

Washington State Auditor's Office
Financial Statements Audit Report

Beacon Hill Sewer District
Cowlitz County

Audit Period
January 1, 2004 through December 31, 2005

Report No. 71993

Issue Date
March 9, 2007



Washington _____
State Auditor
_____ Brian Sonntag



**Washington State Auditor
Brian Sonntag**

March 9, 2007

Board of Commissioners
Beacon Hill Sewer District
Kelso, Washington

Report on Financial Statements

Please find attached our report on the Beacon Hill Sewer District's financial statements.

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

In addition to this work, we look at other areas of our audit client's operations for compliance with state laws and regulations. The results of that audit will be included in a separately issued accountability report.

Sincerely,

BRIAN SONNTAG, CGFM
STATE AUDITOR

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Cowlitz County
January 1, 2004 through December 31, 2005**

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

Beacon Hill Sewer District Cowlitz County January 1, 2004 through December 31, 2005

Board of Commissioners
Beacon Hill Sewer District
Kelso, Washington

We have audited the basic financial statements of the Beacon Hill Sewer District, Cowlitz County, Washington, as of and for the years ended December 31, 2005 and 2004, and have issued our report thereon dated September 27, 2006. During the year ended December 31, 2004, the District implemented Governmental Accounting Standards Board Statement 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, and its amendments and Statement 40, *Deposit and Investment Risk Disclosures*.

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

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting.

Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving internal control over financial reporting and its operation that we consider to be material weaknesses.

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, the objective of our audit of the financial statements was not to provide an opinion on overall compliance with these provisions. 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 herein under *Government Auditing Standards*.

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

A handwritten signature in black ink, appearing to read "Brian Sonntag". The signature is fluid and cursive, with the first name "Brian" written in a larger, more prominent script than the last name "Sonntag".

BRIAN SONNTAG, CGFM
STATE AUDITOR

September 27, 2006

Independent Auditor's Report on Financial Statements

Beacon Hill Sewer District Cowlitz County January 1, 2004 through December 31, 2005

Board of Commissioners
Beacon Hill Sewer District
Kelso, Washington

We have audited the accompanying basic financial statements of the Beacon Hill Sewer District, Cowlitz County, Washington, as of and for the years ended December 31, 2005 and 2004, as listed on page 5. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our 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 opinion.


In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Beacon Hill Sewer District, as of December 31, 2005 and 2004, and the changes in financial position and cash flows, where applicable, thereof, for the years 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, 2004, the District implemented Governmental Accounting Standards Board Statement 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, and its amendments and Statement 40, *Deposit and Investment Risk Disclosures*.

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 6 through 8 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of

management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

A handwritten signature in black ink, appearing to read "Brian Sonntag". The signature is fluid and cursive, with the first name "Brian" and last name "Sonntag" clearly distinguishable.

BRIAN SONNTAG, CGFM
STATE AUDITOR

September 27, 2006

Financial Section

**Beacon Hill Sewer District
Cowlitz County
January 1, 2004 through December 31, 2005**

REQUIRED SUPPLEMENTAL INFORMATION

Management's Discussion and Analysis – 2005 and 2004

BASIC FINANCIAL STATEMENTS

Comparative Statement of Net Assets – 2005 and 2004
Comparative Statement of Revenues, Expenses and Changes in Net Assets – 2005 and 2004
Comparative Statement of Cash Flows – 2005 and 2004
Notes to Financial Statements – 2005 and 2004

BEACON HILL SEWER DISTRICT

Statement of Governmental Accounting Standard No. 34
Basic Financial Statements- Management's Discussion and
Analysis-For State and Local Governments
Year Ended December 31, 2005

EXECUTIVE SUMMARY

Beacon Hill Sewer District (District) has prepared and is responsible for the financial statements and related information included in this report. A system of internal accounting controls is maintained to provide reasonable assurance that assets are safeguarded and that the books and records reflect only authorized transactions.

Cowlitz County Auditor's Office audits, processes and mails all expenses for the District. The Cowlitz County Treasurer's Office is the District's custodian for all cash received and all investments. District staff reconciles all revenue and expenses with the monthly reports generated by the Auditor and Treasurer offices.

Management believes that its policies and procedures provide reasonable assurance that the District operations are conducted according to a high standard of business ethics.

In management's opinion, the financial statements present fairly, in all material respects, the financial position, results of operations and cash flows of the District in conformity with generally accepted accounting principles.

MANAGEMENT'S DISCUSSION AND ANALYSIS

OVERVIEW OF THE FINANCIAL STATEMENTS

The financial statements include a balance sheet, statement of revenues, expenses, and changes in net assets, statement of cash flows and notes to the financial statements. The balance sheet provides a record, or snap shot, of the assets and liabilities at the close of the fiscal year. It presents the financial position of the District on a full accrual historical cost basis. The statement of revenues, expenses, and changes in net assets presents the results of the business activities over the course of the fiscal year. The statement of cash flows is related to the other financial statements by the way it links changes in net assets and liabilities to the effect on cash equivalents.

The financial statements were prepared by District staff using the detailed records of the District. The AFR consists of Managements Discussion and Analysis, the financial statements and Notes to Financial Report.

SUMMARY OF ORGANIZATION AND BUSINESS

Beacon Hill Sewer District is a public entity established in 1961 to provide wastewater collection and transportation for the Beacon Hill and Columbia Heights areas located just north of the city limits of Longview and Kelso. The Lexington area customers were added to the system in the early 1970's. The District's total service area is bordered by the Cowlitz River to the east, the Longview City limits to the south, Columbia Heights Road to the west and King Road to the north. The District Office is located on SR-411 at 1121 Westside Highway, Kelso, WA 98626.

The District is governed by a three-person Board of Commissioners who are elected by vote of the customers to serve a six-year term. The Board is the District's policy-making and decision making body. State regulatory oversight of the wastewater collection system is by the State of Washington Department of Health.

District operations are funded from customer revenues. Capital assets are funded by capital contributions from new sewer service connections and developer's extensions. The District's customer base as of December 31, 2004 was approximately 2,890 total residential equivalents, comprised of 2,242 residential units, 644 commercial units and 4 commercial metered accounts. The District's customer base as of December 31, 2005 was approximately 2,973 total residential equivalents, consisting of 2,317 residential units, 652 commercial units and 4 metered commercial accounts.

Condensed Balance Sheets @ December 31

	2005	2004
Capital assets	\$ 1,411,906.70	\$ 1,164,471.19
Restricted Assets	1,188,056.66	1,056,280.54
Current Assets and Other Assets	<u>2,354,857.18</u>	<u>2,343,754.28</u>
Total assets	\$ 4,954,820.54	\$ 4,564,506.01
Current liabilities	<u>179,238.02</u>	<u>164,489.57</u>
Total liabilities	\$ 179,238.02	\$ 164,489.57
Net assets	<u>\$ 4,775,582.52</u>	<u>\$ 4,400,016.44</u>
Total liabilities and net assets	\$ 4,954,820.54	\$ 4,564,506.01

Condensed Statements of Revenues, Expenses And Changes in Net Assets for the Year Ended

	2005	2004
Sewer service revenues	\$ 1,288,472.70	\$ 1,206,559.60
Other Revenues	<u>123,853.40</u>	<u>116,841.33</u>
Total Operating Revenues	\$ 1,412,326.10	\$ 1,323,400.93
Sewer treatment expense	457,960.00	590,822.00
General and administrative expenses	549,299.55	564,424.80
Depreciation	<u>36,541.92</u>	<u>48,988.55</u>
Total Operating Expenses	\$ 1,043,801.47	\$ 1,204,235.35
Operating Income	<u>73,502.96</u>	<u>27,916.75</u>
Increase in net assets	\$ 442,027.59	\$ 147,082.33

FINANCIAL POSITION/RESULTS OF OPERATIONS

The District's overall financial position continues to be strong as the customer base and system improvements continue to grow. Operating revenue is funded by sewer service. In 1999, the Board of Commissioners adopted a six year rate plan through 2005. The primary purpose of this increase was to pay the District's share of an approximately \$52 million upgrade and expansion project planned for the Regional Wastewater Treatment Plant. The increase in revenues from 2004 to 2005 is due in part to the final \$2.00 per month increase in sewer service rates implemented on January 1, 2005.

The District also collects capital contributions from new customers. These contributions consist of connection charges and developer donated systems. The District's restricted funds, available for capital improvements, continue to benefit from customer growth. Contributions for the period ended December 31, 2004 and December 31, 2005 are \$72,232.00 and \$104,905.08, respectively.

An increase in treatment costs by \$137,780.00, and general expenses by \$68,449.94 account for the majority of the increase in 2004 expenses. Revenues were less than projected for sewer service and connection charges in 2004 and are the primary cause for a decrease from 2003. In 2005, less-than-projected treatment costs, \$132,862.00, makes up the bulk of the decrease in expenses for 2005. Implementation of a \$2.00 per month sewer service rate increase on January 1, 2005, directly contributed to the increase in operating revenues, \$88,925.17. The other major component of the 2005 revenue increase is interest income on investments, \$44,572.00.

CAPITAL ASSETS AND LONG-TERM DEBT

The District currently does not have any long-term debt.

The capital assets of the District have increased over the prior year due to growth in the customer base and system improvements. Significant capital asset additions include the following:

	2005	2004
Main Sewerlines	\$ 40,000.00	\$
Pump Station Maintenance	3,382.30	3,427.14
Office Furniture	9,065.56	5,104.27
Miscellaneous Equipment	3,087.07	2,844.00
Comprehensive Plan	51,375.07	

ADDITIONAL COMMENTS

The District is dependent on the Three Rivers Regional Wastewater Association for the treatment of sewage collected. The Association is governed by a board consisting of the following member entities: Beacon Hill Sewer District, City of Longview, City of Kelso and Cowlitz County. The District's treatment costs are directly related to the treatment plant's budget divided by a percentage of total flow established by entity usage.

COMPARATIVE STATEMENT OF NET ASSETS
December 31, 2004 and 2005

Page 1 of 2

<u>ASSETS AND OTHER DEBITS:</u>	<u>2005</u>	<u>2004</u>
Current Assets:		
1 13110s Maintenance Cash	\$ 73,727.99	\$ 27,573.35
1 13130 Capital Reserve Fund Cash	10.00	10.00
1 13400s Working Fund-Maintenance Fund	350.00	350.00
1 13510 Temporary Cash Investments-Maintenance	1,176,713.99	979,900.33
1 14100 Accounts Receivable-Customers	128,250.94	117,929.91
1 14400 Notes Receivable-Customers	1,365.80	8,297.79
1 14500 Accrued Accounts Receivable	0.00	0.00
1 15100 Materials & Supplies/Inventory	19,438.55	19,274.05
1 16200 Prepayments	<u>12,049.43</u>	<u>11,135.76</u>
NET UTILITY PLANT	\$ 1,411,906.70	\$ 1,164,471.19
RESTRICTED ASSETS		
Other Property and Investments:		
2-13530 Special Funds-Capital Reserve Inv	\$ <u>1,188,056.66</u>	\$ <u>1,056,280.54</u>
TOTAL RESTRICTED ASSETS	\$ 1,188,056.66	\$ 1,056,280.54
NONCURRENT ASSETS		
Utility Plant:		
1-30000s Utility Plant/Fixed Assets	\$ 5,365,213.53	\$ 5,236,806.55
1-10800s Less Depreciation/Amort/Depletion	<u>(3,010,356.35)</u>	<u>(2,893,052.27)</u>
TOTAL NONCURRENT ASSETS	\$ 2,354,857.18	\$ 2,343,754.28
TOTAL ASSETS:	\$ <u><u>4,954,820.54</u></u>	\$ <u><u>4,564,506.01</u></u>

The Notes to Financial Statements are an integral part of this statement

COMPARATIVE STATEMENT OF NET ASSETS
December 31, 2004 and 2005

	<u>2005</u>	<u>2004</u>
CURRENT AND ACCRUED LIABILITIES:		
1-23200s Accounts Payable	\$ 179,238.02	\$ 164,489.57
1-23700s Interest Accrued	<u>0.00</u>	<u>0.00</u>
TOTAL CURRENT AND ACCRUED LIABILITIES	\$ 179,238.02	\$ 164,489.57
PROPRIETARY CAPITAL		
1-21500 Retained Earnings	\$ 2,990,084.81	\$ 2,548,057.22
CONTRIBUTIONS IN AID OF CONSTRUCTION	\$ 1,785,497.71	\$ 1,851,959.22
TOTAL LIABILITIES AND FUND EQUITY	\$ <u><u>4,954,820.54</u></u>	\$ <u><u>4,564,506.01</u></u>

The Notes to Financial Statements are an integral part of this statement

COMPARATIVE STATEMENT OF REVENUES,
EXPENSES AND CHANGES IN NET ASSETS
December 31, 2004 and 2005

Page 1 of 1

UTILITY OPERATING INCOME	2005	2004
OPERATING REVENUES	\$ 1,412,326.10	\$ 1,323,400.93
1-500000S/3-53650		
OPERATING EXPENSES		
1-71000 Treatment Expenses	\$ 457,960.00	\$ 590,822.00
1-70000s Operation Expenses	497,340.41	519,623.05
1-40300 Depreciation Expenses	36,541.92	48,988.55
1-40810 Taxes Other Than Income Taxes	51,959.14	44,801.75
TOTAL OPERATING EXPENSES	\$ 1,043,801.47	\$ 1,204,235.35
NET UTILITY OPERATING INCOME	\$ 368,524.63	\$ 119,165.58
NONOPERATING REVENUES		
Other Income & Deductions:		
1-42700 Interest and Dividend Income	\$ 70,442.96	\$ 25,870.52
1-42100 Misc Nonoperating Rev-Inspection Permits	3,060.00	2,565.00
TOTAL OTHER INCOME AND DEDUCTIONS	\$ 73,502.96	\$ 28,435.52
INTEREST CHARGES		
1-42720s Interest on Long Term Debt	\$	\$ 358.77
TOTAL INTEREST CHARGES	\$	\$ 358.77
1-43400 Extraordinary Expense	\$	\$ 160.00
	\$	\$ 160.00
NET INCOME	\$ 442,027.59	\$ 147,082.33
Retained Earnings January 1	\$ 2,548,057.22	\$ 2,400,974.89
Retained Earnings December 31	\$ 2,990,084.81	\$ 2,548,057.22
Contributions in Aid of Construction	\$ 1,785,497.71	\$ 1,851,959.22
Other Liabilities/LTD	\$ 179,238.02	\$ 164,489.57
TOTAL FUND EQUITY:	4,954,820.54	4,564,506.01

The Notes to Financial Statements are an integral part of this statement

BEACON HILL SEWER DISTRICT
 Comparative Statement of Cash Flows
 For the Years Ended December 31, 2005 and 2004
 Page 1 of 2

MCAG No. 2122

	<u>2005</u>	<u>2004</u>
CASH RECEIVED FROM OPERATING ACTIVITIES:		
Cash Received From Customers	1,402,005.07	1,324,713.50
Cash Payments for Goods and Services	(675,222.21)	(821,807.27)
Cash Payments to Employees for Services	<u>(318,367.06)</u>	<u>(285,425.94)</u>
Net Cash Provided by Operating Activities:	408,415.80	217,480.29
CASH FLOW FROM NONCAPITAL FINANCING ACTIVITIES:		
Net Cash provided by Noncapital Financing Activities		
Other Miscellaneous Revenue-Permits & Licenses	<u>3,060.00</u>	<u>2,565.00</u>
Net Cash provided from Noncapital Financing Activities:	3,060.00	2,565.00
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES:		
Contributed Capital	6,931.99	2,389.19
Interest Paid on Long Term Debt - PWTF Contracts		(4,327.28)
Acquisition & Construction of Capital Assets	(114,106.25)	(11,375.49)
Repayment Public Works Trust Fund Loan		<u>(202,028.57)</u>
Net Cash Used for Capital and Related Financing Activities:	<u>(107,174.26)</u>	<u>(215,342.15)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Investments Bought-Net	(131,776.12)	(86,192.35)
Interest on Investments	<u>70,442.96</u>	<u>25,870.52</u>
Net Cash From Investing Activities:	(61,333.16)	(60,321.83)
Net Decrease/Increase in Cash & Cash Equivalents:	242,968.38	(55,618.69)
Cash & Cash Equivalents at beginning of year:	1,007,833.60	1,063,452.29
Cash & Cash Equivalents at end of year:	1,250,801.98	1,007,833.60

The Notes to Financial Statement are an integral part of this statement

RECONCILIATION OF OPERATING INCOME TO NET CASH
 PROVIDED BY OPERATING ACTIVITIES:

	<u>2005</u>	<u>2004</u>
Operating Income	368,524.63	119,165.58
ADJUSTMENTS TO RECONCILE OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Depreciation	36,541.92	48,988.55
Changes in Assets and Liabilities:		
Increase/Decrease in Accounts Receivable	(10,321.03)	1,312.57
Increase/Decrease in Inventory	(164.50)	2,639.04
Increase/Decrease in Accounts Payable	14,748.45	43,293.01
Increase in Prepayments	(913.67)	2,241.54
Increase/Decrease in Extraordinary Expense		<u>(160.00)</u>
Net Cash Provided by Operating Activities:	408,415.80	217,480.29

The Notes to Financial Statement are an integral part of this statement

BEACON HILL SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
JANUARY 1, 2004 thru DECEMBER 31, 2005

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Beacon Hill Sewer District conform to generally accepted accounting principles (GAAP) as applicable to proprietary funds of governments. The following is a summary of the most significant policies, including identification of those policies which result in material departures from generally accepted accounting principles.

a. Reporting Entity

Beacon Hill Sewer District is a municipal corporation governed by an elected three member board. As required by generally accepted accounting principles, management has considered all potential component units in defining the reporting entity. The District has no component units.

b. Basis of Accounting and Presentation

The accounting records of the District are maintained in accordance with methods prescribed by the State Auditor under the authority of Chapter 43.09 RCW. The District used the Uniform System of Accounts for Class B Sewer Utilities during the audit period; however the District now has higher revenues and will be using the Uniform System of Accounts for Class a Wastewater Utilities.

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. Effective January 1, 2004, the District implemented Governmental Accounting Standard Board (GASB) Statement No. 34, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments and related standards.

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

c. Cash and Cash Equivalents

It is the District's policy to invest all temporary cash surpluses. At December 31, 2004 and December 31, 2005, there were \$979,900.33 and \$1,176,713.99 respectively, in short-term residual investments of cash from the Maintenance Fund. At December 31, 2004 and December 31, 2005, there were \$1,056,280.54 and \$1,188,056.66 respectively in short-term investments of cash from the Capital Reserve Fund.

These amounts are classified on the Comparative Net Assets Balance sheet as Current Assets/Temporary Cash Investments-Maintenance and Restricted Assets/Special Funds-Capital Reserve Investment. Interest earned on investments is prorated.

For the purposes of the Statement of Cash Flows, the district considers highly liquid investments (except for restricted assets) with a maturity of three months or less when purchased to be cash equivalents.

d. **Utility Plant and Depreciation**

Major expenses for capital assets including major repairs that increase useful lives are capitalized. Maintenance, repairs and minor renewals are accounted for as expenses when incurred.

Utility plant in service and other capital assets are recorded at cost where the historical cost is known. Where historical cost is not known, assets are recorded at estimated historical cost. Donations by developers and customers are recorded at the contract price or donor cost or appraised value at the date the asset was received by the District. The original cost of operating property retired or otherwise disposed of and the cost of installation, less salvage, is charged to accumulated depreciation.

Depreciation is computed on the straight-line method with useful lives of 3 to 50 years and a minimum threshold set at \$500.00. Initial depreciation on utility plant is recorded in the year subsequent to purchase.

The following is a summary of the fixed assets as of December 31, 2004 and 2005. Total Utility Plant not being depreciated is \$8,224.46 for both years. The balance of Utility Plant being depreciated at December 31, 2004 and 2005 is \$5,228,582.09 and \$5,356,989.07, respectively.

	<u>2005</u>	<u>2004</u>
Land & Land Rights (Not depr)	8,224.46	8,224.46
Plant-Structures & Imprvmts	119,049.80	119,052.82
Plant-Collection & Trans	3,816,573.32	3,776,573.32
Plant-Pumping & Power	1,038,067.93	1,034,685.63
Equipment-Office	46,250.57	37,185.01
Equipment-Operations	239,172.38	261,085.31
BHSD Comp Plan	97,875.07	
Less Accumul'd Depreciation	<u>(3,010,356.35)</u>	<u>(2,893,052.27)</u>
NET FIXED ASSETS	2,354,857.18	2,343,754.28

e. **Restricted Funds**

Following retirement of all outstanding bond issues, the Capital Reserve Account constitutes the District's only restricted fund. Revenues from new Connection Fees are required to be placed therein. All assets in this fund are restricted for use in emergencies, equipment and capital improvements.

	<u>2005</u>	<u>2004</u>
Capital Reserve	1,188,056.66	1,056,280.54

f. **Receivables**

Customer account receivables consist of amounts owed for goods and services. Delinquent receivables are secured by liens against the serviced property; therefore there are no accounts "written off" as uncollectible. Note receivables consist of installment arrangements for Latecomer's Connection Fees, System Development Charges and Private Lateral Replacement Agreements that are extended over a period not to exceed 15 years.

g. **Inventories**

Inventories, or Materials & Supplies on Hand, are valued at cost which approximates the market value, using FIFO, first-in, first-out method.

h. Deposits and Investments

1. Cash

The following is a summary of cash at December 31, 2004 and December 31, 2005:

	<u>2005</u>	<u>2004</u>
Cash on Hand	\$ 350.00	\$ 350.00
Cash in Bank	38,594.09	27,563.35
Maintenance Fund Cash	35,133.90	10.00
Capital Reserve Fund Cash	<u>10.00</u>	<u>10.00</u>
	\$ 74,087.99	\$ 27,933.35

2. Investments

All investments are in the custody of the Cowlitz County Treasurer. As required by state law, investments of the district's funds are obligations of the U.S. Government, the State Treasurer's Investment Pool, bankers' acceptances, certificates, government agencies or deposits with Washington State banks. As such, all District investments are entirely covered by federal depository insurance (FDIC) or by collateral administered by the Washington Public Deposit Protection Commission (PDPC). The Cowlitz County Treasurer governs all District monies and investments, and sets policies for credit risks or interest rate risks for which the District complies. Consequently, District securities lending collateral as reported in the Statement of Assets complies with GASB 40 requirements under the County Treasurer's guardianship. District investments are stated at cost which approximates market value.

The following represents District investments at December 31, 2004 and December 31, 2005:

	<u>2005</u>	<u>2004</u>
Maintenance Fund:		
Certificate of Deposit	\$1,176,713.99	\$ 979,900.33
Capital Reserve Fund:		
Passbook Savings	\$ 6,108.00	\$ 9,900.00
Certificate of Deposit	<u>1,181,948.66</u>	<u>1,046,380.54</u>
	\$1,188,056.66	\$1,056,280.54

i. Amortization of Contributed Capital

In accordance with the prescribed system of accounts, the District amortizes contributed capital by amounts that equal the annual depreciation on assets acquired with that capital.

Explanation of Annual Amortization of Contributed Capital:

<u>Year</u>	<u>Contributed Capital</u>	<u>Maintenance Capital</u>	<u>Total Plant</u>
2005	\$3,921,299.61	+ 1,337,817.43	= \$5,259,117.04
	Annual Depreciation \$141,948.68, less 2005 Amortization \$106,461.51 = \$35,487.17 (+ \$1,054.75 for prior period equipment removal = 2005 Depreciation Expense-\$36,541.92)		
2004	\$3,893,799.61	+ 1,334,782.50	= \$5,228,582.11
	Annual Depreciation \$190,851.98, less 2004 Amortization \$141,863.43 = \$48,988.55		

j. Compensated Absences

The District recognizes vacation benefits when earned. The accounted liability excluding payroll benefits for unpaid vacation benefits at December 31, 2004 and 2005 was approximately \$7,795.00 and \$11,991.00, respectively. The accounted liability excluding payroll benefits for sick pay was approximately \$31,546.00 and \$1,595.00 respectively. Vacation is earned in amounts varying from twelve (12) days after the first year to twenty-two (22) days after 18 years of service. It may accumulate to a total of thirty (30) days. Sick leave is granted at the rate of one working day per month and may accumulate to a total of one hundred fifty (150) days. An employee separated from employment due to retirement, or termination short of retirement age, except for due cause, shall be compensated one hundred (100) percent of his/her sick leave up to a maximum of ninety days, provided they have completed 10 years of service.

NOTE 2 – LONG TERM DEBT

The District is a participant with Cowlitz County, City of Kelso and City of Longview in the operation of the Three Rivers Regional Wastewater Association. They are currently undergoing major upgrades and improvements as the Class A Biosolids project gets underway. Approximately \$14 million in 20 year bonds will be issued by Cowlitz County and will be repaid through annual treatment expenses. Wastewater treatment charges vary each year based on percentage of flow contributed by the district to the total flow contributed by all participants.

NOTE 3 – PENSION PLANS

Substantially all Beacon Hill Sewer District full time employees participate in one of the following statewide retirement systems administered by the Washington State Department of Retirement Systems, under cost-sharing multiple-employer public employee defined benefit and defined contribution retirement plans. The Department of Retirement Systems (DRS), a department within the primary government of the State of Washington, issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for each plan. The DRS CAFR may be obtained by writing to: Department of Retirement Systems, Communications Unit, P.O. Box 48380, Olympia, WA 98504-8380. The following disclosures are made pursuant to GASB Statement No. 27, Accounting for Pensions by State and Local Government Employers.

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

Plan Description

PERS is a cost-sharing multiple-employer retirement system comprised of three separate plans for membership purposes: Plans 1 and 2 are defined benefit plans and Plan 3 is a combination defined benefit/defined contribution plan. Membership in the system includes: elected officials; state employees; employees of the Supreme, Appeals, and Superior courts (other than judges currently in a judicial retirement system); employees of legislative committees; community and technical colleges; college and university employees (not in national higher education retirement programs); judges of district and municipal courts; and employees of local governments. PERS participants who joined the system by September 30, 1977, are Plan 1 members. Those who joined on or after October 1, 1977 and by either February 28, 2002 for state and higher education employees, or August 31, 2002 for local government employees are Plan 2 members unless they exercise an option to transfer their membership to Plan 3. PERS participants joining the system on or after March 1, 2002 for state and higher education employees, or September 1, 2002 for local government employees have the irrevocable option of choosing membership in either PERS Plan 2 or PERS Plan 3. The option must be exercised within 90 days of employment. An employee is reported in Plan 2 until a choice is made. Employees who fail to choose within 90 days default to PERS Plan 3. PERS defined benefit retirement benefits are financed from a combination of investment earnings and employer and employee contributions. PERS retirement benefit provisions are established in state statute and may be amended only by the State Legislature.

Plan 1 retirement benefits are vested after an employee completes 5 years of eligible service. Plan 1 members are eligible for retirement at any age after 30 years of service, or at the age of 60 with 5 years of service, or at age of 55 with 25 years of service. The annual pension is 2 percent of the average final compensation per year of service, capped at 60 percent. The average final compensation is based on the greatest compensation during any 24 eligible consecutive compensation months. If qualified, after reaching age 66 a cost-of-living allowance is granted based on years of service credit and is capped at 3% percent annually.

Plan 2 retirement benefits are vested after an employee completes 5 years of eligible service. Plan 2 members may retire at the age of 65 with 5 years of service, or at the age of 55 with 20 years of service, with an allowance of 2 percent of the average final compensation per year of service. The average final compensation is based on the greatest compensation during any eligible consecutive 60-month period. Plan 2 retirements prior to 65 receive reduced benefits. If retirement is at age 55 or older with at least 30 years of service, a 3 percent per year reduction applies; otherwise an actuarial reduction will apply. There is no cap on years of service credit; and a cost of-living allowance is granted (indexed to the Seattle Consumer Price Index), capped at 3 percent annually.

Plan 3 has a dual benefit structure. Employer contributions finance a defined benefit component, and member contributions finance a defined contribution component. The defined benefit portion provides a benefit calculated at 1 percent of the average final compensation per year of service. The average final compensation is based on the greatest compensation during any eligible consecutive 60-month period. Plan 3 members become eligible for retirement if they have: at least 10 years of service; or 5 years including 12 months that were earned after age 54; or 5 service credit years earned in PERS Plan 2 prior to June 1, 2003. Plan 3 retirements prior to the age of 65 receive reduced benefits. If retirement is at age 55 or older with at least 30 years of service, a 3 percent per year reduction applies; otherwise an actuarial reduction will apply. There is no cap on years of service credit; and Plan 3 provides the same cost-of-living allowance as Plan 2. The defined contribution portion can be distributed in accordance with an option selected by the member, either as a lump sum or pursuant to other options authorized by the Employee Retirement Benefits Board.

There are 1,169 participating employers in PERS. Membership in PERS consisted of the following as of the latest actuarial valuation date for the plans of September 30, 2004:

Retirees and Beneficiaries Receiving Benefits	66,896
Terminated Plan Members Entitled to But Not Yet Receiving Benefits	21,031
Active Plan Members Vested	103,039
Active Plan Members Nonvested	<u>53,217</u>
Total:	244,183

Funding Policy

Each Biennium the state Pension Funding Council adopts Plan 1 employer contribution rates, Plan 2 employer and employee contribution rates and Plan 3 employer contribution rates. Employee contribution rates for Plan 1 are established by statute at 6 percent for state agencies and local government employees and 7.5% for state government elected officers. The employer and employee contribution rates for Plan 2 and the employer contribution rate for Plan 3 are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. All employers are required to contribute at the level established by the Legislature. PERS Plan 3 defined contribution is a non-contributing plan for employers. Employees who participate in the defined contribution portion of PERS Plan 3 do not contribute to the defined benefits portion of PERS Plan 3. The Employee Retirement Benefits Board sets Plan 3 employee contribution rates. Six rate options are available ranging from 5 to 15 percent; two of the options are graduated rates dependent on the employee's age. The methods used to determine the contribution requirements are established under state statute in accordance with chapters 41.40 and 41.45 RCW.

The required contribution rates expressed as a percentage of current year covered payroll, as of December 31, 2004, were as follows:

	<u>PERS Plan 1</u>	<u>PERS Plan 2</u>	<u>PERS Plan 3</u>
Employer*	2.44%	2.44%	2.44%**
Employee	6.00%	1.18%	***

* The employer rates include the employer administrative expense fee currently set at 0.19%.

** Plan 3 defined benefit portion only.

*** Variable from 5.0% minimum to 15% maximum based on rate selected by the PERS 3 member.

Both the district and the employees made the required contributions. The District's covered retirement payroll for years ending December 31, 2004 and December 31, 2005 were \$282,358.44 and \$314,012.06, respectively. The District's required contributions for the years ended December 31 were:

	<u>PERS Plan 1</u>	<u>PERS Plan 2</u>	<u>PERS Plan 3</u>
2005	\$2,309.52	\$4,020.99	\$ 737.90
2004	\$1,068.40	\$2,866.56	
2003	\$1,000.20	\$2,827.62	

NOTE 4 – RISK MANAGEMENT

The District is a member of the Water and Sewer Risk Management Pool (Pool). Chapter 48.62 RCW authorizes the governing body of any one or more governmental entities to form together into or join a pool or organization for the joint purchasing of insurance, and/or joint self-insuring, and/or joint hiring or contracting for risk management services to the same extent that they may individually purchase insurance, self-insurance, or hire or contract for risk management services. An agreement to form a pooling arrangement was made pursuant to the provisions on Chapter 39.34 RCW, the Interlocal Cooperation Act. The Pool was formed in

November 1987 when water and sewer districts in the State of Washington joined together by signing an Interlocal Governmental Agreement to pool their self-insured losses and jointly purchase insurance and administrative services. The Pool currently has 63 members. The Pool's fiscal year is November 1st through October 31st.

The Pool allows members to jointly purchase insurance coverage, establish a plan of self-insurance coverage, and provide related services, such as risk management and loss prevention. The Pool provides the following forms of group purchased insurance coverage for its members: Property (including Building, Electronic Data Processing, Boiler & Machinery, and Mobile Equipment); General Liability; Automotive Liability; Excess Liability; Crime; Public Officials Liability; and bonds of various types. All coverages are on an "occurrence" basis.

Members make an annual contribution to fund the Pool. The Pool purchases insurance policies from unrelated underwriters which are subject to a per occurrence deductible or self-insured retention as follows: General Liability of \$250,000.00 (including general liability, Public Officials Liability and Automobile Liability); Property Insurance of \$25,000.00 (except earthquake and flood which is subject to a deductible of 5% of the values at risk at the time of the loss subject to a minimum of \$100,000.00; those properties located in NFIP Flood Zones A and V are subject to a \$250,000.00 deductible); Boiler and Machinery which is \$25,000.00; and Crime which is \$5,000.00 per occurrence. Pool members are responsible for a deductible on each coverage and the Pool is responsible for the remainder of the self-insured retention. The insurance carriers then cover the loss to the maximum limit of the policy. Each member is responsible for the full deductible applicable to the perils of earthquake and flood (the Pool is not responsible for any deductible or self-insured retention for earthquake and flood claims).

Upon joining, the members contract to remain in the Pool one full policy period. Following completion of one full policy period, members must give six months notice before terminating participation (e.g. to withdraw from the Pool on November 1, 2005, written notice must be in the Pool possession by April 30, 2005). The Interlocal Governmental Agreement is renewed automatically each year after the initial full policy period. Even after termination, a member is still responsible for contributions to the Pool for any unresolved, unreported, and in process claims, for the period that the District was a signatory to the Interlocal Governmental Agreement.

The Pool is governed by a Board of Directors which is comprised of one designated representative from each participating member. An Executive Committee is elected at the annual meeting, and is responsible for conducting the business affairs of the Pool and providing direction to the Pool's Executive Director.