

Chairman's Report for 2010



David Peterson
Chairman 2010

Dear Customer,

As Chairman of the Board of Directors for 2010, I was certainly aware of the economic challenges that our customers faced during the past year as the economic downturn continued. My fellow Board Members and I established two main goals for the year; maintaining stable rates and ensuring that Vera Water & Power remained financially strong. Helping our District to remain strong and viable in the face of a deepening recession that has hit our nation over the past two years meant tightening our belt in all areas just as everyone has had to with cut backs and rising costs. Vera's customers were and still are financially challenged by this difficult economy, and your Board and General Manager's decision to postpone the electric rate increase until after the heating season in April this year, following BPA's rate increase to us in October of 2010 was based on concern for our customers. Due to the fact that revenues were lower than anticipated, Vera dipped into its cash reserves in order to accomplish this savings for our customers.

Working with management and staff, we also examined every aspect of the District's budget for last year, eliminated costs wherever possible, including identifying any purchasing and projects that could be postponed. During this process though, we were acutely aware of the importance of maintaining both the water and electric systems to our high standards in order to continue to provide the quality of service that you expect.

Early last year, we experienced a milder winter than the previous two which enabled us to start early in the year on several projects that had been delayed two years due to those extreme winters. This gave us a head start on our annual maintenance and the installation of new and replacement equipment for both of the water and electric systems. Your Board of Directors reviews Vera's budget regularly to assess its financial picture, then makes adjustments to stay within the budget as much as possible. We must continue to invest in maintaining our system.

Two of the critical power projects completed were maintaining Vera Water and Power's distribution systems including the overhead power line rebuild and pole replacement along Broadway Avenue between Flora and Conklin Roads as well as the new 115 KV switch installation across the river in conjunction with Bonneville to provide the ability to switch large portions of the District's electric load to a different substation in the event of a wide spread outage. This project will allow Vera to bring as many customers as possible back in power when an entire substation is experiencing an outage. Every improvement such as this will continue to increase our reliability as we serve one of your most critical needs, electric power.

This past summer, we entered into an interlocal agreement with Model Irrigation District to build an emergency tie-in between both water districts along Highway 27 south of 32nd Avenue. We completed construction on the project mutually sharing the costs and labor involved. This will provide both water utilities with back up in the event of an extreme emergency water outage at either District. This past fall, Vera's crews installed all new conduit at the intersection of Sprague Avenue and Sullivan Road as Spokane County Roads Department replaced the road surface at that major intersection.

During 2010, Vera worked with a consultant to prepare our financial data for submission to Moody's for a bond rating. This rating was required in order for Vera to provide credit support for our "Tier Two" power through Northwest Intergovernmental Energy Supply (NIES). Vera received an A-1 rating which is an impressive bond rating for a public utility of its size. Another benefit that our Moody's rating will provide to the District is guidance for planning financially for the future with suggested strategies for cash reserves. As we undertake large improvement projects on our water and electric systems, we will have the benefit of our bond rating when Vera sells municipal bonds to finance these projects. Even this process is something that costs money so that is why we are keeping a vigilant watch on how all of Vera's funds are spent in our efforts to keep our goal to maintain the lowest rates.

During the fall of 2010, we experienced some water samples showing coliform in the results of the testing at the Health District's lab. These positive test results, as our General Manager communicated to you in a separate letter, were likely the result of organic leaf, grass or dirt type material being blown back into Vera's water system during the fall season when customers are blowing out their sprinkler irrigation system to winterize them. As an extra precaution, we initiated temporary chlorination of the water system to ensure that the positive sampling would not occur again. It was a successful decision and all water samples were negative for any forms of bacteria during the remainder of the Fall season. We certainly appreciate all of our customers' positive support during that period while we were chlorinating the District's water. It is not something that we would choose to do unless it was necessary as a precautionary measure. We take great steps to avoid treating the District's water supply on a regular basis by maintaining our water distribution system to the highest standards possible which allows us to provide you the clean, pure drinking water that Vera prides itself on while at the same time meeting the stringent Washington State's Department of Drinking Water requirements.

As you can imagine, all of the testing, requirements and regulations, and the increased power cost all put pressure on Vera's rates. Even though there is so much that goes into providing your power and water in today's world, Vera still is among the lowest rates in the nation. We are committed to providing you the best possible service. We will do our very best to manage Vera's financial matters so that your rates remain affordable.

I thank you for the opportunity to serve as Chairman for Vera's Board of Directors and feel it is a privilege to be part of our local utility's oversight particularly in light of today's rapidly changing world of economic and environmental concerns. We are all working to stay strong and with future long range goals as well as addressing the challenges of each day. I especially want to thank our staff for their hard work and commitment to Vera's mission and to thank our customers as well for their support last year. This is what makes Vera Water & Power so very special!

Sincerely,

A handwritten signature in cursive script that reads "David A. Peterson".

David Peterson, Chairman 2010

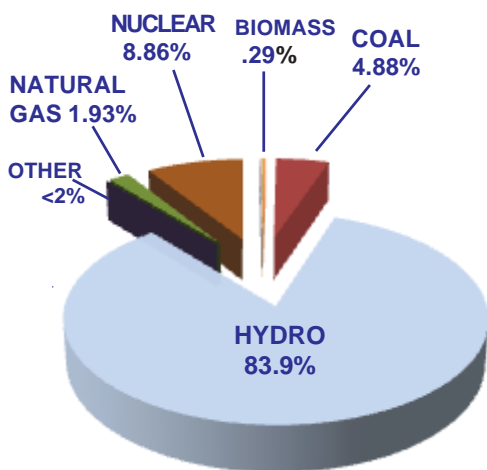
VERA WATER AND POWER

2010 Operating Statement

2010 ANNUAL REPORT

2010 Balance Sheet

<u>Revenues</u>			<u>Assets</u>		
	<u>2010</u>	<u>2009</u>		<u>2010</u>	<u>2009</u>
Sales of Power	\$12,281,508	\$12,668,259	Cash & Current Assets	\$ 7,828,123	\$ 8,442,579
Sales of Water	1,676,570	1,771,712	Restricted Cash & Reserves	1,001,134	885,344
Sewer Service	6,869	6,916	Total Net Capital Assets	40,198,595	38,728,819
Other Income, net	<u>262,000</u>	<u>310,691</u>	Debt & Bond Discount	<u>456,317</u>	<u>530,707</u>
Total Revenue	<u>14,226,947</u>	<u>14,757,578</u>	Total Assets	<u>\$ 49,484,169</u>	<u>\$ 48,587,449</u>
<u>Expenses</u>			<u>Liabilities & Net Assets</u>		
Cost of Power	7,260,604	7,025,657	Current Liabilities	\$ 2,215,718	\$ 2,045,975
Cost of Water	250,462	284,857	Current Debt	422,636	322,750
Operations/Maint.	3,708,170	3,750,788	Long Term Debt	<u>5,447,975</u>	<u>5,904,333</u>
Taxes	556,649	573,788	Total Liabilities	<u>8,086,329</u>	<u>8,273,058</u>
Depreciation	1,377,551	1,303,304	Net Assets	<u>41,397,840</u>	<u>40,314,391</u>
Interest Expense	<u>254,632</u>	<u>265,419</u>	Total Liabilities & Equities	<u>\$ 49,484,169</u>	<u>\$ 45,046,686</u>
Total Expenses	<u>13,408,068</u>	<u>13,203,813</u>			
Net Income	\$ 818,879	\$ 1,553,765			



Vera Water & Power's Fuel Mix of Resources Annual Report for 2009

STATE law requires that all electric utilities disclose the fuel mix of their resources to their customers annually. In Vera Water & Power's case, all of our energy is purchased from the Bonneville Power Administration who in turn, provides us with an annual report of their fuel mix for power generation. This graph to the left illustrates the percentage of each type of fuel that is used to generate electricity and as you can see, large hydro power produced by the system of dams on the Columbia and Snake Rivers is the lion's share.

The good news is that this is a completely renewable resource. Other sources of power generation include natural gas, coal, nuclear energy, wind and small amounts of waste, and biomass fuels which are derived from plant and agricultural products.

Fuel Mix Annual Report for 2010 will be published in Sept., 2011.

CURRENT BOARD OF DIRECTORS

David Peterson *Director* Floyd Schmedding *Director* Brian Fetz *Director* Robert Oeflein *Director* Steve Wulf *Chairman* Kevin Wells *General Manager*



HOW THE DISTRICT IS GOVERNED

The Vera Irrigation District is organized, and operates, under Chapter 87 of the Revised Code of the State of Washington. The financial and other records are audited annually by the Washington State Auditor. The District is governed by a five-member Board of Directors. The Directors are elected to serve staggered, three-year terms, by position. The Board of Directors is the policy-making body. The Board of Directors hires a general manager who is responsible for the administration and day-to-day operation of the District. All employees of the District are responsible to, and report to the general manager.

The Board of Directors meets at 7:00 PM on the second Wednesday of each month at a public meeting in the District office. It would be advisable for a customer wishing to make a presentation to the Board to call the office in order to be placed on the agenda to insure time is available for your presentation. You are welcome to attend these meetings.

