

Modern Electric Water Company 2009 Annual Report

Modern Electric Water Company
P.O. Box 14008
Spokane Valley, WA 99214-0008

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PRESIDENT'S REPORT

This past year was a year of many highs, lows, and accomplishments. A low point came on October 31, 2009 when our board president and friend, Dr. James Bourekis, passed away. Jim served as a Modern director since 1985 and as the President of the Board since 2001. He was dedicated to the company's mission of providing reliable and efficient electric and water service at the lowest possible cost. Under his directions, Modern made many improvements to both its electric and water infrastructure.

Jim and his wife Kathy moved to the Spokane Valley in 1960 where he practiced dentistry until his retirement in 1988. He was very active in many charitable organizations and was a well known professional who will be greatly missed by both Modern and the community.

This year was another successful and productive year for Modern Electric Water Company in spite of the continual tough, challenging economic conditions. Because of the economic downturn, Modern's revenues were down slightly while the cost of materials for both the electric and water systems continued to rise. To compound this challenge, on October 1, 2009, our power provider Bonneville Power Administration increased its rates to public utility customers like Modern by approximately 7.5%. This translated to over a half million dollar annual increase to Modern Electric Water Company.

Other utilities in the region have announced rate increases to their customers because of the increased cost of the wholesale power supply. Due to good planning and prudent fiscal management, Modern's board was able to choose not to increase rates at this time. In fact, we had no rate increase last year and the year before, we actually had a 4% rate decrease. The predominant reason for not increasing rates at this time is because of the hardship that many of our customers are already facing. An increase in vital services such as electric and water service would create additional burden on our customers.

Modern has been able to absorb these costs and not raise rates because when times were good and Modern had a positive cash flow, Modern held the line on its costs and prudently spent these funds on system improvements and maximized its cash reserves. Now during tough times, we are able to decrease our capital improvement budgets while still moving the company forward and can draw on our cash reserves. Due to this forward thinking and the excellent team work between the board, management, and employees, we are able to give our customers excellent, safe and reliable electric and water service at the lowest cost in the region.

On behalf of the board, I want to thank management and Modern's employees for exceeding expectations for service to our customers. Modern is financially sound with substantial reserves and is debt free. This is the result of the work of the board, management, employees, and the support of our customers. This is the recipe for making Modern Electric Water Company a successful utility that benefits its customers.

Warmest Regards,

Cecil Cleveland
President, Board of Directors

The second part to our power supply is the amount of power that can't be supplied from the low-cost hydro system. Modern and other public power customers have the choice of buying this power from any source available, including Bonneville's non-hydro resources. After over two years of research on various power supply providers and negotiations, Modern has signed a contract with Bonneville Power Administration for their non-hydro power through September 2029. By doing this, Modern is guaranteed ample supply of power for its customers at the lowest risk possible. Being that our power supply purchases represent over half of Modern's total annual expenditures, having a stable, low-risk power supply is very important for the well being of our customers.

Over the next several years, we will have many challenges ahead of us. Even with our long-term contracts, the price of our wholesale power will be up for review every two to three years during the life of the contracts. These reviews are not unique to Modern; they apply to all of Bonneville's public power customers. Our goal will be to keep our wholesale rate increases to a minimum and to work with Bonneville and to see that our costs are in line which includes both their internal, and external costs such as funding the Columbia and Snake River salmon and steel head runs.

Other obstacles that we face are the continued demands in dealing and complying with new federal, state, and local regulations. We will work with our elected officials to ensure that these regulations make sense without a large price tag for our customers. As always, our challenges are to keep our rates as low as possible and yet be financially responsible and to provide the best customer service for all of our customers. Over the past few years the result of these efforts is that in the last two years we have not had a rate increase and in 2008, actually had a 4% rate decrease.

I feel very fortunate in being part of this great company and being part of a talented team of employees and Board of Directors. Because of the teamwork of employees and our Board of Directors, we have, in the past, been able to accomplish a great deal. I know we will be able to, in the future, to have many new accomplishments that will lead to continued successes which will benefit our customers. As a locally owned and controlled and not-for-profit utility, our customers come first.

I look forward to the future and as always, working for you,



Mike Baker
General Manager

Cover photo by Dana Winters

GENERAL MANAGER'S REPORT

First of all, I am deeply saddened by the loss of our Board President Dr. James Bourekis. He was a big supporter of Modern Electric Water Company and the community. His honesty and integrity will be greatly missed.

A good way to sum up this past year is as one of great challenges and accomplishments. The economic down turn continued to affect Modern and many of its customers. As mentioned in the President's Report, we are dealing with the current economic situation which included substantial increases in our wholesale power costs and yet we are able to keep our rates to our customers stable. If and when we come out of the current economic downturn, Modern will remain strong and will continue to be able to offer low rates and good customer service to our customers.

In spite of the slow economy, we still hooked up more new residential services than we had planned. We continued our aggressive maintenance program on both the electric and water systems. Additionally, we completed necessary capital improvement projects including the projected replacement of a water main in the northwest portion of our service territory. This water main replacement project was done using our own crews and saved Modern and its customers tens of thousands of dollars over contracting it out to a third party.

Last year, we completed the second and largest phase of a total replacement of our computer system. This second phase included customer records, customer payments, and billing. In completing this second phase, we totally transformed the way Modern conducts its day to day business. I feel it will be a great benefit for our customers in years to come. The new system has changed the way all Modern's employees perform their duties. I would personally like to thank all of Modern's employees for learning and dealing with the many challenges that this conversion presented to them.

As reported last year, in November of 2008, Modern signed a new long-term power supply contract with Bonneville Power Administration that will end in September 2029. This contract will guarantee that Modern will receive its full allotted share of the power that is generated from the low-cost, zero-emissions, federal hydro system starting in October 2011. This favorable contract was the result of several years of negotiations with Bonneville Power Administration to ensure that Modern would be provided with the majority of our power out of this low-cost hydro system.

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Modern Electric Water Company
Spokane Valley, Washington

We have audited the accompanying balance sheets of Modern Electric Water Company as of September 30, 2009 and 2008, and the related statements of income, retained earnings, and cash flows for the years then ended. These financial statements are the responsibility of the Company'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. Those standards require that we plan and perform the audits 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 Modern Electric Water Company as of September 30, 2009 and 2008, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Anderson, Peretti & Co.
Certified Public Accountants, P.S.
Spokane Valley, Washington
February 11, 2010

MODERN ELECTRIC WATER COMPANY

BALANCE SHEETS

September 30, 2009 and 2008

	2009	2008
ASSETS		
UTILITY PLANT (Note 2)		
Land	\$ 540,172	\$ 540,172
Buildings & grounds	3,672,618	3,671,719
Equipment & vehicles	3,268,286	2,594,208
Tanks, towers & plant	6,447,023	6,444,659
Water system	8,896,714	8,766,623
Electric system	17,633,457	17,374,011
Construction in process	164,419	172,663
	<u>\$ 40,622,689</u>	<u>\$ 39,564,055</u>
Less depreciation reserve	19,956,001	18,721,674
Net utility plant	<u>\$ 20,666,688</u>	<u>\$ 20,842,381</u>
PLANT REPLACEMENT AND IMPROVEMENT FUNDS (Note 4)		
	<u>\$ 16,178,607</u>	<u>\$ 13,934,934</u>
OTHER ASSETS		
Deferred charges (Note 6)	\$ 40,367	\$ 52,788
Deposits	70,386	62,267
	<u>\$ 110,753</u>	<u>\$ 115,055</u>
CURRENT ASSETS		
Cash and equivalents	\$ 3,121,929	\$ 2,411,603
Receivables (Note 1):		
Customer accounts	1,365,340	1,368,037
Other	9,306	204,030
Inventory (Note 1)	351,705	327,457
Prepaid expenses	93,502	94,090
Total current assets	<u>\$ 4,941,782</u>	<u>\$ 4,405,217</u>
	<u>\$ 41,897,830</u>	<u>\$ 39,297,587</u>

See Notes to Financial Statements.

NOTES TO FINANCIAL STATEMENTS

NOTE 8. ACCUMULATED COMPREHENSIVE INCOME

	2009	2008
Unrealized gains and losses (note 4)	\$ 58,268	\$(2,810,645)
Pension liability adjustment (note 5)	<u>(1,510,620)</u>	<u>(1,395,500)</u>
	<u>\$(1,452,352)</u>	<u>\$(4,206,145)</u>

NOTE 9. ADMINISTRATIVE EXPENSES

	2009	2008
General office wages and expense	\$ 725,788	\$ 667,423
Taxes	54,646	55,437
Office supplies & maint.	169,298	123,349
Public relations	39,670	47,720
Dues & subscriptions	74,895	71,265
Pension plan	162,016	198,400
Postage	60,945	57,010
Accounting & legal fees	59,631	43,652
Insurance	52,731	49,636
Medical plan costs	85,982	87,512
Transportation costs	5,341	6,579
Company power usage	16,796	16,362
Depreciation	<u>172,874</u>	<u>154,386</u>
	<u>\$1,680,613</u>	<u>\$1,578,731</u>

NOTE 6. PLANT SYSTEM STUDIES

In fiscal year 2008, the Company has undertaken planning and rate studies in order to anticipate the future growth and demand requirements of its service area. These studies were completed on 1/1/2008 for a total cost of \$62,103. These studies are being amortized over 5 years and are reported at cost net of accumulated amortization. At September 30, 2009 and 2008, net book value was \$40,367 and \$52,788, respectively. Amortization expense at September 30, 2009 and 2008 was \$12,421 and \$ 9,315, respectively.

NOTE 7. COMMITMENTS

All water utilities in the State are required by the Washington Health Department to submit an updated comprehensive water plan outlining the strategies the companies will implement over a six year period to insure their compliance with new regulations. Modern Electric Water Company was required to submit, and has completed an updated plan for the six year period commencing January 2008.

Effective October 1, 2006, the Company entered into a five-year agreement to purchase all of its electrical power from Bonneville Power Administration. On November 18, 2008 the Company gave authorization to enter into a new agreement with the Bonneville Power Administration to purchase all its electrical power from the Bonneville Power Administration starting October 1, 2011 and ending September 30, 2029.

The Company had a letter of credit of \$1,400,000 with UBS Financial Services, Inc. to financially assist BPA in the event that they experience low reserves. The letter of credit expired on September 30, 2009 and was secured by investments held at UBS Financial Services, Inc. At September 30, 2009 and 2008, there were no outstanding balances.

The Company is subject to a collective bargaining agreement that cover employees other than management and professional employees. The agreement was renewed on April 1, 2009 and expires on March 31, 2011.

	2009	2008
STOCKHOLDERS' EQUITY (Note 3)		
Capital stock \$1 par value	\$ 2,790	\$ 3,153
Paid-in capital & earnings retained prior to 1963	2,113,957	2,113,957
Paid-in capital since 1963	44,371	44,371
Earnings retained 1963-2010	38,339,958	38,504,851
Accumulated comprehensive income (Note 8)	(1,452,352)	(4,206,145)
	\$ 39,048,724	\$ 36,460,187
LIABILITIES		
ACCRUED PENSION COSTS (Note 5)		
	\$ 1,150,792	\$ 1,198,029
CURRENT LIABILITIES		
Accounts payable	\$ 1,261,613	\$ 1,159,342
Accrued liabilities:		
Wages & vacation	320,214	286,699
Taxes & other	116,487	193,330
Total current liabilities	\$ 1,698,314	\$ 1,639,371
	\$ 41,897,830	\$ 39,297,587

MODERN ELECTRIC WATER COMPANY
STATEMENTS OF INCOME
Years Ended September 30, 2009 and 2008

	Department	
	<u>Electric</u>	<u>Water</u>
OPERATING REVENUES:		
Customer service	\$ 11,919,611	\$ 1,733,952
Customer construction	67,178	132,182
Total operating revenues	<u>\$ 11,986,789</u>	<u>\$ 1,866,134</u>
OPERATING EXPENSES:		
Power purchases	\$ 7,173,983	\$ 94,809
General operations	1,002,682	533,368
Maintenance & repairs	348,043	274,007
Depreciation	535,907	573,901
Taxes	461,681	88,903
Total operating expenses	<u>\$ 9,522,296</u>	<u>\$ 1,564,988</u>
Income before		
administrative expenses	<u>\$ 2,464,493</u>	<u>\$ 301,146</u>
Administrative expenses (Note 9)		
Income from operations		
OTHER INCOME (EXPENSE):		
Net investment income (loss)		
Other income (expense)		
Total other income (loss)		
Net income (loss)		

STATEMENTS OF RETAINED EARNINGS

Years Ended September 30, 2009 and 2008

Balance, beginning	\$ 38,504,851	\$ 35,655,191
Net income (loss)	(164,893)	2,849,660
Balance, ending	<u>\$ 38,339,958</u>	<u>\$ 38,504,851</u>

NOTES TO FINANCIAL STATEMENTS

NOTE 5. DEFINED BENEFIT PENSION PLAN

Net pension cost for the Company's defined benefit pension plan consisted of the following components for the years ended 2009 and 2008:

	<u>2009</u>	<u>2008</u>
Service cost (benefits earned)	\$ 243,478	\$ 223,058
Interest cost on projected benefit obligation	183,489	169,912
Actual return on plan assets	(110,057)	395,372
Net amortization and deferral	71,821	(474,372)
Employee contributions	(21,088)	(19,143)
	<u>\$ 367,643</u>	<u>\$ 294,827</u>
Company contribution	<u>\$ 530,000</u>	<u>\$ 180,000</u>
Benefits paid	<u>\$ 132,059</u>	<u>\$ -</u>

The following table sets forth the plan's funded status as of September 30, 2009 and 2008 and the amount recognized in the accompanying balance sheets as of September 30:

	<u>2009</u>	<u>2008</u>
Actuarial present value of benefit obligations:		
Vested benefits	\$ 2,510,775	\$ 2,169,654
Accumulated benefits	\$ 2,532,335	\$ 2,194,037
Projected benefits	\$ (3,738,998)	\$ (3,257,149)
Plan assets at fair value	<u>2,588,206</u>	<u>2,059,120</u>
Plan assets less than projected benefit obligation	\$ (1,150,792)	\$ (1,198,029)
Unrecognized net loss	1,436,760	1,286,292
Unrecognized prior service cost	73,860	109,208
Other comprehensive income	(1,510,620)	(1,395,500)
Asset (accrual) on balance sheet	<u>\$ (1,150,792)</u>	<u>\$ (1,198,029)</u>

The discount rate and rate of increase in future compensation levels used in determining the actuarial present value of the benefit obligations were 5.75% and 4.5%, respectively, at September 30, 2009. The expected long-term rate of return on plan assets used in 2009 was 5.75%.

NOTE 4. PLANT REPLACEMENT AND IMPROVEMENT FUNDS

Management intends that these funds be used for normal replacement, expansion, and upgrading of the Company's utility plant. In addition, changes in various requirements of federal, state or local regulations could require the Company to incur substantial capital expenditures in order to comply with any such new regulations. Management's intention is to use these funds to meet such contingencies when they arise.

The Company has invested the funds in debt and equity securities. Debt securities consist primarily of obligations of the U.S. and state governments, and domestic corporations. Equity securities are held in managed fund portfolios. Since the Company neither buys investment securities in anticipation of short-term fluctuations in market prices nor absolutely commits to holding securities to maturity, these investments are classified as available-for-sale in accordance with FASC 320 and are stated at market value. A summary of cost, market value and unrealized gains at September 30, 2009 and 2008 for these investments follows:

	Securities Cost	Net Unrealized Gain (Loss)	Securities Market Value
2009			
Debt	\$ 7,283,799	\$ (525,681)	\$ 6,758,118
Equity	8,836,540	583,949	9,420,489
	<u>\$16,120,339</u>	<u>\$ 58,268</u>	<u>\$16,178,607</u>
2008			
Debt	\$ 8,484,533	\$(1,671,409)	\$ 6,813,124
Equity	8,261,046	(1,139,236)	7,121,810
	<u>\$16,745,579</u>	<u>\$(2,810,645)</u>	<u>\$13,934,934</u>

Net comprehensive income (loss) during the years ended September 30, 2009 and 2008 is \$2,868,913 and \$(3,089,283), respectively. Net comprehensive income consists of net unrealized holding gains (losses) arising during the year of \$4,656,124 and \$(2,760,590), respectively, and reclassification adjustment for net realized gains (losses) included in net income for the year of \$(1,787,211) and \$(328,693), respectively. Accumulated comprehensive income at September 30th, is \$58,268 and \$(2,810,643), respectively.

The cost and market value of debt securities, by contractual maturities, as of September 30, 2009 are as follows:

	Cost	Market Value
Due in one year or less	\$ 3,056,260	\$ 3,079,252
Due after one year through five years	674,125	682,963
Due after five years	3,553,414	2,995,903
	<u>\$ 7,283,799</u>	<u>\$ 6,758,118</u>

	2009 TOTAL	2008 TOTAL
\$	13,653,563	\$ 13,709,928
	199,360	229,398
\$	<u>13,852,923</u>	<u>\$ 13,939,326</u>
\$	7,268,792	\$ 7,281,978
	1,536,050	1,182,675
	622,050	419,356
	1,109,808	1,070,042
	550,584	737,927
\$	<u>11,087,284</u>	<u>\$ 10,691,978</u>
\$	2,765,639	\$ 3,247,348
	1,680,613	1,578,731
\$	<u>1,085,026</u>	<u>\$ 1,668,617</u>
\$	(1,210,807)	\$ 544,489
	(39,112)	636,554
\$	<u>(1,249,919)</u>	<u>\$ 1,181,043</u>
\$	<u>(164,893)</u>	<u>\$ 2,849,660</u>

See Notes to Financial Statements.

MODERN ELECTRIC WATER COMPANY
STATEMENTS OF CASH FLOWS
Years Ended September 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>
CASH FLOWS FROM		
OPERATING ACTIVITIES:		
Cash from customers	\$ 13,846,540	\$ 14,585,019
Cash from investments	5,561	25,468
Cash paid for operations	<u>(11,447,206)</u>	<u>(10,645,300)</u>
Net cash from operations	<u>\$ 2,404,895</u>	<u>\$ 3,965,187</u>
CASH FLOWS FROM		
INVESTING ACTIVITIES:		
Proceeds from sale of assets	\$ -	\$ 2,113
Purchase of:		
Buildings & grounds	(899)	(44,396)
Equipment & vehicles	(672,684)	(253,443)
Tanks, towers & plant	(2,363)	-
Water system	(117,294)	(213,429)
Electric system	(301,329)	(2,900,020)
Purchase of plant funds	<u>(600,000)</u>	<u>(180,000)</u>
Net cash used in investing	<u>\$ (1,694,569)</u>	<u>\$ (3,589,175)</u>
Increase (decrease) in cash	\$ 710,326	\$ 376,012
Beginning cash	2,411,603	2,035,591
Ending cash	<u>\$ 3,121,929</u>	<u>\$ 2,411,603</u>

See Notes to Financial Statements.

NOTES TO FINANCIAL STATEMENTS

NOTE 2. UTILITY PLANT (continued)

Depreciation is computed on the straight-line method with the following range of lives and balances:

	Lives in Years	Reserve for Depreciation at September 30	
		<u>2009</u>	<u>2008</u>
Buildings & grounds	10-40	\$ 1,037,150	\$ 938,951
Equipment & vehicles	5-10	2,012,102	1,848,209
Tanks, towers & pumping plant	10-35	4,155,040	3,905,460
Water system	20-35	5,162,856	4,895,915
Electric system	15-40	<u>7,588,853</u>	<u>7,133,139</u>
		<u>\$ 19,956,001</u>	<u>\$ 18,721,674</u>

NOTE 3. STOCKHOLDERS' EQUITY

The Company (a Washington corporation) is owned by the owners of the real property within its service area. The Company's authorized capital consists of 6,000 shares of \$1 par value stock. Stock certificates, as such, are not issued to each owner, but rather ownership is vested in the deed to their property. There are 2,790 acres of land which have vested ownership. Prior to December 31, 1963, the Company did not segregate retained earnings and paid-in capital. The retained earnings shown in the accompanying financial statements represent earnings retained since such date.

Since its founding in 1905, Modern Electric Water Company has kept records of property ownership within the service district. These records are the basis for the Company's allocation of shares of common stock and the corresponding voting rights of each member of the Cooperative.

The Spokane County Assessor maintains separate property ownership records for all property in Spokane County. In May 2009, the Board of Directors of Modern Electric Water Company elected to adopt the Spokane County Assessor's records regarding property ownership as the basis for determining the ownership shares of Modern Electric Water Company shareholders. The adoption of these records will provide for a more accurate and consistent method of tracking property ownership and the related voting rights.

Prior to the adoption of the County records, the Company recognized 3,153 acres of land with vested voting rights. The Company now recognizes 2,790 acres for voting purposes, a decrease of 363 acres.

**NOTE 1. NATURE OF BUSINESS AND
SIGNIFICANT ACCOUNTING POLICIES
(continued)**

Inventory:

Inventory is recorded at average cost not in excess of replacement cost.

Income tax:

The Company is a tax-exempt entity under Internal Revenue Code Section 501 (c) (12), per an exemption letter dated March 12, 1939.

Pension benefits:

The Company has a defined benefit pension plan covering certain employees who meet the eligibility requirements. To be eligible, an employee must be 21 years of age and have completed one year of service. The plan provides benefits based on the average annual compensation of the highest five consecutive years of compensation out of the last ten years of service of each participant, which are subject to certain reductions if the employee retires before reaching age 65. In order to become plan participants, employees are required to contribute one percent of their pay to the plan. The employer contributes the remaining amount necessary to provide the plan's defined benefits.

In addition, the Company has a deferred compensation plan which is available to all employees. The Company matches employee contributions up to 5% of total gross compensation. The Company's contributions to this plan were \$88,225 and \$87,936 for 2009 and 2008, respectively.

Use of estimates:

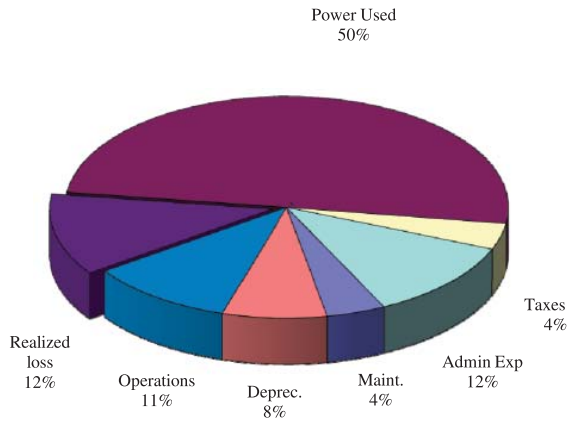
The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

NOTE 2. UTILITY PLANT

Additions to utility plant are recorded at cost, including any applicable overhead costs. The cost of repairs and minor replacements is charged to maintenance. Gains and losses on the retirement of utility plant are included in the statements of income.

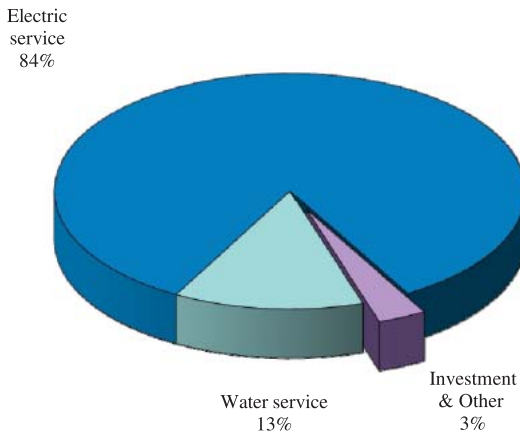
	2009	2008
RECONCILIATION OF NET INCOME TO CASH FROM OPERATING ACTIVITIES:		
Net income	\$ (164,893)	\$ 2,849,660
Adjustments to reconcile net income to cash from operations:		
(Gain) loss on sale of fixed assets	-	349,383
Depreciation & amortization	1,282,682	1,233,743
Net reinvested investment (income) loss	1,225,240	(539,021)
Change in capital stock	(363)	-
(Increase) decrease in assets:		
Accounts receivable	2,697	166,790
Other receivables	194,724	(184,030)
Inventory	(24,248)	3,680
Prepaid expenses	589	(2,467)
Deposits	(8,119)	(15,022)
Increase (decrease) in liabilities:		
Accounts payable	102,271	(59,338)
Deferred revenue	226	(419)
Accrued liabilities	(43,554)	47,401
Accrued pension liabilities	(162,357)	114,827
Net cash from operations	<u>\$ 2,404,895</u>	<u>\$ 3,965,187</u>

What was done with Revenue For the Year of September 30, 2009



Revenue

For the Year Ended September 30, 2009



MODERN ELECTRIC WATER COMPANY NOTES TO FINANCIAL STATEMENTS

NOTE 1. NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES

Nature of business:

The Company operates an electric and water utility company in Spokane Valley, Washington.

A summary of the Company's significant accounting policies follows:

Revenue recognition:

The Company realizes revenue from electric service monthly as the charges are earned. Water service and estimated usage are also billed monthly. Actual residential water usage is determined in June and September at which time water billings are adjusted accordingly.

Accounts receivable:

The allowance for bad debt reserve was zero at year end. Unpaid accounts receivable create a lien against the property and are therefore adequately secured. Receivables ninety days or more past due were \$18,326 and \$19,733 as of September 30, 2009 and 2008, respectively.

Cash and cash equivalents:

For the purposes of reporting the statements of cash flows, the Company considers all cash accounts, which are not subject to withdrawal restrictions or penalties, and all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

The Company maintains its cash accounts in various banks located in Spokane Valley, Washington. Accounts at each bank are guaranteed by the Federal Deposit Insurance Corporation (FDIC). For fiscal year 2009 through December 31, 2009 all non-interest checking accounts are fully guaranteed under the Transaction Account Guarantee program, for fiscal year 2008 all accounts are covered up to \$250,000 per bank. A summary of the total insured and uninsured cash balances follows:

	2009	2008
Total cash in all banks	\$ 3,121,929	\$ 2,411,603
Portion insured by FDIC	3,121,929	428,814
Uninsured cash balances	<u>\$ 0</u>	<u>\$ 1,982,789</u>