

AVISTA CORP
Form 11-K
June 26, 2012
Table of Contents

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 11-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 15(d) OF THE SECURITIES EXCHANGE ACT OF
1934
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2011

or

TRANSITION REPORT PURSUANT TO SECTION 15(d) OF THE SECURITIES EXCHANGE ACT
OF 1934
FOR THE TRANSITION PERIOD FROM TO

Commission file number 1-3701

THE INVESTMENT AND EMPLOYEE STOCK

OWNERSHIP PLAN FOR EMPLOYEES OF

AVISTA CORPORATION

(Full Title of the Plan)

AVISTA CORPORATION

1411 East Mission Avenue

Spokane, Washington 99202-2600

**(Name of issuer of the securities held pursuant to the plan
and the address of its principal executive office)**

Table of Contents

THE INVESTMENT AND EMPLOYEE STOCK
OWNERSHIP PLAN FOR EMPLOYEES OF
AVISTA CORPORATION

Financial Statements

Attached are the Plan's financial statements and schedules prepared
in accordance with the financial reporting requirements of ERISA.

Exhibits

See Exhibit Index on page 2-1.

Table of Contents

**INVESTMENT AND EMPLOYEE STOCK OWNERSHIP PLAN
OF AVISTA CORPORATION
FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
YEARS ENDED DECEMBER 31, 2011 AND 2010**

Table of Contents

**INVESTMENT AND EMPLOYEE STOCK OWNERSHIP PLAN
OF AVISTA CORPORATION**

TABLE OF CONTENTS

YEARS ENDED DECEMBER 31, 2011 AND 2010

<i><u>REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM</u></i>	2
<i>FINANCIAL STATEMENTS</i>	
<i><u>STATEMENTS OF NET ASSETS AVAILABLE FOR BENEFITS</u></i>	3
<i><u>STATEMENTS OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS</u></i>	4
<i><u>NOTES TO FINANCIAL STATEMENTS</u></i>	5
<i>SUPPLEMENTAL SCHEDULE (ATTACHMENT TO FORM 5500)</i>	
<i><u>SCHEDULE H, LINE 4i SCHEDULE OF ASSETS (HELD AT END OF YEAR)</u></i>	14

Table of Contents

CliftonLarsonAllen LLP
www.cliftonlarsonallen.com

REPORT OF INDEPENDENT REGISTERED

PUBLIC ACCOUNTING FIRM

Compensation & Organization Committee

Investment and Employee Stock

Ownership Plan of

Avista Corporation

Spokane, Washington

We have audited the accompanying statements of net assets available for benefits of Investment and Employee Stock Ownership Plan of Avista Corporation as of December 31, 2011 and 2010, and the related statements of changes in net assets available for benefits for the years then ended. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (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 net assets available for benefits of the Investment and Employee Stock Ownership Plan of Avista Corporation as of December 31, 2011 and 2010, and the changes in its net assets available for benefits for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The supplemental Schedule H, line 4i Schedule of Assets (Held at End of Year) as of December 31, 2011, is presented for the purpose of additional analysis and is not a required part of the financial statements but is supplementary information required by the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. The supplemental schedule is the responsibility of the Plan's management. The supplemental schedule has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

CliftonLarsonAllen LLP

Spokane, Washington

June 20, 2012

(2)

Table of Contents**INVESTMENT AND EMPLOYEE STOCK OWNERSHIP PLAN
OF AVISTA CORPORATION****STATEMENTS OF NET ASSETS AVAILABLE FOR BENEFITS****DECEMBER 31, 2011 AND 2010**

	2011	2010
ASSETS		
INVESTMENTS (at Fair Value)		
Common and Preferred Stock	\$ 35,701,906	\$ 33,329,663
Mutual Funds	197,362,881	199,743,831
Collective Trust	57,568,398	52,959,082
Total Investments	290,633,185	286,032,576
RECEIVABLES		
Employer Contributions	257,377	217,634
Broker Receivable for Unsettled Trades		8,605
Notes Receivable from Participants	4,805,493	4,254,718
Total Receivables	5,062,870	4,480,957
Total Assets	295,696,055	290,513,533
LIABILITIES		
Broker Payable for Unsettled Trades	(35,917)	(12,746)
NET ASSETS REFLECTING INVESTMENTS AT FAIR VALUE	295,660,138	290,500,787
<i>Adjustment from Fair Value to Contract Value for Fully Benefit-Responsive Investment Contracts</i>	<i>(2,665,796)</i>	<i>(2,085,413)</i>
NET ASSETS AVAILABLE FOR BENEFITS	\$ 292,994,342	\$ 288,415,374

See accompanying Notes to Financial Statements.

(3)

Table of Contents**INVESTMENT AND EMPLOYEE STOCK OWNERSHIP PLAN****OF AVISTA CORPORATION****STATEMENTS OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS****YEARS ENDED DECEMBER 31, 2011 AND 2010**

	2011	2010
ADDITIONS TO (DEDUCTIONS FROM) NET ASSETS AVAILABLE FOR BENEFITS ATTRIBUTED TO:		
INVESTMENT INCOME		
Interest Income	\$ 7,838,765	\$ 6,684,171
Net Appreciation (Depreciation) in Fair Value of Investments	(3,186,269)	21,314,557
Total Investment Income	4,652,496	27,998,728
INTEREST INCOME ON NOTES RECEIVABLE FROM PARTICIPANTS	217,612	220,249
CONTRIBUTIONS		
Employee Deferral	11,509,970	10,726,878
Employer Matching	5,491,401	4,748,487
Rollover	1,568,101	403,340
Total Contributions	18,569,472	15,878,705
BENEFITS PAID TO PARTICIPANTS	(18,646,923)	(13,740,842)
ADMINISTRATIVE EXPENSES	(213,689)	(223,484)
NET INCREASE	4,578,968	30,133,356
NET ASSETS AVAILABLE FOR BENEFITS		
Beginning of Year	288,415,374	258,282,018
End of Year	\$ 292,994,342	\$ 288,415,374

See accompanying Notes to Financial Statements.

(4)

Table of Contents

**INVESTMENT AND EMPLOYEE STOCK OWNERSHIP PLAN
OF AVISTA CORPORATION**

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010**

NOTE 1 DESCRIPTION OF THE PLAN

The following description of the Investment and Employee Stock Ownership Plan of Avista Corporation (the Plan) provides only general information. Participants should refer to the Plan document for a more complete description of the Plan's provisions.

General

Effective January 1, 1984, Avista Corporation (Corporation, Company or Avista) established an Employee Investment Plan under Section 401(k) of the Internal Revenue Code as a supplemental plan to the Retirement Plan for Employees of Avista Corporation. The Plan, which was restated effective January 1, 2010, is a defined contribution plan which is subject to the provisions of the Employee Retirement Income Security Act of 1974 (ERISA) and all statutory revisions thereto. The purpose of this Plan, in which participation is voluntary, is to encourage employees to systematically save a portion of their current compensation and to supplement their savings with contributions from the Corporation. All employees of Avista Corporation are eligible to participate in the Plan after their first pay period following employment. Students, leased employees, and collectively bargained employees (other than collectively bargained employees whose employment is subject to the terms of a collective bargaining agreement which provides for participation in the Plan) are ineligible to participate in the Plan.

Contributions

Plan participants make contributions during any payroll period for which they receive earnings as eligible employees in an amount equal to but not less than 1% of their earnings. A participating employee's annual before-tax contribution was subject to federal limits of \$16,500 in 2011 and 2010. Participants who have attained age 50 before the end of the Plan year are eligible to make catch-up contributions. Participants may also contribute amounts representing distributions from other qualified defined benefit or defined contribution plans. Employee contributions represent tax-deferred compensation and Roth 401(k) after tax compensation and may be invested in the employee's choice of various fund options (each with a different investment objective and risk) in the combination specified by the employee. Employee contributions are made by payroll deduction and transferred to the Plan Trustee as soon as practicable following the payroll period in which such amounts are withheld.

The Corporation has an obligation to the trust fund for an amount equal to 75% of employee contributions that do not exceed 6% of the employee's salary.

The Plan was amended effective January 1, 2011, to provide employees hired on or after January 1, 2011 a matching contribution of 100% of employee contributions that do not exceed 6% of the employee's salary.

The Plan was amended effective August 1, 2005, to provide that Company matching contributions are made in the form of cash that is invested as directed by participants from among the investment options offered under the Plan. In addition, each participant may elect to diversify up to 100% of the value of the common stock held in their Employee Stock Ownership Plan (ESOP) account.

Table of Contents

INVESTMENT AND EMPLOYEE STOCK OWNERSHIP PLAN

OF AVISTA CORPORATION

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2011 AND 2010

NOTE 1 DESCRIPTION OF THE PLAN (CONTINUED)

Participant Accounts

Each participant's account is credited with the participant's contribution and allocations of (a) the Company's contribution and (b) Plan earnings or losses, and charged with an allocation of administrative expenses. Allocations are based on participant earnings or account balances, as defined. The benefit to which a participant is entitled is the benefit that can be provided from the participant's vested account.

Vesting

Participant contributions are 100% vested at all times. Participants vest 100% in the Company matching contribution after one year of service or upon death, disability or reaching normal retirement age.

Notes Receivable from Participants

Participants may borrow from their fund accounts a minimum of \$1,000 up to a maximum equal to the lesser of \$50,000 or 50% of their vested account balance. Principal and interest is paid ratably through payroll deductions. Loan terms are up to five years, except for loans to fund the purchase of a principal residence, for which the loan may be repaid over a reasonable period that may extend up to ten years. The loans are secured by the balance in the participant's account and bear interest at a rate of prime rate plus 1%. At December 31, 2011, interest rates ranged from 4.25% to 9.25%.

Payment of Benefits

Distributions to participants are permitted for termination, retirement, death, disability, or financial hardship. A participant with a financial hardship which imposes an immediate and heavy financial need that cannot be reasonably met by other sources may withdraw a portion of his/her account balance subject to provisions of the Plan. Distributions due to termination shall commence as soon as administratively feasible following the date a participant terminates employment. Distributions may be made in a lump sum, partial lump sum, equal annual installments over a period not to exceed 3 years, or monthly installments over not more than 15 years. If the vested amount is less than \$1,000, the account is paid in a lump-sum payment to the participant within a reasonable time frame. If the vested amount is more than \$1,000, the participant must consent to the distribution before it may be made.

Administration

The Vanguard Fiduciary Trust Company (Vanguard or Trustee) holds and invests Plan assets in accordance with directions from the Company. Records of participant account activity are processed and maintained by Vanguard, which also performs other administrative support services for the Plan. Certain administrative functions are performed by officers or employees of the employer appointed by the Corporation's Board of Directors (Compensation & Organization Committee). No such officer or employee receives compensation from the Plan. Certain expenses of maintaining and administering the Plan are paid out of the assets of the Plan. All remaining administrative expenses are paid directly by the Corporation.

(6)

Table of Contents

**INVESTMENT AND EMPLOYEE STOCK OWNERSHIP PLAN
OF AVISTA CORPORATION**

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010**

NOTE 1 DESCRIPTION OF THE PLAN (CONTINUED)

Forfeited Accounts

At December 31, 2011 and 2010, forfeited nonvested accounts totaled \$40,203 and \$31,854, respectively. These accounts are used first to restore accounts for returning participants, and then are used to reduce the Company's obligations to make contributions under the Plan. If there are any excess forfeitures after the Company makes matching contributions, the excess amount may be used to pay administrative expenses under the Plan. In 2011 and 2010, no forfeitures were used to reduce employer contributions or used to restore accounts for returning participants.

Voting Rights

Each participant is entitled to exercise voting rights attributable to the shares allocated to his or her account and is notified by the Trustee prior to the time that such rights are to be exercised. The Trustee will vote any shares on which such instructions have not been received, as well as unallocated shares, proportionately in the same manner as Common Stock for which the Trustee has received voting instructions, unless the Trustee determines that to do so would not be consistent with ERISA or a voting participant elects not to have his vote be used in this manner, in which case the Trustee will vote the non-voted or unallocated Common Stock in a manner consistent with ERISA. Fractional shares will be combined to the largest number of whole shares and voted by the Trustee to the extent possible to reflect the voting direction of whole shares by the participants holding fractional shares.

Diversification

Diversification is offered to participants so that they may have the opportunity to move the value of their investment in the Common Stock into investments which are more diversified. Participants are entitled to make an election to diversify up to 100% of the value of the Common Stock held in their ESOP account.

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The accounting records of the Plan are maintained on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. An addition is recorded and a receivable established for employer and employee contributions and investment income not received by the Plan prior to the Plan year end. A deduction is recorded and a liability established for obligations incurred in one period but paid in another.

Table of Contents

**INVESTMENT AND EMPLOYEE STOCK OWNERSHIP PLAN
OF AVISTA CORPORATION**

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2011 AND 2010

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investment contracts held by a defined contribution plan are required to be reported at fair value. However, contract value is the relevant measurement attribute for that portion of the net assets available for benefits of a defined contribution plan attributable to fully benefit-responsive investment contracts because contract value is the amount participants would receive if they were to initiate permitted transactions under the terms of the Plan. The Statements of Net Assets Available for Benefits present the fair value of the investment contracts as well as the adjustment of the fully benefit-responsive investment contracts from fair value to contract value. The Statements of Changes in Net Assets Available for Benefits are prepared on a contract value basis.

Fair Value Measurements

Financial Accounting Standards Board (FASB) *Accounting Standards Codification (ASC) 820, Fair Value Measurements and Disclosures*, provides the framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described as follows:

Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Plan has the ability to access.

Level 2: Inputs to the valuation methodology include:

quoted prices for similar assets or liabilities in active markets;

quoted prices for identical or similar assets or liabilities in inactive markets;

inputs other than quoted prices that are observable for the asset or liability;

inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3: Inputs to the valuation methodology are unobservable and significant to the fair market value measurement.

Edgar Filing: AVISTA CORP - Form 11-K

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used maximize the use of observable inputs and minimize the use of unobservable inputs. There have been no changes in the valuation methodologies used at December 31, 2011 and 2010.

(8)

Table of Contents

**INVESTMENT AND EMPLOYEE STOCK OWNERSHIP PLAN
OF AVISTA CORPORATION**

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2011 AND 2010

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 reported amounts of assets and liabilities and changes therein, and disclosure of contingent assets and liabilities at the date of the financial statements. Actual results could differ from those estimates.

Investment Valuation and Income Recognition

The Plan's investments are stated at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Investments in the collective trust are valued using the net asset value of units, which are based on observable market prices for the underlying assets, held by the Plan at year-end. Shares of mutual funds are valued at quoted market prices which represent the net asset value of shares held by the Plan at year end. Investments in common stock are valued at the closing price reported on the active market on which the individual securities are traded. The Avista Corporation Company Stock Fund includes shares of Avista Corporation and cash, and is reported based on unitized value.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Plan believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

Purchases and sales are recorded on a trade-date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date. Net appreciation (depreciation) includes the Plan's gains and losses on investments bought and sold as well as held during the year.

Benefit Payments

Benefits are recorded when paid.

Notes Receivable from Participants

Notes receivable from participants are measured at their unpaid principal balance plus any accrued but unpaid interest. Delinquent notes receivable are reclassified as distributions based upon the terms of the plan document.

Table of Contents**INVESTMENT AND EMPLOYEE STOCK OWNERSHIP PLAN
OF AVISTA CORPORATION****NOTES TO FINANCIAL STATEMENTS****DECEMBER 31, 2011 AND 2010****NOTE 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****Subsequent Events**

The Plan Administrator has evaluated other events and transactions occurring after the statement of net assets date through the date that the financial statements were issued, and noted no other events that were subject to recognition or disclosure.

NOTE 3 FAIR VALUE OF INVESTMENTS

The following tables set forth by level, within the fair value hierarchy, the Plan's assets at fair value as of December 31:

	2011			Total
	Level 1	Level 2	Level 3	
Common and Preferred Stock				
Domestic Stock Funds	\$ 35,701,906	\$	\$	\$ 35,701,906
Mutual Funds				
Short-Term Reserves	3,059,525			3,059,525
Bond Funds	32,649,909			32,649,909
Balanced Funds (Stocks and Bonds)	38,832,689			38,832,689
Domestic Stock Funds	92,539,049			92,539,049
International Stock Funds	30,281,709			30,281,709
Collective Trust				
Short-Term Reserves		57,568,398		57,568,398
Total Investments at Fair Value	\$ 233,064,787	\$ 57,568,398	\$	\$ 290,633,185

	2010			Total
	Level 1	Level 2	Level 3	
Common and Preferred Stock				
Domestic Stock Funds	\$ 33,329,663	\$	\$	\$ 33,329,663
Mutual Funds				
Short-Term Reserves	2,145,291			2,145,291
Bond Funds	29,706,160			29,706,160
Balanced Funds (Stocks and Bonds)	36,443,367			36,443,367

Edgar Filing: AVISTA CORP - Form 11-K

Domestic Stock Funds	93,807,717		93,807,717
International Stock Funds	37,641,296		37,641,296
Collective Trust			
Short-Term Reserves		52,959,082	52,959,082
Total Investments at Fair Value	\$ 233,073,494	\$ 52,959,082	\$ 286,032,576

(10)

Table of Contents

**INVESTMENT AND EMPLOYEE STOCK OWNERSHIP PLAN
OF AVISTA CORPORATION**

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2011 AND 2010

NOTE 3 FAIR VALUE OF INVESTMENTS (CONTINUED)

The following table sets forth additional disclosures for the fair value measurement of investments in certain entities that calculate net asset value per share (or its equivalent) as of December 31, 2011 and 2010:

Investment Type	Fair Value	2011		
		Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Short-Term Reserves:				
Vanguard Retirement Savings Trust IV	\$ 57,568,398	\$	90 days	Daily

Investment Type	Fair Value	2010		
		Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Short-Term Reserves:				
Vanguard Retirement Savings Trust IV	\$ 52,959,082	\$	90 days	Daily

The Vanguard Retirement Savings Trust IV (VRST) seeks stability of principal and a high level of current income consistent with a two-three year average maturity. The trust is a tax-exempt collective trust invested primarily in investment contracts issued by insurance companies and commercial banks, and similar types of fixed-principal investments. The trust intends to maintain a constant net asset value of \$1.00 per share. Investments in VRST are limited to participant-directed defined contribution plans and, with Vanguard's approval, other qualified pension plans. There are restrictions as to which types of investments a participant may transfer their money to/from VRST. The money a participant has invested in VRST may be transferred into a stock fund, a balanced fund, or a bond fund with an average duration of more than four years as often as the Plan allows. However, once the money is transferred into such a fund, it must remain there for 90 days before it can be transferred into a shorter term bond or money market fund. A participant can always transfer the money back into VRST, even if it is less than 90 days since transferring the money out of VRST.

NOTE 4 INVESTMENTS

The following presents investments that represent 5% or more of the Plan's net assets available for benefits as of December 31:

(11)

Table of Contents**INVESTMENT AND EMPLOYEE STOCK OWNERSHIP PLAN
OF AVISTA CORPORATION****NOTES TO FINANCIAL STATEMENTS****DECEMBER 31, 2011 AND 2010*****NOTE 4 INVESTMENTS (CONTINUED)***

	2011	2010
Vanguard Retirement Savings Trust IV (at contract value)	\$ 54,902,602	\$ 50,873,669
Vanguard 500 Index Fund	38,696,285	39,212,035
Vanguard Small Cap Growth Index Fund	18,332,619	18,962,497
Vanguard Total Bond Market Index Fund	30,100,697	29,213,632
Vanguard Wellington Fund	38,832,689	36,443,367
Avista Corporation Company Stock Fund	34,446,423	31,811,177
Vanguard Total International Stock Index Fund	14,764,081	11,841,978*

Amount represents less than 5% of Plan's net assets, however, is included for comparative purposes.

Net appreciation (depreciation) in fair value of the Plan's investments (including investments bought, sold, and held during the year) was as follows:

	2011	2010
Mutual Funds	\$ (7,398,448)	\$ 19,803,355
Common and Preferred Stock	4,212,179	1,511,202
	\$ (3,186,269)	\$ 21,314,557

Plan investments in the Avista Corporation Company Stock Fund represented 11.65% and 10.95% of total Plan assets at December 31, 2011 and 2010, respectively. For the years ended December 31, 2011 and 2010, on these investments the Plan experienced net appreciation in fair value of \$4,478,000 and \$1,276,000, respectively.

NOTE 5 RISKS AND UNCERTAINTIES

The Plan invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of the investment securities will occur in the near term and that such changes could materially affect participants' account balances and the amounts reported in the statements of net assets available for benefits.

NOTE 6 PLAN TERMINATION

Although it has not expressed any intent to do so, the Company has the right under the Plan to discontinue contributions at any time and to terminate the Plan subject to the provisions of ERISA. In the event of Plan termination, the participants would become 100% vested in their Company contributions.

(12)

Table of Contents

**INVESTMENT AND EMPLOYEE STOCK OWNERSHIP PLAN
OF AVISTA CORPORATION**

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2011 AND 2010

NOTE 7 PLAN TAX STATUS

The Plan is placing reliance on an opinion letter dated July 18, 2002 received from the Internal Revenue Service indicating that the Plan is qualified under Section 401 of the Internal Revenue Code (IRC) and is therefore not subject to tax under current income tax law. The Plan has been restated since receiving that letter and has applied for, but not received, a new opinion letter on the restated Plan. However the Plan administrator believes that the Plan is designed and is currently being operated in compliance with the applicable requirements of the IRC.

Accounting principles generally accepted in the United States of America require plan management to evaluate tax positions taken by the Plan and recognize a tax liability (or asset) if the Plan has taken an uncertain position that more likely than not would not be sustained upon examination by the Internal Revenue Service. The plan administrator has analyzed the tax positions taken by the Plan, and has concluded that as of December 31, 2011 and 2010, there are no uncertain positions taken or expected to be taken that would require recognition of a liability (or asset) or disclosure in the financial statements. The Plan is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. The plan administrator believes it is no longer subject to income tax examinations for years prior to 2008.

NOTE 8 PARTY-IN-INTEREST TRANSACTIONS

The Plan investments are managed by Vanguard Fiduciary Trust Company (VFTC). VFTC acts as the Trustee for only those investments as defined by the Plan, and, therefore, the investment transactions qualify as party-in-interest transactions. Fees paid by the Plan were \$213,689 and \$223,484 for the years ended December 31, 2011 and 2010.

NOTE 10 EMPLOYEE STOCK OWNERSHIP PLAN (ESOP)

Effective January 1, 2006, the Avista Corporation Company Stock Fund was designated an ESOP. Employer and employee contributions into Avista Corporation stock are classified as ESOP contributions.

Table of Contents**INVESTMENT AND EMPLOYEE STOCK OWNERSHIP PLAN****OF AVISTA CORPORATION**

E.I.N. 91-0462470 PLAN NO. 003

SCHEDULE H, LINE 4i SCHEDULE OF ASSETS (HELD AT END OF YEAR)

DECEMBER 31, 2011

(a)	(b)	(c)	(d)	(e)
	Identity of Issue	Description of Investment	Cost**	Current Value
	Common and Preferred Stock:			
*	Avista Corporation	Company Stock Fund		\$ 34,446,423
*	Self-Directed Securities, VGI Brokerage Option	Vanguard Brokerage Option		1,255,483
		Total Common and Preferred Stock		35,701,906
	Mutual Funds:			
*	Artio Int 1 Eqty A	Registered Investment Company		5,714,050
*	Champ SmCo Adv	Registered Investment Company		1,132,057
*	Dodge & Cox Intl Stock	Registered Investment Company		9,803,577
*	Dodge & Cox Stock Fund	Registered Investment Company		8,626,237
*	Vanguard 500 Index Inv	Registered Investment Company		1,738,623
*	Vanguard Infla-Prot Securities	Registered Investment Company		38,696,285
*	Vanguard Mid-Cap Index Fd Inv	Registered Investment Company		2,549,212
*	Vanguard PRIMECAP Fund Inv	Registered Investment Company		9,193,228
*	Vanguard Prime Money Mkt	Registered Investment Company		9,734,412
*	Vanguard Sm-Cap Growth Index	Registered Investment Company		2,229,978
*	Vanguard Sm-Cap Value Index	Registered Investment Company		18,332,619
*	Vanguard Total Bd Mkt Indx Inv	Registered Investment Company		4,826,856
*	Vanguard Total Int 1 Stock Idx	Registered Investment Company		30,100,697
*	Vanguard Wellington Inv	Registered Investment Company		14,764,081
*	Veracity Small Cap Value; CI R	Registered Investment Company		38,832,689
*	Self-Directed Securities, VGI Brokerage Option	Vanguard Brokerage Option		1,088,280
		Total Mutual Funds		197,362,881
	Collective Trust:			
*	Vanguard Retirement Savings Trust IV	Collective Trust		54,902,602
*	Participant Loans-Interest Rates 4.25% - 9.25% Maturing 2012-2021	Loan Fund		4,805,493
				\$ 292,772,882

- * Designates party-in-interest
- ** Cost omitted for participant directed investments

(14)

Table of Contents

SIGNATURES

The Plan. Pursuant to the requirements of the Securities Exchange Act of 1934, the Senior Vice President & Corporate Secretary, of Avista Corporation has duly caused this annual report to be signed on its behalf by the undersigned thereunto duly authorized, in the City of Spokane, State of Washington, on June 26, 2012.

THE INVESTMENT AND EMPLOYEE STOCK

OWNERSHIP PLAN FOR EMPLOYEES OF

AVISTA CORPORATION

By /s/ Karen S. Feltes
Name: Karen S. Feltes
Title: Senior Vice President & Corporate Secretary

Table of Contents

EXHIBIT INDEX

Exhibit 23. Independent Auditors Consent of CliftonLarsonAllen LLP

2-1