick leave hours may accumulate up to 1,200 hours. Employees with 18 or more years of service are paid 50% of their accrued sick leave amount up to a maximum of 600 hours when they leave employment. If an employee leaves with less than 18 years they are eligible for 50% of 960 hours up to a maximum of 480 hours. The Supervisors (exempt employees) may accumulate up to 1,200 hours and are eligible for 50% up to a maximum of 600 hrs of their accrued sick leave when they leave employment.

Long-term Obligations

Long-term debt and other long-term obligations are reported as liabilities. Bond premiums, discounts, as well as issuance costs are deferred and amortized using the straight line allocation over the remaining life of the bonds. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

NOTE 2 – BUDGETARY INFORMATION

The Three Rivers Regional Wastewater Authority prepares a preliminary annual budget by the last working day of September each year and in a manner consistent with budget process employed by member entities. Each entity's Committee Board member shall submit its proportionate share of the TRRWA's budget to their respective jurisdiction for incorporation of the expenditure into the entity's sewer enterprise fund budget.

The maintenance and operating budget shall be funded in proportion to each jurisdiction's respective flow to the Facilities. Upgrades to the existing facilities shall be funded by system development charge for new connections that contribute to the flow to the Facility or in proportion to each jurisdiction's respective flow to the Facilities as determined by the TRRWA.

A separate capital budget shall be formulated annually and shall require the approval of the governing body of each participating entity.

NOTE 3 – DEPOSITS AND INVESTMENTS

Deposits

TRRWA's deposits and investments are handled through the Cowlitz County Treasurer. The deposits and certificates of deposit are entirely covered by Federal Depositary Insurance Corporation (FDIC) or by a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission.

The County Treasurer is restricted by state statute codified in RCW 36.29.020 to invest in savings or time deposits with Washington State banks and savings and loans that are qualified public depositaries or in obligations of the United States Government and certain other governmental obligations.

TRRWA's Treasurer was holding a total of total $9,174,845 and $8,205,522 in cash, cash equivalents and pooled investments at December 31, 2011 and 2010. The book value of deposits does not materially differ from the bank balance of deposits. As of December 31, the carrying amount of TRWWA cash and cash equivalents are as follows:

	12/31/2011	12/31/2010
Cash deposits in bank accounts	$ 784,933	$ 724,869
Washington State Local Government Investment Pool	8,389,912	7,480,653
Total cash, cash equivalents and pooled investments	$ 9,174,845	$ 8,205,522

Investments

TRRWA does not have a policy for custodial credit risk of investment securities. The only investment made by TRRWA is with the Washington State Treasurer's Office Local Government Investment Pool (LGIP). The LGIP is an unrated external investment pool. The Washington State Treasurer's Office Local Government Investment Pool is classified as a 2(a) 7 investment pool, and therefore TRRWA states the fair value of its investment in the pool based upon the share price of the pool. TRRWA considers the amount invested in the Washington State Local Government Investment Pool to be liquid investments, and as such a cash equivalent.

Further, TRRWA is not subject to foreign currency risk or interest rate risk.

NOTE 4 – LONG-TERM DEBT

TRWWA has issued revenue bonds, government loans and notes with its primary government to finance the construction, purchase and improvement of wastewater facilities, infrastructure and equipment. Current debt obligations are as follows:

Revenue Bonds	**Outstanding at 12/31/2011**
$35,400,000 **2002 Special Revenue Refunding Bonds**- issued September 5, 2002 to pay the costs of the Central Sewer's portion of the County's outstanding Limited Tax General Obligation Bonds-1999. Interest varies from 2.5% to 5.5% on principal installments of $1.6 million to $2.79 million through November 1, 2019. Revenues from user fees collected by the Cities of Kelso, Longview and Beacon Hill Water and Sewer District will service the debt on this issue. Up front money provided by the Central Sewer has paid for an insurance policy to fund the debt in case of default by the users.	$ 18,665,000

Notes Payable (Government Loans)	**Outstanding at 12/31/2011**
$7,000,000 **1999 Public Works Trust Fund Loan** from State of Washington - $6,300,000 issued August 23, 1999 and $700,000 issued May 12, 2004 for improvements to the sewer facilities. Interest is 1% per annum with $375,329 future annual principal payments on June 30, 2005 through June 30, 2019.	$ 3,002,632
$3,000,000 **2001 Public Works Trust Fund Loan** from State of Washington $2,850,000 issued May 26, 2001 and $150,000 issued May 10, 2004 for improvements to treatment plant. Interest is .05% per annum with $158,333 future annual principal payments on June 30, 2005 through June 30 2021.	$ 1,583,333
$510,000 **2006 Public Works Trust Fund Loan** from State of Washington - $382,500 issued through August 7, 2006 to replace two clarifiers and associated piping. Interest is .05% per annum with future annual principal payments of $95,625 beginning June 30, 2008 through June 30, 2011.	$ 0
$776, 287 **2006 City of Longview,** a public works trust fund loan. September 21, 2006 TRRWA received $750,000 and $26,387 from the City in June 2007. Interest is .05% per annum with future annual principal payments of $40,487 beginning June 30, 2007 through June 30, 2025.	$ 572,001
$6,630,750 **2008 Public Works Trust Fund Loan** from State of Washington by TRRWA to replace two clarifiers and associated piping. Interest is 0.5% per annum with future annual principal payments of $331,538 beginning July 1, 2009 through July 1, 2027.	$ 5,636,137

Due to Primary Government	**Outstanding at 12/31/2011**
$13,760,000 from Cowlitz County that issued bonds on June 1, 2006 to provide construction improvements to the wastewater treatment plant. Interest varies from 4.25% to 5.25% with future principal payments of $470,000 to $1,090,000 beginning March 1, 2007 through March 1, 2025.	$ 11,205,000

Annual debt service for the TRRWA is shown below:

	Bonds		Notes		Due to Primary Government	
	Prinicpal	Interest	Principal	Interest	Principal	Interest
2012	$ 1,945,000	$ 994,756	$ 906,057	$ 70,031	$ 575,000	$ 539,269
2013	2,030,000	914,525	906,057	62,614	605,000	514,194
2014	2,135,000	807,950	906,057	56,204	630,000	487,950
2015	2,250,000	690,525	906,057	49,794	660,000	460,538
2016	2,370,000	566,775	906,057	43,390	675,000	432,169
2017-2021	7,935,000	888,525	3,779,627	124,532	4,010,000	1,584,863
2022-2026	-	-	1,821,116	43,515	4,050,000	422,863
2027-2028	-	-	663,075	4,973	-	-
Total	$ 18,665,000	$ 4,863,056	$ 10,794,103	$ 455,053	$ 11,205,000	$ 4,441,846

	Balance 1/1/2011	**Additions**	**Reductions**	**Balance 12/31/2011**	**Due Within One Year**
Revenue Refunding Bonds	$ 20,535,000	$ -	$ (1,870,000)	$ 18,665,000	$ 1,945,000
Less: deferred amounts:					
for premium	1,037,530	-	(117,457)	920,073	117,456
Total bonds payable	21,572,530	-	(1,987,457)	19,585,073	2,062,456
Notes Payable-Other Govts.	11,760,897	-	(966,794)	10,794,103	906,057
Due to Primary Government	14,704,525	-	(3,499,525)	11,205,000	575,000
Less: deferred amounts:					
for premiums	340,514	-	(23,895)	316,619	23,895
Total Due to Primary Gov't	15,045,039	-	(3,523,420)	11,521,619	598,895
Compensated Absences	150,175	29,300	-	179,475	-
Total Debt	$ 48,528,641	$ 29,300	$ (6,477,671)	$ 42,080,270	$ 3,567,408

	Balance 1/1/2010	**Additions**	**Reductions**	**Balance 12/31/2010**	**Due Within One Year**
Revenue Refunding Bonds	$ 22,340,000	$ -	$ (1,805,000)	$ 20,535,000	$ 1,870,000
Less: deferred amounts:					
for premium	1,154,986	-	(117,456)	1,037,530	117,456
Total bonds payable	23,494,986	-	(1,922,456)	21,572,530	1,987,456
Notes Payable-Other Govts.	12,768,548	-	(1,007,651)	11,760,897	966,794
Due to Primary Government	15,364,525	-	(660,000)	14,704,525	555,000
Less: deferred amounts:					
for premiums	364,409	-	(23,895)	340,514	23,895
Total Due to Primary Gov't	15,728,934	-	(683,895)	15,045,039	578,895
Compensated Absences	182,469	149,609	(181,903)	150,175	-
Total Debt	$ 52,174,937	$ 149,609	$ (3,795,905)	$ 48,528,641	$ 3,533,145

Debt Covenant Requirements

The 2002 special revenue refunding bonds resolution requires that net revenues of the TRRWA meet either 1.3 times the aggregate annual debt service when system development charges are included in the revenues or 1.2 times the aggregate annual debt service when the system development charges are not included in the revenues.

TRRWA's debt service coverage ratio for 2011 met the requirement at 2.31 times the aggregate annual debt service when including system development charges. The aggregate annual debt service when system development charges are included in revenue was 1.22 and excluding system development charges coverage was 1.25 times the 2010 debt service on bonds.

In March of 2008, the County's Bond Insurer for the 2002 Revenue Bonds (FGIC) was downgraded to Baa3 from AAA. As a result, TRRWA must meet Reserve Requirements for the Bonds issued through deposit into the Reserve Account. At December 31, 2011 and 2010, respectively, $2,961,111 and $2,960,410 is being held to satisfy this debt service covenant.

In June of 2009, Standard & Poor's (S&P) lowered its rating on MBIA to A from AA which affects the 2006 Bonds. Over the next five years, TRRWA will need to establish a reserve account for $1,120,633. As of December 31, 2011 and 2010, respectively, TRRWA has $543,531 and $542,477 in reserves to begin to satisfy this requirement.

NOTE 5 – CAPITAL ASSETS

Capital asset activity for the years ended December 31, 2011 and 2010 is as follows:

	1/1/11	Increases	Decreases	12/31/11
Capital Assets, not being depreciated:				
Land	$ 586,540	$ -	$ -	$ 586,540
Construction in progress	225,654	223,945	327,540	122,059
Total capital assets not being depreciated	812,194	223,945	327,540	708,599
Capital Assets, being depreciated:				
Buildings & system	94,095,538	216,415	16,717	94,295,236
Improvements other than buildings	7,297	-	-	7,297
Machinery and equipment	962,938	-	-	962,938
Total capital assets being depreciated	95,065,773	216,415	16,717	95,265,471
Less: accumulated depreciation for				
Buildings & system	(24,265,776)	(3,972,639)	(5,586)	(28,232,829)
Improvements other than buildings	(7,297)	-	-	(7,297)
Machinery and equipment	(731,413)	(35,419)	-	(766,832)
Total accumulated depreciation	(25,004,486)	(4,008,058)	(5,586)	(29,006,958)
Total capital assets, being depreciated net	70,061,287	(3,791,643)	11,131	66,258,513
Capital assets, net	$ 70,873,481	$ (3,567,698)	$ 338,671	$ 66,967,112

	1/1/10	Increases	Decreases	12/31/10
Capital Assets, not being depreciated:				
Land	$ 586,540	$ -	$ -	$ 586,540
Construction in progress	8,186,179	412,155	8,372,680	225,654
Total capital assets not being depreciated	8,772,719	412,155	8,372,680	812,194
Capital Assets, being depreciated:				
Buildings & system	85,967,322	8,363,116	234,900	94,095,538
Improvements other than buildings	7,297	-	-	7,297
Machinery and equipment	947,631	15,307	-	962,938
Total capital assets being depreciated	86,922,250	8,378,423	234,900	95,065,773
Less: accumulated depreciation for				
Buildings & system	(21,087,588)	(3,202,070)	(23,882)	(24,265,776)
Improvements other than buildings	(7,297)	-	-	(7,297)
Machinery and equipment	(691,368)	(40,045)	-	(731,413)
Total accumulated depreciation	(21,786,253)	(3,242,115)	(23,882)	(25,004,486)
Total capital assets, being depreciated net	65,135,997	5,136,308	211,018	70,061,287
Capital assets, net	$ 73,908,716	$ 5,548,463	$ 8,583,698	$ 70,873,481

Construction commitments:

At December 2010, there are four construction projects in process. The costs thru December 31, 2010 were $225,654. Accumulated costs for the individual projects are as follows: Outfall Study $111,125, Parking Lot – Meeting Room $5,498, Automated Hauled Waste System $108,303, and Vactor Dumping Bed Facility $728. At the close of 2010, the remaining commitment for these projects is $495,300. Existing funds of the utility will pay for the projects.

At December 2011, there are five construction projects in process. The costs thru December 31, 2011 were $122,059. Accumulated costs for the individual projects are as follows: Roof Replacement $113,088, Parking Lot – Meeting Room $5,498, Energy Project Blowers $2,348 Parking Lot Paving $397, and Vactor Dumping Bed Facility $728. At the close of 2011, the remaining commitment for these projects is $552,400. Existing funds of the utility will pay for the projects.

NOTE 6 – PENSION PLANS

Substantially all TRRWA 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 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*.

A. PUBLIC EMPLOYEES RETIREMENT SYSTEMS (PERS) Plans 1 and 2 and 3

Plan Description

The Legislature established PERS in 1947. Membership in the system includes: elected officials; state employees; employees of the Supreme, Appeals, and Superior courts (other than judges currently in the Judicial Retirement System); employees of legislative committees; community and technical colleges, college and university employees not participating in higher education retirement programs; judges of district and municipal courts; and employees of local governments. PERS retirement benefit provisions are established in Chapters 41.34 and 41.40 RCW and may be amended only by the State Legislature.

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.

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 exercised 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 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) was granted at age 66 based upon years of service times the COLA amount. This benefit was eliminated by the Legislature, effective July 1, 2011. Plan 1 members may 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 was granted at age 66 based upon years of service times the COLA amount. This benefit was eliminated by the Legislature, effective July 1, 2011. Plan 1 members may 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 members can receive credit for military service. 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.

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 contributions and 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 1,197 participating employers in PERS. Membership in PERS consisted of the following as of the latest actuarial valuation date for the plans of June 30, 2010:

Retirees and Beneficiaries Receiving Benefits	76,899
Terminated Plan Members Entitle to but not yet Receiving Benefits	28,860
Active Plan Members Vested	105,521
Active Plan Members Non-vested	51,005
	262,285

Funding Policy

Each biennium, the state Pension Funding Council adopts PERS Plan 1 employer contribution rates, PERS Plan 2 employer and employee contribution rates, and PERS 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 Plan 3 employee contribution rates range from 5 percent to 15 percent, based on member choice. 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, 2011, are as follows:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
Employer*	7.25%	7.25%**	7.25%***
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 10.8% for Plan 1 and 7.25% 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 4.64% for Plan 2.
***** Variable from 5.0% minimum to 15.0% maximum based on rate selected by the PERS 3 member.

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

	PERS Plan 1	**PERS Plan 2**	**PERS Plan 3**
2011	$ 7,729	$ 75,732	$3,998
2010	$ 8,563	$ 61,485	$1,818
2009	$ 12,661	$ 78,016	No participants

NOTE 7 – RISK MANAGEMENT

TRWWA is a member of the Washington Cities Insurance Authority (WCIA).
Utilizing Chapter 48.62 RCW (self-insurance regulation) and Chapter 39.34 RCW (Interlocal Cooperation Act), nine cities originally formed WCIA on January 1, 1981. WCIA was created for the purpose of providing a pooling mechanism for jointly purchasing insurance, jointly self-insuring and / or jointly contracting for risk management services. WCIA has a total of 150 members.

New members initially contract for a three-year term, and thereafter automatically renew on an annual basis. A one-year withdrawal notice is required before membership can be terminated. Termination does not relieve a former member from its unresolved loss history incurred during membership.

Liability coverage is written on an occurrence basis, without deductibles. Coverage includes general, automobile, police, public officials' errors or omissions, stop gap, and employee benefits liability. Limits are $4 million per occurrence self insured layer, and $16 million per occurrence in the re-insured excess layer. The excess layer is insured by the purchase of reinsurance and insurance and is subject to aggregate limits. Total limits are $20 million per occurrence subject to aggregate sublimits in the excess layers. The Board of Directors determines the limits and terms of coverage annually.

Insurance coverage for property, automobile physical damage, fidelity, inland marine, and boiler and machinery are purchased on a group basis. Various deductibles apply by type of coverage.

Property insurance and auto physical damage are self-funded from the members' deductible to $500,000, for all perils other than flood and earthquake, and insured above that amount by the purchase of insurance.

In-house services include risk management consultation, loss control field services, claims and litigation administration, and loss analyses. WCIA contracts for the claims investigation consultants for personnel issues and land use problems, insurance brokerage, and lobbyist services.

WCIA is fully funded by its members, who make annual assessments on a prospectively rated basis, as determined by an outside, independent actuary. The assessment covers loss, loss adjustment, and administrative expenses. As outlined in the interlocal, WCIA retains the right to additionally assess the membership for any funding shortfall.

An investment committee, using investment brokers, produces additional revenue by investment of WCIA's assets in financial instruments which comply with all State guidelines. These revenues directly offset portions of the membership's annual assessment.

A Board of Directors governs WCIA, which is comprised of one designated representative from each member. The Board elects an Executive Committee and appoints a Treasurer to provide general policy direction for the organization. The WCIA Executive Director reports to the Executive Committee and is responsible for conducting the day to day operations of WCIA.

NOTE 8 – RESTRICTED ASSETS

The Statement of Net Assets presents $5,391,364 and $5,385,927 in restricted cash, cash equivalents and pooled investments at December 31, 2011 and 2010, respectively. This represents reserves held in accordance with bond covenants.

NOTE 9 – RESTATEMENTS AND PRIOR PERIOD ADJUSTMENTS

During 2002, the Third Avenue Interceptor project was removed from the construction in progress because the TRRWA thought the asset would be contributed to another government. In 2010, it was discovered that this asset belonged to the TRRWA and therefore, the asset was added back to the financial statements. $1,158,976 was added into Depreciable Assets in the 2010 column on the Statement of Net Assets. This represents $1,540,846 in capital assets and $381,870 of accumulated depreciation. Additionally, a prior period adjustment of $1,158,976 was recognized in the 2009 column.

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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Chief of Staff	**Doug Cochran**
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