

Washington State Auditor's Office
Financial Statements Audit Report

**Public Utility District No. 1 of Douglas
County**

Audit Period
January 1, 2004 through December 31, 2004

Report No. 69824

Issue Date
December 9, 2005



Washington _____
State Auditor

Brian Sonntag



**Washington State Auditor
Brian Sonntag**

December 9, 2005

Board of Commissioners
Public Utility District No. 1 of Douglas County
East Wenatchee, Washington

Report on Financial Statements

Please find attached our report on Public Utility District No. 1 of Douglas County'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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Independent Auditor's Report on Compliance and Internal Control over Financial Reporting in Accordance with *Government Auditing Standards*

Public Utility District No. 1 of Douglas County January 1, 2004 through December 31, 2004

Board of Commissioners
Public Utility District No. 1 of Douglas County
East Wenatchee, Washington

We have audited the basic financial statements of Public Utility District No. 1 of Douglas County, Washington, as of and for the years ended December 31, 2004 and 2003, and have issued our report thereon dated September 19, 2005.

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.

COMPLIANCE

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 grants, 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 material noncompliance that are required to be reported herein under *Government Auditing Standards*.

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 assurance 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 over financial reporting that might be material weaknesses. A material weakness is a 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 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.

This report is intended for the information 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 19, 2005

Independent Auditor's Report on Financial Statements

Public Utility District No. 1 of Douglas County January 1, 2004 through December 31, 2004

Board of Commissioners
Public Utility District No. 1 of Douglas County
East Wenatchee, Washington

We have audited the accompanying basic financial statements of Public Utility District No. 1 of Douglas County, Washington, as of and for the years ended December 31, 2004 and 2003, as listed on page 4. 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 Public Utility District No. 1 of Douglas County, as of December 31, 2004 and 2003, 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.

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 grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis on pages 5 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.



BRIAN SONNTAG, CGFM
STATE AUDITOR

September 19, 2005

Financial Section

Public Utility District No. 1 of Douglas County January 1, 2004 through December 31, 2004

REQUIRED SUPPLEMENTAL INFORMATION

Management's Discussion and Analysis – 2004 and 2003

BASIC FINANCIAL STATEMENTS

Balance Sheet – 2004 and 2003

Statement of Revenues, Expenses and Changes in Net Assets – 2004 and 2003

Statement of Cash Flows – 2004 and 2003

Notes to Financial Statements – 2004 and 2003

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following management's discussion and analysis presents an overview and analysis of the financial activities of Public Utility District No. 1 of Douglas County (the District) during the fiscal year ended December 31, 2004. This supplementary information should be read in conjunction with the accompanying audited financial statements and related notes.

OVERVIEW OF THE DISTRICT'S OPERATIONS AND THE FINANCIAL STATEMENTS

The District is organized in two primary operating systems: the Electric Distribution System (Distribution System) and the Wells Hydroelectric Project (Wells Project). The Distribution System provides retail electric and wholesale broadband communication to customers in Douglas County, Washington. The Wells project is a hydroelectric facility, owned and operated by the District and located on the Columbia River in the state of Washington. Generation from the Wells Project is sold at cost to four Pacific Northwest investor owned utilities (the Power Purchasers), pursuant to long term power sales contracts, to the District's Distribution System, and to the Colville Confederated Tribes under the terms of a settlement agreement. See the notes to the financial statements for information regarding the Colville Settlement Agreement.

The financial report includes the Management's Discussion and Analysis (MD&A), the Independent Auditor's Report, the audited financial statements and the notes to the financial statements. The District adopted Governmental Accounting Standards Board (GASB) Statement 34 for the fiscal year ended December 31, 2003. The adoption of GASB 34 had little effect on the financial report except for the classification of net assets on the balance sheet, inclusion of capital contributions as revenues, the inclusion of the MD&A, and the direct method of cash flow presentation.

The financial statements of the District report information using accounting methods similar to those used by private utility companies. These statements offer short and long term financial information about the District's activities. For additional information on the District's capital assets and long-term debt activity please refer to the footnotes.

- The balance sheets include all of the assets and liabilities of the District as well as provide information about the nature and amounts of the District's investments in resources (assets) and the obligations to the District's creditors (liabilities).
- The statements of income report each fiscal year's revenues and expenses of the District and reflect the increase in net assets for the year ended December 31, 2004.
- The statements of cash flows reflect information about the District's cash receipts and cash disbursements during the year ended December 31, 2004, including net changes in cash flows from operating, investing and financing activities.

DISTRIBUTION SYSTEM

Financial Highlights

- January 2004 long-term debt increase of \$10.4 million.
- Total operating revenues increased by \$2.4 million to \$39 million, a 6.5% increase.
- New residential and commercial customer connections increased contributed capital to \$1 million in 2004.

General

The service area of the Electric Distribution System includes Douglas County with an area of 1,820 square miles. The properties of the Distribution System include 16 miles of 115-kV transmission lines, 17 miles of 35kV transmission lines, 13 substations, 1,646 miles of overhead and underground distribution lines, 185 miles of fiber optic lines and other buildings, equipment, inventories and related facilities.

Condensed Financial Information and Financial Analysis

Table 1 presents Distribution System revenue by retail customer class and lists wholesale sales. Annual fluctuations in energy sales are primarily due to changes in weather conditions, river flows and electrical consumption patterns. Extreme temperatures increase sales to residential and commercial customers who use electricity for heating and cooling, while moderate temperatures produce average sales. Total electric revenue increased 6.5% in 2004.

Table 1
Distribution System Electrical Revenue Detail
(Dollars in Thousands)

	12/31/2004	12/31/2003	Increase	
			(Decrease)	%
Retail:				
Residential	\$ 7,635	\$ 7,366	\$ 269	3.7%
Irrigation	727	725	2	0.3%
Commercial	3,060	2,886	174	6.0%
Other	728	695	33	4.7%
Total Retail	12,150	11,672	478	4.1%
Wholesale:				
Okanogan PUD	2,498	2,669	(171)	-6.4%
Non-Firm	24,215	22,146	2,069	9.3%
Total Wholesale	26,713	24,815	1,898	7.6%
Total Electric Revenue	\$ 38,863	\$ 36,487	\$ 2,376	6.5%

As shown in Table 2 operating revenues increased by \$2.6 million in 2004 to \$39.6 million. The increase is primarily due to increases in retail and wholesale power sales. Contributed capital increased 65.5% due to increases in residential and commercial customer connections. In January 2004 the District refunded the outstanding 1995 bonds and issued an additional \$10.4 million in new revenue debt. In conjunction with the 2004 bond issue, Standard & Poor's upgraded the Distribution System's credit rating to "AA-."

Table 2
Distribution System Statement of Earnings and Net Assets
(Dollars in Thousands)

	12/31/2004	12/31/2003	Increase (Decrease)	
			\$	%
Operating Revenues	\$ 39,614	\$ 37,022	\$ 2,592	7.0%
Operating Expenses	34,287	34,885	(598)	-1.7%
Net Operating Revenues	5,327	2,137	3,190	149.3%
Nonoperating Revenues	1,535	1,915	(380)	-19.8%
Nonoperating Expenses	(714)	(562)	(152)	27.0%
Contributed Capital	1,048	632	416	65.8%
Net Earnings	7,196	4,122	3,074	74.6%
Beginning Net Assets	125,951	121,829	4,122	3.4%
Ending Net Assets	\$ 133,147	\$ 125,951	\$ 7,196	5.7%

WELLS PROJECT

Financial Highlights

- Long term liabilities increased by \$6.8 million, or 4.6%.
- Total assets increased by \$8.9 million, or 3.9%.
- Net assets increased by \$2.5 million, or 3.7%.
- Total operating revenues decreased by \$2.5 million to \$30.8 million, a 7.6% decrease.
- Total operating expenses decreased by \$1.9 million to \$19.0 million, a 8.9% decrease.

Condensed Financial Information and Financial Analysis

Table 3 shows the condensed balance sheets of the Wells Project as of December 31, 2004 and 2003. Even though Wells Project bonds payable were reduced by \$8 million, long-term liabilities increased due to the liability incurred under the Colville Settlement Agreement.

Table 3
Well Project Balance Sheets
(Dollars in Thousands)

	12/31/2004	12/31/2003	Increase (Decrease)	
			\$	%
Current and Other Assets	\$ 63,418	\$ 59,024	\$ 4,394	7.4%
Capital Assets	175,307	170,826	4,481	2.6%
Total Assets	<u>238,725</u>	<u>229,850</u>	<u>8,875</u>	<u>3.9%</u>
Long-Term Liabilities	155,488	148,645	6,843	4.6%
Other Liabilities	13,899	14,322	(423)	-3.0%
Total Liabilities	<u>169,387</u>	<u>162,967</u>	<u>6,420</u>	<u>3.9%</u>
Invested in Capital Assets, Net of Related Debt	35,011	31,228	3,783	12.1%
Restricted	7,637	8,111	(474)	-5.8%
Unrestricted	26,691	27,544	(853)	-3.1%
Total Net Assets	<u>\$ 69,339</u>	<u>\$ 66,883</u>	<u>\$ 2,456</u>	<u>3.7%</u>

Table 4 shows the condensed statements of earnings and net assets for the years ended December 31, 2004 and 2003. Net earnings for the year ended December 31, 2004 was \$2.5 million, which resulted in a corresponding increase in net assets.

Because the electricity generated by the Wells Project is sold at cost, which includes debt service, under take-or-pay power sales contracts, operating revenues fluctuate based on operating costs and debt service requirements. The primary reasons for the decrease in operating expenses for the year ended December 31, 2004 as compared to the year ended December 31, 2003 were:

- Implementation of fish hatchery sharing agreements whereby neighboring Public Utility Districts utilize excess fish rearing capacity at the Wells Project's fish hatcheries and pay a share of the hatchery expenses. This resulted in a corresponding decrease to the expenses of the Wells Project.
- A reduction in legal and other consultant fees related to the claim by the Colville Confederated Tribes. Less consultant time was required in the later stages of the settlement discussion process. See the notes to the financial statements for further information regarding the claim and the resulting Colville Settlement Agreement.

Nonoperating expenses increased primarily because of the settlement expense related to the transfer of certain District owned land to the Colville Confederated Tribes under the terms of the Colville Settlement Agreement. This increase was partially offset by a decrease in bond interest expense. As bond principal is paid back to bondholders, thus reducing the balance of outstanding bonds, interest expense declines.

Table 4
Wells Project Statements of Earnings and Net Assets
(Dollars in Thousands)

	12/31/2004	12/31/2003	Increase (Decrease)	
			\$	%
Operating Revenues	\$ 30,828	\$ 33,363	\$ (2,535)	-7.6%
Operating Expenses	18,959	20,814	(1,855)	-8.9%
Net Operating Revenues	<u>11,869</u>	<u>12,549</u>	<u>(680)</u>	<u>-5.4%</u>
Nonoperating Revenues	395	416	(21)	-5.0%
Nonoperating Expenses	9,808	9,228	580	6.3%
Net Earnings	2,456	3,737	(1,281)	-34.3%
Beginning Net Assets	66,883	63,146	3,737	5.9%
Ending Net Assets	<u>\$ 69,339</u>	<u>\$ 66,883</u>	<u>\$ 2,456</u>	<u>3.7%</u>

Capital Assets and Long Term Debt Activity

As of December 31, 2004 the Wells Project had approximately \$175 million invested in capital assets, net of accumulated depreciation, including its hydraulic generation and transmission plant, fish rearing facilities, and related land, office buildings and equipment. Capital costs of the Wells Project, other than major additions or replacements, are typically funded from revenues. Costs of major additions or replacements are funded from bond proceeds.

As of December 31, 2004 the Wells Project had long-term liabilities of \$155 million. This included \$136 million of revenue bonds outstanding, net of the current portion of \$8 million. See the notes to the financial statements for further information regarding revenue bonds. In the spring of 2002 the bond rating firm of Standard & Poor's upgraded its rating of the Wells Project to "AA". This rating was affirmed in the fall of 2003 and again in the summer of 2005. Additionally, in the fall of 2003 Moody's Investors Service upgraded its bond rating for the Wells Project to "Aa2". Moody's affirmed this rating in the summer of 2005. In December of 2003 the District refinanced much of the Wells Project's outstanding debt. As explained further in the notes to the financial statements the refinancing provided a significant savings in future debt service costs. In conjunction with the refinancing the Wells Project also implemented a more modern and efficient master bond resolution.

In July 2005 the District issued an additional \$88 million of Wells Project bonds for the purposes of financing a major rebuild of the generating units at the Wells Project, certain other capital projects, payment of the cash portion of the Colville Settlement Agreement, and refinancing of a portion of the District's outstanding 1999 Wells Project Bonds. Please see the notes to the financial statements for further information regarding the 2005 Bonds.

CONTACT INFORMATION

This financial report is designed to provide a general overview of the finances of the District. If you have questions about this report or need additional financial information, please contact Public Utility District No. 1 of Douglas County, 1151 Valley Mall Parkway, East Wenatchee, WA 98802.

PUBLIC UTILITY DISTRICT NO. 1 OF DOUGLAS COUNTY

BALANCE SHEET
As of December 31, 2004

	Wells		TOTAL	
	Hydroelectric Project	Distribution System	2004	2003
ASSETS				
Non-Current Assets				
Electric Plant:				
Electric Plant	\$ 220,346,879	\$ 135,412,407	\$ 355,759,286	\$ 347,563,977
Construction Work in Progress	12,333,692	2,978,369	15,312,061	9,625,560
Electric Plant - Gross	232,680,571	138,390,776	371,071,347	357,189,537
Less: Accum. Depreciation & Amortization	57,373,512	43,298,688	100,672,200	94,726,360
Net Electric Plant	175,307,059	95,092,088	270,399,147	262,463,177
Deferred Charges:				
Unamortized Debt Discount & Expense	2,527,576	339,365	2,866,941	2,895,692
Unamortized Loss on Reacquired Debt	2,960,423	-	2,960,423	3,177,047
Other Deferred Charges	36,375,632	3,357,300	39,732,932	24,264,722
Total Non-Current Assets	217,170,690	98,788,753	315,959,443	292,800,638
Current Assets				
Restricted:				
Construction Funds	2,989,244	6,899,724	9,888,968	11,692,738
Debt Repayment Funds	7,636,433	208,726	7,845,159	9,440,771
Reserve & Contingency Fund	5,278,041	-	5,278,041	7,511,716
Wells Hydroelectric Project Licensing Fund	-	9,343,286	9,343,286	8,811,921
Total Restricted	15,903,718	16,451,736	32,355,454	37,457,146
Unrestricted:				
Cash	1,380,242	110,879	1,491,121	2,451,396
Investments	2,694,585	22,298,930	24,993,515	17,523,902
Rate Stabilization Fund	-	9,798,811	9,798,811	9,798,811
Receivables - Net	1,036,284	4,408,315	5,444,599	5,985,793
Materials and Supplies	-	2,825,783	2,825,783	3,050,817
Other Current & Accrued Assets	539,959	2,881,219	3,421,178	3,958,989
Total Unrestricted	5,651,070	42,323,937	47,975,007	42,769,708
Total Current Assets	21,554,788	58,775,673	80,330,461	80,226,854
TOTAL ASSETS	\$ 238,725,478	\$ 157,564,426	\$ 396,289,904	\$ 373,027,492

The notes to financial statements are an integral part of these statements.

PUBLIC UTILITY DISTRICT NO. 1 OF DOUGLAS COUNTY

BALANCE SHEET
As of December 31, 2004

	Wells		Distribution System	TOTAL	
	Hydroelectric Project			2004	2003
LIABILITIES & NET ASSETS					
Non-current Liabilities					
Bonds Payable, excluding current portion	\$ 135,705,000	\$	14,540,000	\$	151,815,000
Unamortized Bond Premiums (Discounts)	4,648,695		487,596		4,993,647
Bonds Payable, Net	<u>140,353,695</u>		<u>15,027,596</u>		<u>156,808,647</u>
Settlement Liability	14,458,140	-	-	14,458,140	-
Deferred Credits	676,064		98,673	774,737	236,965
Unamortized Gain on Redeemed Debt	-		276,496	276,496	318,664
Total Non-current Liabilities	<u>155,487,899</u>		<u>15,402,765</u>	<u>170,890,664</u>	<u>157,364,276</u>
Current Liabilities					
Accounts Payable	1,888,839		3,305,052	5,193,891	7,750,311
Other Accrued Liabilities	2,051,185		3,749,840	5,801,025	4,764,802
Payable from Restricted Assets:					
Accrued Interest Payable	2,378,747		49,558	2,428,305	2,309,211
Current Portion Long-Term Debt	7,580,000		1,910,000	9,490,000	8,005,000
Total Current Liabilities	<u>13,898,771</u>		<u>9,014,450</u>	<u>22,913,221</u>	<u>22,829,324</u>
Total Liabilities	<u>169,386,670</u>		<u>24,417,215</u>	<u>193,803,885</u>	<u>180,193,600</u>
Net Assets					
Invested in Capital Assets, Net of Related Debt	35,011,303		80,551,780	115,563,083	114,335,607
Restricted For Debt Service	7,636,433		208,726	7,845,159	9,440,771
Unrestricted	26,691,072		52,386,705	79,077,777	69,057,514
Total Net Assets	<u>69,338,808</u>		<u>133,147,211</u>	<u>202,486,019</u>	<u>192,833,892</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 238,725,478</u>	<u>\$</u>	<u>157,564,426</u>	<u>\$ 396,289,904</u>	<u>\$ 373,027,492</u>

The notes to financial statements are an integral part of these statements.

PUBLIC UTILITY DISTRICT NO. 1 OF DOUGLAS COUNTY

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
For The Fiscal Year Ended December 31, 2004

	Wells			TOTAL	
	Hydroelectric Project	Distribution System	Intersystem Eliminations	2004	2003
Operating Revenues					
Retail Sales of Electric Energy	\$ -	\$ 12,149,959	\$ -	\$ 12,149,959	\$ 11,671,958
Energy Sales for Resale	30,828,310	26,712,757	(11,865,253)	45,675,814	45,499,883
Broadband	-	479,567	-	479,567	292,289
Other	-	271,486	-	271,486	243,004
Total Operating Revenues	<u>30,828,310</u>	<u>39,613,769</u>	<u>(11,865,253)</u>	<u>58,576,826</u>	<u>57,707,134</u>
Operating Expenses					
Operations	11,675,431	27,291,229	(11,865,253)	27,101,407	27,415,880
Maintenance	2,749,549	2,254,860	-	5,004,409	6,700,767
Depreciation	3,415,524	3,766,469	-	7,181,993	6,832,538
Taxes	1,119,045	974,381	-	2,093,426	2,072,225
Total Operating Expenses	<u>18,959,549</u>	<u>34,286,939</u>	<u>(11,865,253)</u>	<u>41,381,235</u>	<u>43,021,410</u>
Operating Income	<u>11,868,761</u>	<u>5,326,830</u>	<u>-</u>	<u>17,195,591</u>	<u>14,685,724</u>
Non-operating Revenues (Expenses)					
Interest Income	395,375	1,409,751	-	1,805,126	2,134,972
Interest Expense	(7,467,613)	(634,600)	-	(8,102,213)	(8,615,890)
Debt Expense	(1,382,255)	(79,678)	-	(1,461,933)	(1,174,241)
Settlement Expense	(958,140)	-	-	(958,140)	-
Other	-	125,757	-	125,757	196,618
Total Non-operating Revenues (Expenses)	<u>(9,412,633)</u>	<u>821,230</u>	<u>-</u>	<u>(8,591,403)</u>	<u>(7,458,541)</u>
Income Before Contributions	2,456,128	6,148,060	-	8,604,188	7,227,213
Capital Contributions	-	1,047,939	-	1,047,939	631,659
Change In Net Assets	2,456,128	7,195,999	-	9,652,127	7,858,872
Net Assets, Beginning of Year	66,882,680	125,951,212	-	192,833,892	184,975,020
Net Assets, End of Year	\$ <u>69,338,808</u>	\$ <u>133,147,211</u>	\$ <u>-</u>	\$ <u>202,486,019</u>	\$ <u>192,833,892</u>

The notes to financial statements are an integral part of these statements.

PUBLIC UTILITY DISTRICT NO. 1 OF DOUGLAS COUNTY

STATEMENT OF CASH FLOWS
For The Fiscal Year Ended December 31, 2004

	Wells		Intersystem		TOTAL	
	Hydroelectric Project	Distribution System	Eliminations	2004	2003	
Cash Flow from Operating Activities						
Receipts from Customers	\$ 31,325,069	\$ 58,288,892	\$ (11,714,757)	\$ 77,899,204	\$ 75,668,472	
Receipts for Internal Services Provided	1,074,360	337,482	(1,411,842)	-	-	
Payments for Internal Services Used	(337,482)	(1,074,360)	1,411,842	-	-	
Payments to Employees & Payroll Related	(7,587,666)	(4,785,982)	-	(12,373,648)	(11,795,984)	
Payments to Suppliers	(9,688,350)	(43,405,718)	11,714,757	(41,379,311)	(35,959,776)	
Net Cash Provided by Operating Activities	<u>14,785,931</u>	<u>9,360,314</u>	<u>-</u>	<u>24,146,245</u>	<u>27,912,712</u>	
Cash Flows from Investing Activities						
Purchase of Investments	(40,104,284)	(10,085,000)	-	(50,189,284)	(97,131,312)	
Proceeds from Sales and Maturities of Investments	51,195,284	12,189,373	-	63,384,657	106,828,815	
Interest on Investments	292,083	2,055,370	-	2,347,453	2,889,026	
Net Cash Provided by Investing Activities	<u>11,383,083</u>	<u>4,159,743</u>	<u>-</u>	<u>15,542,826</u>	<u>12,586,529</u>	
Cash Flows from Capital and Related Financing Activities						
Additions to Electric Plant in Service	(1,514,514)	(8,494,440)	-	(10,008,954)	(8,414,307)	
Net Additions to Construction Work in Progress	(6,375,916)	695,915	-	(5,680,001)	(5,146,179)	
Additions to Recreational Facilities	-	-	-	-	(401,913)	
Required Contribution to Plan Species Account - HCP	(2,272,740)	-	-	(2,272,740)	-	
Proceeds from Bond Issuance	-	18,420,000	-	18,420,000	111,340,000	
Debt discount and expenses related to issuance of Revenue Bonds	(26,845)	(354,594)	-	(381,439)	(2,155,113)	
Proceeds from Capital Contributions	-	1,047,939	-	1,047,939	631,659	
Principal Payments on Long-term Debt	(8,005,000)	(10,500,000)	-	(18,505,000)	(124,907,441)	
Interest Payments on Long-term Debt	(6,304,515)	(822,245)	-	(7,126,760)	(10,151,860)	
Net Cash Used in Capital and Related Financing Activities	<u>(24,499,530)</u>	<u>(7,425)</u>	<u>-</u>	<u>(24,506,955)</u>	<u>(39,205,154)</u>	
Net Increase (Decrease) in Cash and Cash Equivalents	<u>1,669,484</u>	<u>13,512,632</u>	<u>-</u>	<u>15,182,116</u>	<u>1,294,087</u>	
Cash & Cash Equivalents, Beginning of Year	<u>1,381,043</u>	<u>7,362,336</u>	<u>-</u>	<u>8,743,379</u>	<u>7,449,292</u>	
Cash & Cash Equivalents, End of Year	<u>\$ 3,050,527</u>	<u>\$ 20,874,968</u>	<u>\$ -</u>	<u>\$ 23,925,495</u>	<u>\$ 8,743,379</u>	

PUBLIC UTILITY DISTRICT NO. 1 OF DOUGLAS COUNTY

STATEMENT OF CASH FLOWS

For The Fiscal Year Ended December 31, 2004

	Wells Hydroelectric Project	Distribution System	Intersystem Eliminations	2004	2003
Reconciliation of Net Operating Income to Net Cash Provided by Operating Activities					
Operating Income	\$ 11,868,761	\$ 5,326,830	\$ -	17,195,591	14,685,724
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:					
Depreciation	3,415,524	3,766,469	-	7,181,993	6,832,538
Amortization	-	37,510	-	37,510	22,092
Net Cash From Jobbing Activities	-	59,844	-	59,844	151,891
Payment of Interest on Customer Deposits	-	(13,939)	-	(13,939)	(10,809)
Amort. of Discounts on U.S. Gov. Securities	(54,901)	-	-	(54,901)	(322,086)
Cash Provided by changes in Operating Assets and Liabilities:					
Accounts Receivable	(644,681)	1,289,167	-	644,486	(1,591,974)
Prepaid Expenses	14,693	37,643	-	52,336	(92,001)
Materials and Supplies	-	225,034	-	225,034	(235,978)
Excess Revenue Fund	496,759	-	-	496,759	(63,953)
Other Accrued Expenses	46,806	(70,820)	-	(24,014)	5,593,931
Accounts Payable	(357,030)	(2,199,390)	-	(2,556,420)	2,913,439
Customer Deposits	-	19,998	-	19,998	(1,775)
Power Sales Settlement	-	851,307	-	851,307	(14,339)
Retainage and Other Accrued Liabilities	-	(53,235)	-	(53,235)	41,801
Customer Advances for Construction	-	83,896	-	83,896	4,211
Net Cash Provided by Operating Activities	\$ 14,785,931	\$ 9,360,314	\$ -	24,146,245	\$ 27,912,712

The notes to financial statements are an integral part of these statements.

Public Utility District No. 1 of Douglas County
Notes to Financial Statements

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

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Public Utility District No. 1 of Douglas County, Washington (the District) is a municipal corporation of the State of Washington established in 1936. The District is administered by a three person Board of Commissioners, elected by the voters of Douglas County. The District is organized in two primary operating systems: the Electric Distribution System and the Wells Hydroelectric Project. The Electric Distribution System provides retail electricity and broadband communication to customers in Douglas County, Washington. The Wells Hydroelectric Project generates electricity from a hydroelectric dam located on the Columbia River.

Accounting Policies:

The accounting policies of the District conform to generally accepted accounting principals (GAAP) as applicable to proprietary funds of governments. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principals. Accounting records are maintained in accordance with the Uniform System of Accounts of the Federal Power Act, prescribed by the Federal Energy Regulatory Commission (FERC). The District's accounting records are further maintained in accordance with methods prescribed by the State Auditor under the authority of Chapter 43.09 RCW.

GASB Statement No. 20 requires that the District apply all GASB pronouncements as well as the pronouncements issued on or before November 30, 1989, by the Financial Accounting Standard Board (FASB) and its predecessor organizations, unless those pronouncements conflict with or contradict GASB pronouncements. As provided for in GASB Statement No. 20, the District has elected not to implement FASB Statements and Interpretations issued after November 30, 1989.

During 2003, the District adopted GASB Statement No. 34, Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments; GASB Statement No. 37, Basic Financial Statements—Management's Discussion and Analysis—for State and Local Governments: Omnibus—an amendment of GASB Statements No. 21 and No. 34; and GASB Statement No. 38, Certain Financial Statement Note Disclosures; all of which address financial statement presentation and disclosure. Significant reporting changes include using the direct method of the Statement of Cash Flows presentation, and reclassification of Net Assets (equity) into three components: Invested in capital assets, net of related debt; Restricted; and Unrestricted. The statements also require a Management's Discussion and Analysis introducing financial statements and providing an overview of the District's financial activities.

Revenue Recognition:

The Distribution System recognizes revenue as billed on a monthly and bi-monthly basis. Service rates are established by the District's publicly elected Board of Commissioners. Revenues from the Wells Project are derived through the sale of power to four major Pacific Northwest electric utilities, under the terms of long term power sales contracts, and to the District's Distribution System. Revenue for the Wells Project is billed monthly and pays all annual expenses and debt service, whether or not the project is operable.

Utility Plant and Depreciation:

Distribution System plant assets are stated at cost. New construction, betterments and major renewals are capitalized. Maintenance and repairs are charged to operation as incurred. Depreciation is calculated on the straight-line method over the estimated useful lives of the asset, ranging from 12.5 to 35 years and on the double-declining balance method which is applied for 5 years on vehicles. Composite rates are used for depreciation of asset groups and accordingly, no gain or loss is recorded on the disposition of an asset. When operating plant assets are retired, their estimated original cost together with removal costs, less salvage, is charged to accumulated depreciation.

Wells Project plant, including land and all related facilities, is recorded at cost. Cost is comprised of the following: **(a)** all direct construction and acquisition costs; **(b)** all indirect costs up to the commencement of initial power generated on September 7, 1967, and only those indirect costs related to the construction and acquisition since that date; and **(c)** interest costs capitalized up to certain dates, which were subsequent to the date generating units were placed in service. Under FERC accounting, interest costs would cease to be

capitalized after units are placed in service. Management of the District elected to capitalize interest costs through January 1, 1969, as to the 1963 series bonds, and to September 1, 1972, as to the 1965 series bonds, because it believed this was the accounting treatment specifically prescribed in the bond resolutions and power sales contracts. Depreciation of substantially all depreciable assets is provided over estimated useful lives ranging from 15 to 95 years, using the sinking fund method (6% rate).

Receivables:

Distribution System uncollectible accounts are estimated based on an experience percentage of sales to ultimate consumers. The District's Commissioners approve all write-offs.

The Wells Project does not have an allowance for uncollectable accounts.

Inventories:

Inventories are valued at average cost, which approximates the market value.

Cash and Cash Equivalents:

For purposes of the statements of cash flows, the District considers all short-term investments with a remaining maturity of three months or less when purchased to be cash equivalents. This definition of cash equivalents excludes investments with a maturity of less than three months, which are pooled with investments with longer maturity periods.

Investments and Deposits:

Investments of the District are in the form of time certificates, deposits with banks, or direct obligations of the U.S. Government, pursuant to the requirements of Chapter 39.58 RCW. The District's deposits and certificates of deposit are entirely covered by federal depository insurance (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington State Public Deposit Protection Commission (PDPC).

Unamortized Debt Expense:

Costs related to the sale of bonds are deferred and amortized on the straight-line method over the lives of the various bond issues. The straight-line method results in amortization not significantly different than that which would result from use of the interest method of amortization.

Excess Revenue Fund:

The Wells Project Excess Revenue Fund represents working capital in the Revenue Fund, as defined in the bondholders' resolution, in excess of the amount of working capital required by the power sales contracts. The excess revenue fund will be used to offset the monthly payments due from the power purchasers during fiscal year 2004-2005, until the balance has been exhausted.

Compensated Absences:

Employees accrue personal leave to be used for vacation, sick, and family leave purposes. Annual leave granted each employee varies in accordance with years of service and may be carried forward from year-to-year, capped at a maximum bank of 1200 hours. The District records the cost of personal leave as the leave is taken.

Accounting Estimates:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Reclassifications:

Certain prior year balances have been reclassified to be consistent with the current year presentation.

NOTE 2 – DEPOSITS AND INVESTMENTS

Investments: The District had the following investments as of December 31, 2004 and 2003, respectively:

	Wells		Distribution	
	2004	2003	2004	2003
Municipal Money Market	\$ -	\$ -	\$ 19,242,771	\$ 5,479,445
U.S. Treasuries	-	22,467,140	2,148,668	2,284,040
Certificates of Deposit	16,928,018	5,496,977	25,428,300	27,397,300
Total	\$ 16,928,018	\$ 27,964,117	\$ 46,819,739	\$ 35,160,785

NOTE 3 – UTILITY PLANT

The following changes occurred in the District's utility plant:

Electric Plant Assets	Balance December 31, 2003	Increase	Decrease	Balance December 31, 2004
Hydraulic Generation	\$ 196,314,052	\$ 541,930		\$ 196,855,982
Transmission	22,190,709	648,310	947,120	21,891,899
Distribution	92,788,589	4,850,079	170,813	97,467,855
General	35,248,398	4,037,411	764,488	38,521,321
Miscellaneous	1,022,229			1,022,229
Subtotal	347,563,977	10,077,730	1,882,421	355,759,286
Construction Work in Progress	9,625,560	5,686,501		15,312,061
Less: Accumulated Depreciation	(94,726,360)	(5,945,840)		(100,672,200)
Net Utility Plant	\$ 262,463,177	\$ 9,818,391	\$ 1,882,421	\$ 270,399,147

NOTE 4 – LONG TERM DEBT

Wells Hydroelectric Project

Following is a summary of Wells Hydroelectric revenue bond (nonvoted State I.D. No. 252.11) activity for the year ended December 31, 2004:

	Purpose	Balance 12/31/2003	Reductions	Balance 12/31/2004	Due Within One Year
Series of 1986A, term bonds maturing September 1, 2018, interest at 8.75%	Turbine Runner Replacement	14,080,000		14,080,000	
Series of 1986B, term bonds maturing September 1, 2006, interest at 8.75%	Turbine Runner Replacement	2,085,000	770,000	1,315,000	830,000
Series of 1999A, serial bonds maturing annually to September 1, 2019 and term bonds maturing September 1, 2029; interest at 4.80% - 6.125%	Land Purchases, Recreation Action Plan & Habitat Conservation Plan	9,695,000	175,000	9,520,000	180,000
Series of 1999B, serial bonds maturing annually to September 1, 2019 and term bonds maturing September 1, 2029; interest at 4.60% - 6.00%	Land Purchases, Recreation Action Plan & Habitat Conservation Plan	5,900,000	110,000	5,790,000	115,000
Series of 2000A, serial bonds maturing annually to September 1, 2010 and term bonds maturing September 1, 2015 and 2018, interest at 5.45% - 6.35%	Refunding	8,190,000	355,000	7,835,000	375,000
Series of 2003A, serial bonds maturing annually to September 1, 2018, interest at 2.00% - 5.25%	Refunding	14,680,000	640,000	14,040,000	570,000
Series of 2003B, serial bonds maturing annually to September 1, 2018, interest at 2.00% - 6.00%	Refunding	64,670,000	5,870,000	58,800,000	5,510,000
Series of 2003C, serial bonds maturing September 1, 2014 through 2018, interest at 4.125% - 5.00%	Refunding	31,905,000	-	31,905,000	-
Series of 2003D, serial bonds	Refunding	85,000	85,000	-	-
Total revenue bonds		\$ 151,290,000	\$ 8,005,000	\$ 143,285,000	\$ 7,580,000

Following is a summary of future debt service requirements for Wells Project revenue bonds outstanding at December 31, 2004:

	Principal	Interest	Total
2005	7,580,000	7,136,234	14,716,234
2006	7,825,000	6,906,529	14,731,529
2007	8,120,000	6,612,261	14,732,261
2008	8,540,000	6,186,386	14,726,386
2009	8,890,000	5,842,129	14,732,129
2010-2014	50,010,000	22,453,306	72,463,306
2015-2019	43,545,000	8,603,154	52,148,154
2020-2024	3,750,000	2,237,644	5,987,644
2025-2029	5,025,000	952,144	\$ 5,977,144
Total	\$ 143,285,000	\$ 66,929,787	\$ 210,214,787

Interest on all bonds for the Wells Hydroelectric Project is payable on March 1 and September 1. All bond covenants were complied with for fiscal years 2004 and 2003.

Gain on Early Extinguishment of Debt

During 2003, the Wells Hydroelectric Project retired Wells Hydroelectric Project revenue bonds 4%, series 1963 and 3.7%, series 1965, due September 1, 2018, in the following amounts:

	2003	
	Series	Series
	1963	1965
Principal Amount of Retirement	\$ 3,540,000	\$ 315,000
Cost to Retire (Principal)	3,539,945	312,496
Gain on Early Retirement	\$ 55	\$ 2,504

Advance Debt Refunding

In December 2003 the Wells Project issued its Wells Hydroelectric Revenue Bonds, Refunding Series 2003A, 2003B, 2003C, and 2003D (the "2003 Bonds"), in the total par amount of \$111,340,000. The 2003 Bonds advance refunded the following outstanding bonds:

Bond Series	Amount Outstanding
1963	\$ 93,955,000
1965	5,500,000
1978	2,720,000
1993A	14,810,000
1993B	1,165,000
Total Refunded	\$ 118,150,000

This advance refunding resulted in a reduction of \$10,167,000 in total Wells Project debt service over the next 15 years and an economic gain (difference between the present values of the old and new debt service requirements) of \$2,504,000.

Debt service on these refunded bonds and other outstanding Wells Project bonds which were refunded in prior years is met by cash and investments held in irrevocable trust with an escrow agent. As of December 31, 2004, the escrow agent was holding cash and investments of \$38,063,000 which are expected to fully fund debt service on all outstanding Wells Project refunded bonds. The trust account assets and the liability for the corresponding refunded bonds are not included in the District's financial statements.

Distribution System

In January 2004 the Distribution System issued \$10.4 million of new revenue bonds to pay for capital improvements to electrical facilities. The Distribution System outstanding 1995 bonds were refunded. In total \$18,420,000 of revenue bonds were issued in January 2004. These bonds are non-voted State I.D. No. 252.11. The bonds will mature and be retired during the next five years ending December 31 as follows:

	Principal	Interest	Total
2005	1,910,000	594,706	2,504,706
2006	1,450,000	556,506	2,006,506
2007	680,000	527,506	1,207,506
2008	695,000	512,206	1,207,206
2009	715,000	486,144	1,201,144
2009-2015	11,000,000	3,951,491	14,951,491
Total	\$ 16,450,000	\$ 6,628,559	\$ 23,078,559

The 2004 Distribution bonds are serial bonds through 2020 and term bonds maturing in 2021, 2022 and 2023. Interest rates range from 2.0% to 5.00% and interest is payable on June 1 and December 1. The bondholders' resolution requires the District to maintain at least 125% coverage for debt service. The required coverage was maintained for 2004 and 2003.

NOTE 5 – OTHER COMMITMENTS AND CONTINGENCIES

a) Colville Confederated Tribes Claim

In January 2003 the Colville Confederated Tribes (“Tribes”) presented an economic consultant’s study indicating the District owes the Tribes approximately \$950,000,000 for past annual charges and approximately \$18,000,000 annually for use of freeboard lands previously considered tribal lands and one-half of the bed of the Okanogan and Columbia Rivers bordering the Colville Reservation. The District has been aware of a claim made by the Tribes for the use of the bed of the river for years, but there has never been a claim to shore land that the District owns. The bed of the river claim has surfaced on several occasions over the past 25 years, but the Tribes chose not to pursue it seriously until January 2003. The Tribes’ claim in 2003 included annual charges, past and future, for all of the lands that the District previously acquired in fee title from allottees, individuals of the Tribes, and the Bureau of Indian Affairs, as well as for one-half of the bed of the Okanogan and Columbia Rivers abutting the Colville Reservation. The District has recorded fee title deeds to all of the shore land below Project Boundary abutting the Colville Reservation.

In 2004 the District and the Tribes entered into a settlement of this claim which provided for a \$13,500,000 cash payment and the transfer of land with a book value of \$958,140 to the Tribes. Additionally the District agreed to sell to the Tribes 4.5% of the output of the Wells Project through August 31, 2018, and 5.5% thereafter, at Wells Project cost, for so long as the District holds a license for the Wells Project. In return the Tribes granted and affirmed all land rights previously conveyed by the Tribes to the District; granted to the District overflow rights to the bed of the Okanogan and Columbia Rivers; covenanted not to compete for a license for the Wells Project and to support the District’s relicensing application; and granted the District certain water rights in connection with the Wells Project.

The total cash payment and land transfer book value is reported as a settlement liability on the balance sheet as of December 31, 2004. The cash portion of the settlement was paid in July 2005, financed with Wells Project Revenue Bonds, and is reported as a deferred charge on the balance sheet, to be amortized over the corresponding revenue bond debt service period.

The Wells Project’s four investor-owned Power Purchasers approved the settlement, as evidenced by an Endorsement Agreement between the Power Purchasers and the District dated November 1, 2004. The District, the Tribes, and the Power Purchasers filed a joint application with the Federal Energy Regulatory Commission (“FERC”) seeking approval of the Colville Settlement Agreement and the Colville Power Sales Contract. FERC formally approved the contracts on February 11, 2005.

b) Power Purchases Settlement Agreement

Under this agreement the District must offer certain temporary, non-firm energy to the Wells Project Power Purchasers under two pricing strategies which are subject to annual adjustments. Annual adjustments are made when the Wells Annual Power Cost has been determined; after the end of each Wells fiscal year. The adjustment is based on the computed excess of District reserved share power and effectively adjusts the Power Purchaser’s cost of this energy to the Wells Annual Power Cost Rate. The District estimates the adjustment to revenue each month required by this agreement.

c) Memo of Understanding with Okanogan County PUD

The District and Okanogan PUD entered into a written Memorandum of Understanding granting Okanogan the first right of refusal to any power and energy the District makes available after meeting the needs within Douglas County and contractual commitments in place on the date of the Memorandum. The two Districts also committed to negotiate a Power Sales Contract intended to allocate an additional 22% share of the output of Wells Project to Okanogan after expiration of the current Power Sales Contracts in 2018. The additional share is contingent upon each of the following: (1) The District and Okanogan PUD successfully relicensing the Project and obtaining 100% of the Project output; (2) the new license entitling the District to 92 percent of the output and Okanogan PUD to 8 percent of the output of the Project; and (3) the District’s compliance with the Power Sales Contracts with each of the four Wells Power Purchasers. Okanogan PUD and the District are in the process of negotiating a long-term power sales contract.

d) Endangered Species

Several species of fish in the vicinity of the Wells Project were listed as threatened or endangered under the Endangered Species Act. Steelhead and spring Chinook were listed as endangered species on August 18, 1998 and March 16, 1999, respectively. Bull trout were listed as a threatened species on June 10, 1998. Summer Chinook salmon migrating above Rock Island Dam were petitioned for listing in June 1993; however National Marine Fisheries Service declined to list summer Chinook.

The District has negotiated with state and federal fisheries resource agencies and Indian tribes, a multispecies Habitat Conservation Plan ("HCP"). The HCP species are spring chinook, summer/fall chinook, steelhead, sockeye, and coho salmon. The purpose of the HCP is to have legally enforceable measures in place to either avoid a listing under the Endangered Species Act ("ESA") or, in the event of a listing, allow continued operation of the Wells Project under an incidental take permit. The HCP satisfies all FERC relicensing and ESA requirements for the Plan species. FERC approved the HCP in June of 2004 and amended the Wells Project license accordingly. At the District's request, FERC also issued an Order on Rehearing in November 2004, clarifying several technical items.

Bull trout have been observed at the Wells Project but are not covered in the HCP. The United States Fish and Wildlife Service ("USF&W") issued a biological opinion for bull trout for the operations of the Wells Project under the terms of the HCP in May of 2004. Under the amended Wells license FERC has the authority to require the District to carry out specified measures for the purpose of participating in the development and implementation of a bull trout recovery plan.

There is extensive litigation in the federal court system under the ESA, challenging actions taken by the responsible federal agencies in regard to anadromous fish. Future legal actions to protect fish may have a significant impact on the amount and/or cost of power generated at the Wells Project.

e) Land Acquisition

Recent surveys by the District's contracted surveyors have revealed errors on portions of the original survey of the Wells Project. There are a few locations where the Wells Project boundary is under water. The District has determined that the appropriate course of action will involve relocation of portions of the Wells Project boundary, which will require acquisition of additional property rights at these locations. A property owner with water from the Wells Project encroaching on his property could pursue legal action in order to remedy the situation. The District intends to vigorously pursue acquisition in fee title of any lands upon which the Wells Reservoir is encroaching.

NOTE 6 – PENSION PLANS, DEFERRED COMPENSATION PLANS

Substantially all District full-time and qualifying part-time employees participate in one of the following statewide retirement systems administered by the Washington State Department of Retirement Systems, under cost-sharing multiple-employer public employee defined benefit and defined contribution retirement plans. The Department of Retirement Systems (DRS), a department within the primary government of the State of Washington, issues 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 PERS system includes three defined benefit pension plans, Plan 1 and Plan 2, and a combination defined benefit/defined contribution plan, Plan 3. Participants who joined the system by September 30, 1977, are Plan 1 members. Plan 1 members are eligible for retirement at any age after 30 years of service, or at age 60 with five years of service, or at age 55 with 25 years of service. The average pension is two percent of the average final compensation per year of service, capped at 60 percent.

Plan 2 members may retire at age 65 with five years of service, or at age 55 with 20 years of service, with an allowance of two percent per year of service of the average final compensation. Plan 2 retirements prior to age 65 are actuarially reduced. There is no cap on years of service credit and a cost-of-living allowance is granted, capped at three percent annually.

Plan 3 members may retire with at least 10 years of service; or five years, including twelve months that were earned after age 54; or 5 service credit years earned in Plan 2 prior to June 1, 2003.

Employer and employee contribution rates are established periodically by the State Legislature. The required contribution rates expressed as a percentage of current year covered payroll, as of December 31, 2004 were:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
Employer	1.38%*	1.38%*	1.38%*
Employee	6.00%	1.18%	Variable 5-15% employee selected

*employer rates include an administrative expense fee of .19%

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

	PERS Plan1	PERS Plan 2	PERS Plan 3
2004	\$17,542	\$129,618	\$4,964
2003	57,611	98,164	17,275
2002	67,131	86,595	N/A

The District also offers its employees deferred compensation plans created in accordance with Internal Revenue Code Sections 457 and 401(a) permitting employees to defer a portion of their salary until future years. The District provides a 50% match of employee contributions capped at a percentage of employee regular straight-time wages for the pay period equal to 7.32% less the PERS 2 employer contribution percentage. The deferred compensation is not available to employees until separation from service through termination, retirement, death, or unforeseeable emergency. The plan assets are held in trust for the exclusive benefit of plan participants and beneficiaries.

NOTE 7 – DEFERRED DEBITS AND CREDITS

Distribution System

The Distribution System has deferred debits of \$3,357,300 and \$2,337,849 respectively at December 31, 2004 and 2003. The deferred debits consist of preliminary survey and investigation, such as wind development costs, undistributed balances in clearing accounts, miscellaneous work in progress and retiree employee benefits. The employee benefits are amortized and the remaining deferred debits are capitalized or expensed according to generally accepted accounting principles. The Distribution System has deferred credits of \$98,673 and \$66,942 respectively at December 31, 2004 and 2003. The deferred credits consist of funds retained for contract performance, secured funds for installation costs, and retired employee benefits.

Wells Hydroelectric Project

The Wells Hydroelectric Project has deferred debits of \$36,375,632 and \$21,926,873 respectively at December 31, 2004 and 2003. The deferred debits consist of improvements to recreational facilities, repair and maintenance costs, miscellaneous fish improvements, preliminary survey and investigation, and miscellaneous clearing accounts. The deferred debits are amortized over the life of the 1986, 1990 and 1993 bonds which were issued to fund the projects except for the miscellaneous clearing accounts which are cleared annually. The Wells Hydroelectric Project has deferred credits of \$676,064 and \$170,023 respectively at December 31, 2004 and 2003. The deferred credits consist of funds retained for contract performance and power cost adjustments not taken by Power Purchasers.

NOTE 8 – BROADBAND SERVICES

Douglas County Community Network (DCCN):

Since the 1960's the District has owned and operated data communication facilities that provide communication for District electrical equipment, employees and office equipment. The communication system has grown to become an integral part of the District's electrical system, providing remote monitoring, switching, metering, internal communication, and security to District assets. In 2000 the Washington State Legislature gave Public Utility Districts the authority to offer wholesale telecommunication services. A portion of the District's broadband network is now used to benefit citizens of Douglas County. The District named its broadband network the Douglas County Community Network (DCCN). DCCN provides wholesale broadband data communication services to customers of the District. As of December 31, 2004 the District has capitalized \$11.1 million dollars of communication system equipment.

Douglas County Community Network

Operating Revenue	\$	479,567
Operating Expense		617,579
Capital Investment Since 2000	\$	5,129,998

Northwest Open Access Network (NoaNet):

The District, along with 14 other Washington State Public Utility Districts and Energy Northwest, is a member of NoaNet, a Washington nonprofit mutual corporation. NoaNet was incorporated in February 2000 to provide a broadband communications backbone, over Public Benefit Fibers leased from Bonneville Power Administration, throughout the State of Washington for assisting its members in the efficient management of load, conservation and acquisition of electric energy as well as other purposes. The network began commercial operation in January 2001.

In July 2001, NoaNet issued \$27 million in telecommunications network revenue bonds (taxable) to finance the repayment of the founding members and the costs of initial construction, operations and maintenance. The Bonds become due beginning in December 2003 through December 2016 with interest due semi-annually at rates ranging from 5.05% to 7.09%. In addition, in January 2003 NoaNet opened a \$5 million line of credit with Bank of America to fund capital expenditures. Each member of NoaNet has entered into a repayment agreement to guarantee the debt of NoaNet. The District's guarantee is limited to its 4% interest.

The management of NoaNet anticipates meeting operating costs through profitable operations, however members have been contributing to help meet debt service obligations. A NoaNet annual report may be obtained by writing to Northwest Open Access Network, 3511 Norfolk Court, Olympia, WA 98501. A web site is available at www.noanet.net.

NOTE 9 – SUBSEQUENT EVENT

Generating Unit Fault

In February 2005 Generating Unit 1 at the Wells Hydroelectric Project experienced a fault in the generator windings, was taken out of service and has remained out of service. Subsequent investigation revealed that the failure was due to deteriorated insulation in the stator windings. The deterioration likely occurred gradually over a period of many years. Because the windings in all ten generators at the Wells Project are of approximately the same age, it was determined that the most prudent course of action would be to rewind all the generators. In conjunction with the rewinding, other aspects of the generating units will be refurbished. As of the date of this report a contract has been awarded for the rebuild of Generating Unit 1. It is anticipated that bids will be accepted for the rebuild of the other nine units in late 2005. The estimated cost to rebuild the ten generators is \$60 million. It is estimated that the entire rebuild project will take five years. See "2005 Bonds" below.

2005 Bonds

In July 2005 the District issued its Wells Hydroelectric Project Revenue and Refunding Bonds, Series 2005A, 2005B, and 2005C (the "2005 Bonds") in the total par amount of \$87,585,000. The 2005 Bonds were issued to finance a settlement with the Colville Confederated Tribes (see Note 5), to rebuild and refurbish portions of the Wells Project generating units (see "Generating Unit Fault" above), to provide capital improvements to the Wells Project, to refund certain outstanding Wells Project Bonds, and to pay costs of issuance of the 2005 Bonds.