Washington State Auditor's Office

Troy Kelley

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Financial Statements Audit Report

Public Utility District No. 1 of Douglas County

For the period January 1, 2013 through December 31, 2013

Published September 29, 2014

Report No. 1012723

Washington State Auditor
Troy Kelley

September 29, 2014

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.

Sincerely,

TROY KELLEY
STATE AUDITOR

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Public Utility District No. 1 of Douglas County
January 1, 2013 through December 31, 2013

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

We have audited, 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, the financial statements of each major fund of Public Utility District No. 1 of Douglas County, Washington, as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated September 16, 2014. As described in Note 9 to the financial statements, the District's 2012 basic financial statements have been restated to correct a misstatement. The prior year comparative information has been derived from the District's 2012 basic financial statements, on which we issued our report dated August 1, 2013.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of the District's compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

PURPOSE OF THIS REPORT

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. 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.

TROY KELLEY
STATE AUDITOR

September 16, 2014

Independent Auditor's Report on Financial Statements

Public Utility District No. 1 of Douglas County
January 1, 2013 through December 31, 2013

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

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of each major fund of Public Utility District No. 1 of Douglas County, Washington, as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed on page 9.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each major fund of Public Utility District No. 1 of Douglas County, as of December 31, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Matters of Emphasis

As described in Note 9 to the financial statements, the District's 2012 basic financial statements have been restated to correct a misstatement. Our opinion is not modified with respect to this matter.

Report on Summarized Comparative Information

The prior year partial comparative information has been derived from the District's 2012 financial statements and, in our report dated August 1, 2013, we expressed an unmodified opinion on each major fund of the District. Such information does not include all the information required for a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the financial statements for the year ended December 31, 2012, from which such partial information was derived.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 10 through 17 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated September 16, 2014 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Troy X. Kelley

TROY KELLEY
STATE AUDITOR

September 16, 2014

Financial Section

Public Utility District No. 1 of Douglas County
January 1, 2013 through December 31, 2013

MANAGEMENT’S DISCUSSION AND ANALYSIS

The following Management’s Discussion and Analysis (MD&A) presents an overview and analysis of the financial activities of Public Utility District No. 1 of Douglas County (District) during the fiscal years ended December 31, 2013 and 2012. This supplementary information should be read in conjunction with the accompanying audited financial statements and related notes.

OVERVIEW OF FINANCIAL STATEMENTS AND OPERATIONS

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 service 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 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 this MD&A, the financial statements and the notes to the financial statements. 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 District activities. For additional information on the District’s capital assets and long-term debt activity please refer to the footnotes.

- The balance sheet is a statement of position; it includes all of the District’s investments in resources (assets), deferred outflows of resources (deferred outflows), obligations to creditors (liabilities), deferred inflows of resources (deferred inflows), and net position (equity).
- The statement of revenues, expenses, and changes in net position reflects the transactions and events that increase and decrease the economic resources of the District (operations). Revenues and expenses are summarized by major source and use. Revenues and expenses are further summarized as operating and non-operating based on the nature of the transaction.
- The statement of cash flows reflects the District’s sources and uses of cash separated into operating, investing, and capital activities.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

In 2013, the overall financial position of the District improved. The District's total net position increased by $12 million to $293 million. The following analysis provides a three-year comparision of key financial information for the Distribution System and for the Wells Project.

DISTRIBUTION SYSTEM

The service area of the Distribution System includes Douglas County, with an area of 1,820 square miles. The assets (properties) of the Distribution System include 40 miles of 115-kV transmission lines, 13 substations, 1,236 miles of overhead and underground distribution lines, 599 miles of fiber optic lines, and other buildings, equipment, inventories and related facilities.

Condensed Comparative Financial Information

Distribution System Balance Sheet
(Dollars in Thousands)

			Increase (Decrease) 2013-2012		
	12/31/2013	12/31/2012	$	%	12/31/2011
Current & Other Assets	$ 73,236	72,967	$ 269	0.4%	$ 49,339
Capital Assets	140,239	138,104	2,135	1.5%	128,046
Deferred Outflows and Regulatory Assets	5,477	5,864	0	0.0%	6,261
Total Assets/Deferred Outflows	218,952	216,935	2,017	0.9%	183,646
Current Liabilities	9,893	10,664	(771)	-7.2%	4,252
Noncurrent Liabilities	37,066	38,816	(1,750)	-4.5%	9,813
Deferred Inflows	6	16	(10)	-62.5%	31
Total Liabilities/Deferred Inflows	46,965	49,496	(2,531)	-5.1%	14,096
Invested in Capital Assets, net of debt	107,079	103,804	3,275	3.2%	118,541
Restricted	3,521	3,521	-	0.0%	100
Unrestricted	61,386	60,115	1,271	2.1%	50,662
Total Net Position	$ 171,986	$ 167,440	$ 4,546	2.7%	$ 169,303

Distribution System Statement of Revenue, Expenses, and Changes in Net Position

(Dollars in Thousands)

	12/31/2013	12/31/2012	Increase (Decrease) 2013-2012 $	%	12/31/2011
Operating Revenues					
Retail Electric Sales	$ 19,761	$ 17,787	$ 1,974	11.1%	$ 17,334
Electric Sales For Resale	27,500	22,298	5,202	23.3%	24,497
Broadband	2,402	2,170	232	10.7%	2,217
Other	360	333	27	8.1%	342
Nonoperating Revenues	442	585	(143)	-24.4%	522
Total Revenues	50,465	43,173	7,292	16.9%	44,912
Operating Expenses					
Purchased Power	26,963	25,345	1,618	6.4%	25,420
Other	19,813	19,386	427	2.2%	19,253
Nonoperating Expenses	1,348	1,154	194	16.8%	756
Total Expenses	48,124	45,885	2,239	4.9%	45,429
Capital Contributions	2,205	849	1,356	159.7%	2,706
Net Position	4,546	(1,863)	6,409	-344.0%	2,189
Beginning Net Position	167,440	169,303	(1,863)	-1.1%	167,114
Ending Net Position	$ 171,986	$ 167,440	$ 4,546	2.7%	$ 169,303

Financial Analysis

The financial position of the Distribution System improved throughout 2013 with an increase in net position of $4.5 million (2.7%) compared to a decrease in net position of $1.8 million in 2012. Other significant financial items are discussed in further detail below and in the notes to the financial statements. Below is a year-over-year analysis of the changes in net assets, with the focus on changes between 2013 and 2012.

Revenues

2012 to 2013

Revenue from sales to retail customers (Retail Electric Sales) increased $1.9 million (11.1%) from 2012. This was primarily a result of an 6% average retail rate increase effective January 1, 2013. Changes in weather conditions, river flow and electrical consumption patterns also effect Retail Electric Sales.

Revenues from wholesale energy sales (Electric Sales for Resale) increased $5.2 million (23.3%) from 2012. This was due to changes in weather conditions, river flow, electrical consumption patterns and market conditions.

Revenues from the District’s Douglas County Community Network (DCCN) increased $232,000 (10.7%) from 2012. This was primarily a result of a 10% increase in customer connections in 2013.

2011 to 2012
Revenues from sales to retail customers (Retail Electric Sales) in 2012 increased $453,000 (2.6%) from 2011. This was primarily a result of a 6% retail rate increase effective July 1, 2012. Changes in weather conditions, river flow and electrical consumption patterns also effect retail electric sales.

Revenues from wholesale energy sales (Electric Sales for Resale) in 2012 decreased $2.2 million (9%) from 2011. This was due to changes in weather conditions, river flow, electrical consumption patterns and market conditions.

Revenues from the District's Douglas County Community Network (DCCN) decreased by $47,000 (2.1%) despite steady growth in customer connections in 2012. The primary reason for the slight decrease was the termination of an internet commitment from Northwest Open Access Network (NoaNet).

Expenses

2012 to 2013
Purchased power expense increased by $1.6 million (6.4%). The Distribution System continues to purchase the bulk of its power from the Wells Project. Other power resources currently include: Rocky Reach Dam, Nine Canyon Wind Project and a long-term exchange contract with Shell Energy.

The increase in nonoperating expenses was due to increased interest expense on the 2012 revenue bonds. Those bonds incurred interest for a full year in 2013, versus interest for only four months in 2012.

2011 to 2012
Purchased power expense decreased by $75,000 (.3%). The Distribution System continues to puchase the bulk of its power from the Wells Project. Other power resources currently include: Rocky Reach Dam, Nine Canyon Wind Project and a long-term exchange contract with Shell Energy.

All other operating expenses include operations and maintenance, administrative and general, taxes, and depreciation, the balance of which slightly increased by $133,000 (.7%). Summer wildfires were the primary reason for the increase in other operating expenses. The Northern part of Douglas County experienced multiple wildfires which caused significant damage to the District's Electrical Distribution System, increasing maintenance expenses. In total, the fires scorched roughly 100,000 acres across the Northern part of Douglas County.

The increase in Non-operating expenses (58%) was largely due to interest expense associated with the 2012 Distribution System Revenue and Refunding Bonds.

Capital Asset and Long-Term Debt Activity

As of December 31, 2013, the Distribution System had approximately $140 million invested in capital assets, net of accumulated depreciation. Capital additions are associated with a growing customer base, long-term maintenance of electrical distribution facilities and rebuilding District facilities to accommodate road expansion projects.

The Distribution System's outstanding debt, net of the current portion, is $31.9 million, all in revenue bonds. Debt service payments for 2013 was $2.6 million. Debt service coverage ratios for 2013 and 2012 were 4.8 and 3.6, respectively. The Distribution System's current bond ratings from the firms of Standard & Poor's and Moody's Investors Service are "AA" and "Aa3," respectively.

Please see the notes to the financial statements for further information regarding capital assets and long-term debt activity of the Distribution System.

Capital Contributions

District customers pay capital contributions that help fund new construction projects. In 2013 the District's capital contributions increased $1.4 million (160%). This was primarily the result of several local fruit companies building new facilities in Douglas County.

WELLS PROJECT

The Wells Project is located 516 river miles from the mouth of the Columbia River. The Federal Energy Regulatory Commission (FERC) issued the District a 50-year license, expiring in 2012, to develop and operate the Wells site as the Wells Hydroelectric Project. Commercial operation began on September 16, 1967. The Wells Project is constructed in a hydrocombine design, which includes generating units, switchyard, spillways, and fish passage facilities in a single integrated concrete structure. The recent effort to relicense the Wells Project and the issuance of a new long-term license are discussed in the notes to the financial statements.

Condensed Comparative Financial Information

Wells Project Balance Sheets
(Dollars in Thousands)

	12/31/2013	12/31/2012	Increase (Decrease) 2013-2012 $	%	12/31/2011
Current and Other Assets	$ 120,247	$ 123,604	$ (3,357)	-2.7%	$ 124,594
Capital Assets	228,000	227,805	195	0.1%	228,755
Deferred Outflows and Regulatory Assets	19,547	22,785	(3,238)	-14.2%	25,374
Total Assets/Deferred Outflows	367,794	374,194	(6,400)	-1.7%	378,723
Current Liabilities	28,661	26,133	2,528	9.7%	23,616
Long-Term Liabilities	218,087	234,352	(16,265)	-6.9%	249,133
Total Liabilities/Deferred Inflows	246,748	260,485	(13,737)	-5.3%	272,749
Net Investment in Capital Assets	101,920	96,342	5,578	5.8%	90,573
Restricted for Debt Service	5,756	3,504	2,252	64.3%	14,585
Unrestricted	13,370	13,863	(493)	-3.6%	816
Total Net Position	$ 121,046	$ 113,709	$ 7,337	6.5%	$ 105,974

Wells Project Statements of Revenue, Expenses, and Changes in Net Position
(Dollars in Thousands)

	12/31/2013	12/31/2012	Increase (Decrease) 2013-2012 $	%	12/31/2011
Operating Revenues	$ 48,013	$ 46,775	$ 1,238	2.6%	$ 47,317
Nonoperating Revenues	965	1,061	(96)	-9.0%	1,047
Total Revenues	48,978	47,836	1,142	2.4%	48,364
Operating Expenses	28,870	25,578	3,292	12.9%	29,647
Nonoperating Expenses	12,771	14,523	(1,752)	-12.1%	19,421
Total Expenses	41,641	40,101	1,540	3.8%	49,068
Net Position	7,337	7,735	(398)	-5.1%	(704)
Beginning Net Position	113,709	105,974	7,735	7.3%	106,678
Ending Net Position	$ 121,046	$ 113,709	$ 7,337	6.5%	$ 105,974

Financial Analysis

Fluctuations in the Wells Project balance sheets as of December 31, 2013 compared to 2012 were due to construction expenditures, normal amortization of deferred outflows and regulatory assets, and scheduled retirements of outstanding bonds (principal payments). Other significant items are discussed in further detail below and in the notes to the financial statements.

Revenues

Because the electricity generated by the Wells Project is sold at cost, which the terms of the power sales contract define as all operation, maintenance, taxes and debt service (principal, interest, reserves), revenues directly follow any fluctuations in those items. Income results primarily from the difference between billed principal and reserves (revenue definition) and depreciation expense Non-operating revenues consist mainly of investment income and a federal interest rebate for a portion of the interest expense on the 2010 Build America Bonds (BABs). Our 2013 receipts were reduced due to the federal sequestration. See further information below regarding the BABs.

Expenses

2012 to 2013

Total operating expenses increased $3.3million to $28.9 million. The majority of the increase in operating expenses pertained to fish mitigation costs which were expected as part of the requirements for maintaining our recently renewed federal license. There were also significant increases in the cost of employee benefits ($.5mil) and regulatory expenses ($.4mil). As discussed in the notes to the financial statements, the Wells Project uses the sinking fund method for depreciation on its hydraulic and transmission plant, which under normal conditions, increases from year to year ($.4mil for 2013).

Nonoperating expenses decreased by $1.8 million (12.1%) to $12.8 million. This was due largely to the reduction of interest expense which resulted from the 2012 refinancing of the outstanding 2003 Wells bonds. See further discussion of the 2012 refinancing in the notes to the financial statements.

2011 to 2012

Total operating expenses decreased by $950,000 to $25.6 million. Based on a depreciation study conducted in early 2012, adjustments were made to the methodology used in calculating depreciation which resulted in a decrease to expense recognized for 2012 and prospectively.

Nonoperating expense decreased by $1.0 million to $14.6 million. As mentioned above, this was a result of lower interest expense incurred due to the 2012 refinancing of the 2003 Wells bonds.

Capital Assets and Long-Term Debt Activity

As of December 31, 2013 the Wells Project had approximately $228 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.

As of December 31, 2013 the Wells Project had long-term liabilities of $218 million. This included $207 million of revenue bonds outstanding, net of the current portion of $16 million. In July 2005 the District issued $88 million of Wells Project revenue bonds (2005 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 a portion of the District's outstanding 1999 Wells Project bonds. In August 2006 the District issued $13 million of Wells Project bonds (2006 Bonds) for the purpose of refinancing the remaining outstanding 1986A Bonds. This resulted in total debt service savings of $4.8 million over the ensuing 12 years. In August 2010 the District issued $113 million of Wells Project revenue bonds (2010 Bonds) in order to finance the continuation of the rebuild of the generating units and other capital projects, and to refinance the remaining 1999 and 2000 Wells Project bonds. The 2010 Bonds included $46 million of taxable Build America Bonds (BABs). The District receives a semi-annual interest rebate from the federal government equal to 35% of the corresponding semi-annual interest payment on the BABs. In August 2012 the District issued $43 million of Wells Project revenue and refunding bonds (2012 Bonds) in order to refinance most of the outstanding 2003 Wells Project bonds. This resulted in a total debt service savings of $3 million over the succeeding seven years. See the notes to the financial statements for further information regarding the Wells Project bonds.

The Wells Project's current bond ratings from the firms of Standard & Poor's and Moody's are "AA" and "Aa3", respectively.

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, 2013

ASSETS	Wells Hydroelectric Project	Distribution System	TOTAL 2013	TOTAL 2012
Current Assets				
Restricted:				
Construction Funds-Cash	$ 83,601,695	$ 3,506,783	$ 87,108,478	106,214,793
Construction Funds-Investments	3,482,865	3,202,050	6,684,915	3,202,050
Debt Repayment Funds-Cash	12,652,671	3,521,583	16,174,254	16,437,630
Debt Repayment Funds-Investments	4,509,605	-	4,509,605	4,511,286
Reserve & Contingency Fund-Cash	7,782,136	-	7,782,136	5,602,708
Reserve & Contingency Fund-Investments	-	-	-	-
Wells Hydroelectric Project Licensing Fund-Cash	-	1,565,325	1,565,325	1,177,409
Wells Hydroelectric Project Licensing Fund-Investments	-	-	-	-
Total Restricted	112,028,972	11,795,741	123,824,713	137,145,876
Unrestricted:				
Cash	1,919,701	12,387,612	14,307,313	9,319,634
Investments	-	-	-	-
Rate Stabilization Fund-Cash	-	9,458,136	9,458,136	9,119,242
Rate Stabilization Fund-Investments	-	9,291,864	9,291,864	8,550,758
Receivables - Net	856,238	4,407,572	5,263,810	5,923,093
Receivables - Intercompany	4,665,138	9,247,572	13,912,710	9,146,519
Current Portion of Intradistrict Note Recievable	-	110,000	110,000	-
Materials and Supplies	-	6,072,690	6,072,690	5,554,190
Other Current & Accrued Assets	776,864	874,975	1,651,839	2,117,535
Total Unrestricted	8,217,941	51,850,421	60,068,362	49,730,971
Total Current Assets	120,246,913	63,646,162	183,893,075	186,876,847
Non-Current Assets				
Electric Plant:				
Electric Plant	268,301,761	212,044,443	480,346,204	473,018,382
Construction Work in Progress	59,706,007	19,593,815	79,299,822	72,275,137
Electric Plant - Gross	328,007,768	231,638,258	559,646,026	545,293,519
Less: Accumulated Depreciation & Amortization	100,008,163	91,399,327	191,407,490	179,384,698
Net Electric Plant	227,999,605	140,238,931	368,238,536	365,908,821
Regulatory Assets	17,678,944	5,224,454	22,903,398	25,974,967
Intradistrict Note Receivable, excluding current portion	-	9,590,000	9,590,000	9,695,000
Total Non-Current Assets	245,678,549	155,053,385	400,731,934	401,578,788
Deferred Outflows				
Unamortized Loss on Reacquired Debt	1,868,076	252,156	2,120,232	2,674,692
TOTAL ASSETS & DEFERRED OUTFLOWS	$ 367,793,538	$ 218,951,703	$ 586,745,241	$ 591,130,327

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, 2013

LIABILITIES & NET POSITION	Wells Hydroelectric Project	Distribution System	TOTAL 2013	TOTAL 2012
Current Liabilities				
Accounts Payable	$ 2,523,774	$ 1,448,129	$ 3,971,903	$ 6,489,796
Accounts Payable-Intercompany	9,247,572	4,665,138	13,912,710	9,146,519
Other Accrued Liabilities	2,951,659	2,480,887	5,432,546	6,693,931
Payable from Restricted Assets:				
Accrued Interest Payable	3,208,382	119,120	3,327,502	3,562,147
Current Portion Long-Term Debt	15,980,000	1,180,000	17,160,000	17,235,000
Total Current Liabilities	33,911,387	9,893,274	43,804,661	43,127,393
Non-current Liabilities				
Bonds Payable, excluding current portion	200,735,000	31,980,000	232,715,000	248,685,000
Unamortized Bond Premiums (Discounts)	1,156,321	4,096,977	5,253,298	5,890,946
Bonds Payable, Net	201,891,321	36,076,977	237,968,298	254,575,946
Deposits and Contract Retainage	555,759	254,253	810,012	1,336,012
Intradistrict Note Payable	9,590,000	-	9,590,000	9,695,000
Compensated Absences	799,562	735,105	1,534,667	1,230,696
Total Non-current Liabilities	212,836,642	37,066,335	249,902,977	266,837,654
Deferred Inflows				
Unamortized Gain on Redeemed Debt	-	5,922	5,922	16,074
Total Liabilities and Deferred Inflows	246,748,029	46,965,531	293,713,560	309,981,121
Net Position				
Net Investment in Capital Assets	101,919,864	107,078,623	208,998,487	200,145,892
Restricted For Debt Service	5,756,030	3,521,583	9,277,613	7,025,561
Unrestricted	13,369,615	61,385,966	74,755,581	73,977,753
Total Net Position	121,045,509	171,986,172	293,031,681	281,149,206
TOTAL LIABILITIES AND NET POSITION	$ 367,793,538	$ 218,951,703	$ 586,745,241	$ 591,130,327

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 POSITION
For The Fiscal Year Ended December 31, 2013

	Wells Hydroelectric Project	Distribution System	Intersystem Eliminations	TOTAL 2013	TOTAL 2012
Operating Revenues					
Retail Sales of Electric Energy	$ -	$ 19,761,171	$ -	$ 19,761,171	$ 17,787,115
Energy Sales for Resale	48,012,638	27,500,023	(17,212,571)	58,300,090	52,309,474
Broadband	-	2,402,037	-	2,402,037	2,169,949
Other	-	359,893	-	359,893	332,706
Total Operating Revenues	48,012,638	50,023,124	(17,212,571)	80,823,191	72,599,244
Operating Expenses					
Operations	18,783,267	34,013,855	(17,212,571)	35,584,551	31,449,891
Maintenance	3,281,634	4,029,317	-	7,310,951	7,422,599
Depreciation	5,427,682	6,673,855	-	12,101,537	11,419,330
Taxes	1,377,582	2,058,795	-	3,436,377	3,254,881
Total Operating Expenses	28,870,165	46,775,822	(17,212,571)	58,433,416	53,546,701
Operating Income (Loss)	19,142,473	3,247,302	-	22,389,775	19,052,543
Non-operating Revenues (Expenses)					
Interest Income	233,790	558,859	-	792,649	832,969
Interest Expense	(10,006,507)	(1,454,374)	-	(11,460,881)	(12,392,074)
Amortization of Other Charges, Debt Discounts, Premiums and Costs	(2,764,195)	106,200	-	(2,657,995)	(3,285,234)
Other	730,988	(117,324)	-	613,664	814,005
Total Non-operating Revenues (Expenses)	(11,805,924)	(906,639)	-	(12,712,563)	(14,030,334)
Income (Loss) Before Contributions	7,336,549	2,340,663	-	9,677,212	5,022,209
Capital Contributions	-	2,205,263	-	2,205,263	848,969
Change In Net Position	7,336,549	4,545,926	-	11,882,475	5,871,178
Net Position, Beginning of Year (Restated, see Note 9)	113,708,960	167,440,246	-	281,149,206	275,278,028
Net Position, End of Year	$ 121,045,509	$ 171,986,172	$ -	$ 293,031,681	$ 281,149,206

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, 2013

	Wells Hydroelectric Project	Distribution System	Intersystem Eliminations	TOTAL 2013	TOTAL 2012
Cash Flow from Operating Activities					
Receipts from Customers	$ 47,010,371	$ 47,089,845	$ (16,848,818)	$ 77,251,398	$ 72,837,319
Receipts for Other Agencies	-	6,906,030		6,906,030	4,803,923
Payments to Employees & Payroll Related	(8,333,798)	(10,203,803)	-	(18,537,601)	(19,139,371)
Payments to Suppliers & Other Agencies	(14,013,199)	(30,422,978)	16,848,818	(27,587,359)	(29,318,214)
Net Cash Provided by Operating Activities	24,663,374	13,369,094	-	38,032,468	29,183,657
Cash Flows from Investing Activities					
Purchase of Investments	(8,028,560)	(6,961,106)	-	(14,989,666)	(13,542,044)
Proceeds from Sales and Maturities of Investments	4,511,286	7,300,000	-	11,811,286	16,426,542
Interest on Investments	207,143	303,948	-	511,091	1,023,147
Net Cash Provided by Investing Activities	(3,310,131)	642,842	-	(2,667,289)	3,907,645
Cash Flows from Capital and Related Financing Activities					
Additions to Electric Plant in Service	(199,275)	(1,011,743)	-	(1,211,018)	(2,354,178)
Net Additions to Construction Work in Progress	(4,787,575)	(14,854,468)	-	(19,642,043)	(11,330,961)
Intradistrict Note Payable-Proceeds (Loaned)	5,000	(5,000)	-	-	-
Proceeds from Bond Issuance	-	-	-	-	76,010,000
Cost of Issuance, Underwriter's Discount, Refunding Escrow	-	-	-	-	(6,571,995)
Proceeds from (Refunds of) Capital Contributions	-	2,205,263	-	2,205,263	848,969
Principal Payments on Long-term Debt	(16,095,000)	(1,140,000)	-	(17,235,000)	(62,695,000)
Interest Payments on Long-term Debt	(10,229,188)	(1,464,343)	-	(11,693,531)	(12,173,044)
Build America Bonds Interest Rebates	735,375	-	-	735,375	774,220
Net Cash Used in Capital and Related Financing Activities	(30,570,663)	(16,270,291)	-	(46,840,954)	(17,491,989)
Net Increase (Decrease) in Cash and Cash Equivalents	(9,217,420)	(2,258,355)	-	(11,475,775)	15,599,313
Cash & Cash Equivalents, Beginning of Year	115,173,623	32,697,794	-	147,871,417	132,270,831
Cash & Cash Equivalents, End of Year	$ 105,956,203	$ 30,439,439	$ -	$ 136,395,642	$ 147,870,144

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, 2013

	Wells Hydroelectric Project	Distribution System	Intersystem Eliminations	TOTAL 2013	TOTAL 2012
Reconciliation of Net Operating Income to Net Cash Provided by Operating Activities					
Operating Income	$ 19,142,473	$ 3,247,302	$ -	$ 22,389,775	19,052,543
Adjustments to Reconcile Operating Income to Net Cash					
Provided by Operating Activities:					
Depreciation	5,427,682	6,673,855	-	12,101,537	11,419,330
Cash Provided by changes in Operating Assets and Liabilities:					
Accounts Receivable - Excluding Construction	(2,238,473)	(2,933,279)	-	(5,171,752)	(1,864,063)
Prepaid Expenses - Other Current and Accrued Assets	(32,309)	174,579	-	142,270	(462,689)
Materials and Supplies	-	(470,150)	-	(470,150)	(31,107)
Other Accrued Liabilities	(1,214,925)	938,528	-	(276,397)	1,454,082
Accounts Payable - Excluding Construction Payables	3,585,356	5,986,983	-	9,572,339	(2,659,738)
Other Current Liabilities	-	-	-	-	1,133,351
Retainage - Operating Only	(6,430)	(248,724)	-	(255,154)	1,141,948
Net Cash Provided by Operating Activities	$ 24,663,374	$ 13,369,094	$ -	$ 38,032,468	$ 29,183,657

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

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 accounting principles generally accepted in the United States of America (GAAP) applicable to municipal utilities. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. 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 Washington State Auditor under the authority of Chapter 43.09 RCW. Revenues and expenses related to the District's principal operations are considered to be operating revenues and expenses. Revenues and expenses related to financing and investing activities, and any other revenues and expenses not related to the District's principal operations, are considered to be nonoperating revenues and expenses.

Revenue Recognition:

The Distribution System recognizes revenue as billed on a monthly and bi-monthly basis. Unbilled delivered electrical services at fiscal period end are considered to be the revenue of the following month and are not accrued, which is a departure from GAAP. Service rates are established by the District's publicly elected Board of Commissioners. Wells Project revenues are derived through the sale of power to four major Pacific Northwest electric utilities and the Colville Confederated Tribes, under the terms of long term power sales contracts, and to the District's Electric Distribution System. The contracts stipulate that the power purchasers will pay annual power costs, which are defined as "all costs and expenses in connection with the Wells Project (excluding depreciation and items properly chargeable to cost of acquisition and construction), whether or not the Wells Project is inoperable or the operation thereof is interrupted, suspended, or interfered with, in whole or in part, during the term of this contract or any portion of said term…."

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). The sinking fund method is a method selected by the Board at the inception of the Wells Project and continues to be applied as its use corresponds more closely to revenue determined from debt service than would an alternative cost allocation method.

Deferred Repair and Maintenance Costs – Wells Project:

Deferred repair and maintenance costs, substantially representing costs associated with restoring the turbine runners to their expected production capacity and repairing the east embankment, are amortized using the sinking fund method (6% rate) over the remaining original term of the Wells Project's series of 1986 and 1990 bonds, respectively. Those bonds were subsequently refunded with later bond series, however no change was made to the amortization method for the deferred repair and maintenance costs.

Deferred Improvements to Recreational Facilities – Wells Project:

Deferred improvements to recreational facilities represent costs incurred to complete certain recreational projects and improvements on city owned land surrounding the reservoir. These costs are amortized using the sinking fund method (6% rate). The treatment of these costs is a method selected under the provisions of ASC 980.

Restricted Assets: In accordance with bond resolutions, related agreements and laws, separate restricted accounts have been established. These accounts are restricted for specific uses including debt service, bond reserves and capital additions and are classified as current assets.

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.

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.

Compensated Absences:

Employees accrue personal leave to be used for vacation, sick, and family leave purposes. Personal 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 for employees hired before April 1, 2011 and 700 hours for employees hired on or after April 1, 2011. The District records personal leave as an expense and liability when earned.

Accounting Estimates:

The preparation of financial statements in conformity with GAAP 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.

Insurance:

The District holds insurance policies for general liability, employee benefits liability, directors' and officers' liability, excess liability, and property insurance. Among other things, the property insurance policies cover flood, earth movement, terrorism and mobile equipment. Other types of insurance carried by the District include business automobile liability and physical damage, aircraft non-ownership liability, comprehensive crime coverage, and blackout/brownout coverage.

For purposes of certain employee benefits insurance the District is a member of the Central Washington Public Utilities Unified Insurance Program Trust (Trust). The Trust was organized pursuant to the provisions of RCW Title 54 and interlocal governmental agreements. It's general objectives include provision for the central collection and disbursement of employee benefit premiums and claims involving medical, dental, life and long-term disability coverage. The Trust is administered by a Board of Trustees comprised of an appointed Trustee from each of the seven member public utility districts. The Trustees are authorized to negotiate, obtain, and maintain insurance policies, and authorize disbursements made from the Trust to third party administrators or other entities. Effective August 1, 2002 and January 1, 2009 the Trust established a self-insured medical plan and self-insured dental plan, respectively, approved by the Washington State Office of Risk Management. The audit report for the Trust is available from the Washington State Auditor's Office.

Claims settlements have not exceeded insurance coverage during any of the past three years.

Intersystem Loan:

In 2004 the Board authorized an intersystem loan, in the form of a revolving note (Note) for the purpose of funding the cost of relicensing the Wells Project. Under the terms of the Note the Wells Project was allowed to take semi-annual draws from the Electric Distribution System's Wells Relicensing Fund. The interest rate for each draw was established at the time of the draw and was equal to the yield on US Treasury bonds maturing in May, 2018, plus 100 basis points. Amounts borrowed under the Note were to be due upon the expiration of the current Wells Project license and any subsequent annual FERC licenses issued to the District. On May 31, 2012, the original Wells Project license expired and FERC issued an annual license that allowed the District to continue operating the Wells Project until a new long-term license could be issued. Under the terms of the Note the District had the option, by election prior to maturity, to extend the maturity date such that principal would be amortized over the life of the new FERC license, with interest payable semi-annually. In May 2012, the District Commission, in anticipation of receiving a new long-term license, chose to utilize this option. On November 9, 2012, FERC issued to the District a new 40 year license to operate and maintain the Wells Project.

Repayment of the Note will be amortized over the new license period at an interest rate equal to the 30 year US Treasury bond yield at November 1, 2012, the effective date of the new license, plus 100 basis points. In 2013 the note was reclassified to a long-term liability, see Note 4.

Intercompany Activity:

The District's two operating systems, Distributon and Wells, as a matter of course, share services and common costs. As each system incurs obligations for the other system, payables and receivables are recorded prior to settlement. Additionally, Distribution has purchased Wells Bonds for investment purposes, but for presentation, these amounts are shown under Payables-Intercompany and Receiveables-Intercompany. Intercompany Sales for Resale (Wells) and Purchased Power (Distribution) and their related balances are not included here, however, these sales and expenses are eliminated from the combined totals.

NOTE 2 – DEPOSITS AND INVESTMENTS

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. Cash held in the Local Government Investment Pool (LGIP) is managed by the Washington State Treasurer's Office. The LGIP is a 2a7-like pool and represents an interest in a group of securities with no specific securities subject to custodial risk.

The District's investments consist of time certificates with banks, direct obligations of the U.S. Government, and bonds of the state of Washington or local governments in the state of Washington, which bonds had at the time of investment one of the three highest credit ratings of a nationally recognized rating agency. Investments are held by financial institutions as the District's agent and in the District's name, or are held by the District itself. The District's practice is to hold all investments to maturity. Custodial credit risk is the risk that in the event of a failure of the counterparty to an investment transaction the District would not be able to recover the value of the investment or collateral securities. The District has no formal policy addressing custodial credit risk. However, due to the nature of the District's investments and deposits, as described above, such risk to the District is not significant. The District's investments are recorded at cost, which approximates market value. The District had the following investments as of December 31, 2013 and 2012, respectively:

	Wells		Distribution	
	2013	**2012**	**2013**	**2012**
Certificates of Deposit	$ 4,509,605	$ 4,511,286	$ -	$ 5,850,000
Municipal Bonds	3,482,865	-	12,493,914	12,232,808
Total	$ 7,992,470	$ 4,511,286	$ 12,493,914	$ 18,082,808

NOTE 3 – UTILITY PLANT

As stated in Note 1, utility plant is recorded at cost. Cost includes both direct costs of construction or acquisition and indirect costs. The District's capitalization threshold is $5,000 and an expected useful life of three years or more. The cost of maintenance and repairs is charged to expense as incurred, while the cost of additions, replacements and improvements is capitalized. Construction Work in Progress may contain amounts that will be transferred to a deferred charge account. The book cost of operating property retired or otherwise disposed of, less salvage, is charged to accumulated depreciation. The following changes occurred in the District's utility plant:

Electric Plant Assets Distribution System	December 31, 2012	Increase	Decrease	December 31, 2013
Utility plant not being depreciated:				
Land and land rights	$ 2,523,472	$ 8,275	$ -	$ 2,531,747
Construction work in progress	17,588,568	9,263,209	(7,257,962)	19,593,815
Subtotal	20,112,040	9,271,484	(7,257,962)	22,125,562
Utility plant being depreciated:				
Transmisssion	4,682,516	200	-	4,682,716
Distribution	142,508,505	6,188,584	(681,164)	148,015,925
General	53,171,373	1,395,849	(552,466)	54,014,756
Intangible plant	1,519,851	417,263	-	1,937,114
Miscellaneous	862,185	-	-	862,185
Subtotal	202,744,430	8,001,896	(1,233,630)	209,512,696
Accumulated depreciation	(84,752,462)	(7,696,369)	1,049,504	(91,399,327)
Net plant being depreciated	117,991,968	305,527	(184,126)	118,113,369
Net Utility Plant - Distribution	$ 138,104,008	$ 9,577,011	$ (7,442,088)	$ 140,238,931

Electric Plant Assets Wells Hydroelectric Project	December 31, 2012	Increase	Decrease	December 31, 2013
Utility plant not being depreciated:				
Land and land rights	$ 51,391,134	$ -	$ -	$ 51,391,134
Construction work in progress	54,686,568	5,692,474	(673,036)	59,706,006
Subtotal	106,077,702	5,692,474	(673,036)	111,097,140
Utility plant being depreciated:				
Hydraulic generation	178,133,862	453,672	(18,000)	178,569,534
Transmisssion	16,883,081	-	-	16,883,081
General	10,926,474	142,693	(98,176)	10,970,991
Intangible plant	10,415,622	71,400	-	10,487,022
Subtotal	216,359,039	667,765	(116,176)	216,910,628
Accumulated depreciation	(94,632,236)	(5,470,318)	94,391	(100,008,163)
Net plant being depreciated	121,726,803	(4,802,553)	(21,785)	116,902,465
Net utility plant - Wells Project	$ 227,804,505	$ 889,921	$ (694,821)	$ 227,999,605

NOTE 4 – LONG-TERM DEBT

Wells Hydroelectric Project

	Purpose	Balance 12/31/2012	Additions	Reductions	Balance 12/31/2013	Due Within One Year
Revenue Bonds:						
Series of 2003A, serial bonds maturing annually to September 1, 2018, interest at 4.00% - 5.25%	Refunding	$ 1,280,000	$ -	$ 1,280,000	$ -	$ -
Series of 2003B, serial bonds maturing annually to September 1, 2018, interest at 3.875% - 5.00%	Refunding	7,160,000	-	7,160,000	-	-
Series of 2005A, serial bonds maturing annually to September 1, 2025 and term bonds maturing September 1, 2030 and 2035, interest at 3.70% - 5.00%	Capital Improvements	37,575,000	-	940,000	36,635,000	975,000
Series of 2005B, serial bonds maturing annually to September 1, 2026 and term bonds maturing September 1, 2022, 2030 and 2035, interest at 3.60% - 5.25%	Refunding, Capital Improvements, and Colville Settlement	30,105,000	-	1,015,000	29,090,000	1,055,000
Series of 2005C, serial bonds maturing annually to September 1, 2014 and term bonds maturing September 1, 2018, interest at 4.654% - 5.112%	Colville Settlement	4,840,000	-	715,000	4,125,000	745,000
Series of 2006A, serial bonds maturing annually to September 1, 2016 and term bonds maturing September 1, 2018, interest at 4.50% - 5.00%	Refunding	6,395,000	-	1,000,000	5,395,000	975,000
Series of 2010A, serial bonds maturing annually to September 1, 2022 and term bonds maturing September 1, 2030 and 2040, interest at 1.484% - 5.450%	Capital Improvements	51,925,000	-	985,000	50,940,000	1,005,000
Series of 2010B, serial bonds maturing annually to September 1, 2020 and term bonds maturing September 1, 2030 and 2040, interest at 1.484% - 5.495%	Capital Improvements	44,080,000	-	1,050,000	43,030,000	1,065,000
Series of 2010C, serial bonds maturing annually to September 1, 2029, interest at 3.00% - 5.00%	Refunding	11,230,000	-	870,000	10,360,000	905,000
Series of 2012, serial bonds maturing annually to September 1, 2018, interest at 0.40% - 1.75%	Refunding	43,360,000	-	1,080,000	42,280,000	9,145,000
Revenue bonds payable		237,950,000	-	16,095,000	221,855,000	15,870,000
Long Term Note Payable:						
Intradistrict	Relicensing	9,695,000	110,000	105,000	9,700,000	110,000
Total Current Portion Long-Term Debt						15,980,000

Following is a summary of future debt service requirements for Wells Project revenue bonds outstanding at December 31, 2013:

	Principal	Interest	Total
2014	15,870,000	9,251,694	25,121,694
2015	16,185,000	8,934,513	25,119,513
2016	16,525,000	8,581,569	25,106,569
2017	16,910,000	8,205,663	25,115,663
2018	13,175,000	7,720,403	20,895,403
2019-2023	27,230,000	33,931,192	61,161,192
2024-2028	33,980,000	26,565,605	60,545,605
2029-2033	38,090,000	17,581,917	55,671,917
2034-2038	32,555,000	7,788,507	40,343,507
2029-2040	11,335,000	936,775	12,271,775
Total	$ 221,855,000	$ 129,497,837	$ 351,352,837

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 2013 and 2012.

Following is a summary of the debt service requirements for the intradistrict note payable at December 31, 2013.

	Principal	Interest	Total
2014	$ 110,000	373,450	$ 483,450
2015	115,000	369,215	484,215
2016	120,000	364,787	484,787
2017	125,000	360,167	485,167
2018	130,000	355,355	485,355
2019-23	725,000	1,697,850	2,422,850
2024-28	875,000	1,547,508	2,422,508
2029-33	1,060,000	1,365,402	2,425,402
2034-38	1,275,000	1,145,375	2,420,375
2039-43	1,540,000	880,110	2,420,110
2044-48	1,860,000	559,790	2,419,790
2049-53	1,765,000	173,443	1,938,443
Total	$ 9,700,000	$ 9,192,452	$ 18,892,452

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 succeeding 15 years and an economic gain (difference between the present values of the old and new debt service requirements) of $2,504,000.

In July 2005, the Wells Project issued its Wells Hydroelectric Revenue and Refunding Bonds, Series 2005A, 2005B, and 2005C (the 2005 Bonds), in the total par amount of $87,585,000. The issuance of the 2005 Bonds resulted in a premium of $2,027,482. A portion of the 2005 Bonds refinanced and legally defeased $5,160,000 of the outstanding 1999B Bonds. This refinancing resulted in a reduction of $1,058,000 in total Wells Project debt service over the succeeding 24 years and an economic gain (difference between the present values of the old and new debt service requirements) of $358,000.

In August 2006, the Wells Project issued its Wells Hydroelectric Revenue Refunding Bonds, Series 2006A and 2006B (the 2006 Bonds), in the total par amount of $13,280,000. The issuance of the 2006 Bonds resulted in a premium of $251,744. The 2006 Bonds refinanced and legally defeased $14,080,000 of the 1986A Bonds, which was the remaining outstanding balance of 1986A Bonds. This refinancing resulted in a reduction of $4,774,000 in total Wells Project debt service over the succeeding 12 years and an economic gain (difference between the present values of the old and new debt service requirements) of $2,214,000.

In August 2010, the Wells Project issued its Wells Hydroelectric Bonds, Revenue Series 2010A, Revenue Series 2010B, and Revenue Refunding Series 2010C (the 2010 Bonds), in the total par amount of $112,900,000. The issuance of the 2010 Bonds resulted in a net discount of $410,845. A portion of the 2010 Bonds refinanced and/or legally defeased $8,520,000 of the outstanding 1999A Bonds and $5,740,000 of the outstanding 2000A Bonds. This refinancing resulted in a reduction of $3,400,000 in total Wells Project debt service over the succeeding 19 years and an economic gain (difference between the present values of the old and new debt service requirements) of $2,259,000.

In August 2012, the Wells Project issued its Wells Hydroelectric Revenue and Refunding Bonds, Series 2012 (Taxable) (the 2012 Bonds), in the total par amount of $43,360,000. The 2012 Bonds were issued at par. A portion of the 2012 Bonds refinanced and legally defeased $6,560,000 of the outstanding 2003A Bonds, $1,790,000 of the outstanding 2003B Bonds, and $31,905,000 of the outstanding 2003C Bonds. This refinancing resulted in a reduction of $2,998,000 in total Wells Project debt service over the succeeding seven years and an economic gain (difference between the present values of the old and new debt service requirements) of $3,176,000.

Debt service on all outstanding Wells Project bonds which have been refinanced and legally defeased is met by cash and investments held in irrevocable trust with escrow agents. As of December 31, 2012, the escrow agent was holding cash and investments of $77,156,314 which are expected to fully fund debt service on all outstanding Wells Project legally defeased bonds. The trust account assets and the liability for the corresponding refunded bonds are not included in the District's financial statements.

Distribution System

Long-term liability activity for the year ended December 31, 2013 was as follows:

	Balance 12/31/2012	Additions	Reductions	Balance 12/31/2013	Due Within One Year
Revenue bonds payable	$ 34,300,000	$ -	$ 1,140,000	$ 33,160,000	$ 1,180,000
Unamortized bond premiums (discounts)	4,247,541	-	150,564	4,096,977	
Total bonds payable	38,547,541	-	1,290,564	37,256,977	1,180,000
Deposits and Contract Retainage	812,040	53,059	610,846	254,253	
Compensated absences	1,285,595	1,157,121	1,102,182	1,340,534	605,429
Non-current liabilities	$ 40,645,176	$ 1,210,180	$ 3,003,592	$ 38,851,764	$ 1,785,429

In January 2004, $18,420,000 of revenue bonds were issued for capital improvements to electrical facilities. These bonds are non-voted State I.D. No. 252.11.

In August 2012, the Distribution System issued its Electric Distribution System Revenue and Refunding Bonds, Series 2012, in the total amount of $32,650,000. A portion of the 2012 Bonds refinanced $7,075,000 of the outstanding 2004 Bonds. The remaining portion of the 2012 Bonds were issued for construction of a new transmission line and capital improvements to electrical facilities.

Following is a summary of future debt service requirements for Distribution System revenue bonds outstanding at December 31, 2013.

	Principal	Interest	Total
2014	$ 1,180,000	1,429,393	2,609,393
2015	1,135,000	1,391,093	2,526,093
2016	1,155,000	1,390,525	2,545,525
2017	1,195,000	1,355,875	2,550,875
2018	1,245,000	1,308,075	2,553,075
2019-2023	7,085,000	5,670,300	12,755,300
2024-2028	3,955,000	4,362,000	8,317,000
2029-2033	5,070,000	3,268,000	8,338,000
2034-2038	6,505,000	1,863,250	8,368,250
2039-2041	4,635,000	375,600	5,010,600
Total	$ 33,160,000	$ 22,414,111	$ 55,574,111

The 2004 Distribution bonds are serial bonds through 2020 and term bonds maturing in 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 in 2013 and 2012.

The 2012 Distribution bonds are serial bonds through 2023 and term bonds maturing in 2041. Interest rates range from 2.0% to 5.0% and interest is payable on June 1 and December 1. The bondholders' resolution requires the District to maintain at least 125% coverage for debit service. The required coverage was maintained in 2013 and 2012.

NOTE 5 – OTHER COMMITMENTS AND CONTINGENCIES

a) Colville Confederated Tribes Settlement

In January 2003 the Colville Confederated Tribes ("Tribes") presented an economic consultant's study indicating the District owed 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 had been aware of a claim made by the Tribes for the use of the bed of the river for years, but there had never been a claim to shore land that the District owns. The bed of the river claim had surfaced on several occasions during the previous 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 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 land portion of the settlement was transferred in March 2005.

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 Purchasers 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 adjustments result in a portion of the excess power being priced at Wells Power Cost, another portion priced at the District's general service rate and the balance remaining at the original purchase price. Each month the District estimates the adjustment to revenue required by this agreement.

c) Memorandum of Understanding with Okanogan County PUD

The District and Okanogan PUD entered into a 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 are listed as threatened or endangered under the Endangered Species Act (ESA). Upper Columbia River (UCR) Steelhead and UCR spring Chinook were listed as endangered species on August 18, 1997 and March 24, 1999, respectively. Subsequently the endangered status of UCR spring Chinook was reaffirmed and the status of UCR steelhead was upgraded to threatened.

The District has negotiated with state and federal fisheries resource agencies and Indian tribes, a multispecies Anadromous Fish Agreement and Habitat Conservation Plan (HCP). The Plan 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 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 were listed as a threatened species on June 10, 1998. On September 30, 2010 the United States Fish and Wildlife Service (FWS) designated critical habitat for ESA listed Columbia River bull trout. This designation included most of the waters found within the Wells Project. ESA listed bull trout have been observed at the Wells Project but are not covered in the HCP. In May 2004 FWS issued a biological opinion and incidental take permit that covered the operations of the Wells Project and the implementation of the HCP.

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. As the ultimate outcome of this matter is not determinable, no accruals have been made to the financial statements.

e) Plan Species Account

In accordance with the Tributary Conservation Plan, formed under the HCP, a Plan Species Account was established to fund projects for the protection and restoration of Plan Species habitat. The HCP requires a Tributary Committee, composed of one representative of each party to the HCP, to select the projects and approve the project budgets from the Plan Species Account for purposes of implementing the Tributary Conservation Plan. All budget and spending decisions must be made by unanimous vote of the Tributary Committee members. The HCP requires the District to make monetary contributions to the Plan Species Account. In 2004 a required initial contribution of $2,272,740 was made to the Plan Species Account. In January 2010 the District began making required annual payments of $176,178 in 1998 dollars to the Plan Species Account. The actual amounts of the 2013 and 2012 payments were $250,729 and $244,533, respectively.

f) Energy Northwest – Nine Canyon Wind Project

The Nine Canyon Wind Project is located eight miles southwest of Kennewick, Washington in the Horse Heaven Hills. The project was developed in three phases. Energy Northwest issued bonds to finance each phase of the Wind Project System, some of which have been refunded, and currently has $48,370,000 of Phase I bonds outstanding, $14,725,000 of Phase II bonds outstanding and $66,385,000 of Phase III bonds outstanding. The District is obligated to pay 6.251%, 43.59% and 0% of the debt service for Phase I, II, and III bonds, respectively, and is entitled to 10.23% of the aggregate output of the project (9.8 MW of generating capacity) until July 1, 2030.

g) Douglas PUD – Chelan PUD Power Sales Contract

The District has a long term power sales contract with Chelan PUD to purchase 5.54% of the output of Chelan PUD's Rocky Reach Project. The contract is a take-or-pay contract requiring the District to pay costs associated with operation, maintenance, renewals and replacements to Rocky Reach, whether or not the project is operable or operating. The current term of the power sales contract expires on October, 31, 2021. The District has the option to extend the term of the contract for up to four successive 10-year periods thereafter.

h) Avista Energy Long-Term Firm Power Agreement

The District entered into an agreement with Avista Energy, Inc. to exchange power from October 1, 2000 through July 31, 2017. The District was obligated to deliver fixed annual amounts of energy totaling 1.9 million MWh of energy to Avista from October 1, 2000 through March 31, 2006; and Avista is obligated to deliver a like amount of firm energy to the District from August 1, 2006 through July 31, 2017. The District consented to an assignment of this agreement to Coral Energy Holding, L.P., a wholly owned subsidiary of Shell Energy North America, L.P., as a result of Coral's acquisition of Avista effective on July 1, 2007. Coral was subsequently merged into its parent, Shell Energy North America, effective on June 1, 2008. Shell Energy is now delivering firm energy to the District under this long-term firm power agreement.

i) Relicensing

The Wells Project License expired May 31, 2012. The District filed its Final License Application for a new long-term license with FERC on May 27, 2010. On May 31, 2012 FERC issued an annual license for the Wells Project that allowed the District to continue generating electricity at the Wells Project until the new long-term license was issued. The District had filed all necessary documents as required by the FERC Integrated Licensing Process, including a Notice of Intent and its Pre-Application Document in December 2006, a Study Plan Document and a Revised Study Plan Document in 2007, its Initial Study Report on October 15, 2008 and an Updated Study Report on April 15, 2009, its Draft License Application in December 2009 and the Final License Application for the Wells Project in 2010. FERC issued the final Environmental Impact Statement on October 25, 2011, and the Washington State Department of Ecology issued a final water quality certification on February 27, 2012.

On November 9, 2012 FERC issued to the District a new long-term license for the Wells Project. The new license was issued for a period of 40 years, effective November 1, 2012.

j) Generator and Turbine Refurbishment

A generator and turbine refurbishment is in progress at the Wells Project and will continue for the next several years. The cost of the generator and turbine refurbishment is being financed through the issuance of revenue bonds. The first (Unit 7) of the Projects ten units has been refurbished and placed back into service. Completion of the first unit rebuild was significantly behind schedule, which triggered liquidated damages under the contract. As of December 31, 2013, liquidated damages of $2,968,197 had been withheld from payments to the contractor. An additional $566,484 of liquidated damages have accrued but have not yet been withheld from the contractor. Together, under the terms of the contract, those amounts equal the limit allowed for liquidated damages for that unit. The accrued liquidated damages are considered a contingency and are not reported in the financial statements. After the unit was returned to service a problem with the turbine guide bearing was discovered. The turbine guide bearing is now being redesigned and replaced under warranty.

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 a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for each plan. The DRS CAFR may be obtained by writing to: Department of Retirement Systems, Communications Unit, P.O. Box 48380, Olympia, WA 98504-8380; or it may be downloaded from the DRS website at www.drs.wa.gov. The following disclosures are made pursuant to GASB Statements No. 27, *Accounting for Pensions by State and Local Government Employers* and No. 50*, Pension Disclosures, an Amendment of GASB Statements No. 25 and No. 27*.

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

Plan Description
PERS is a cost-sharing multiple-employer retirement system comprised of three separate plans for membership purposes: Plans 1 and 2 are defined benefit plans and Plan 3 is a defined benefit plan with a defined contribution component.

Membership in the system includes: elected officials; state employees; employees of the Supreme, Appeals, and Superior courts (other than judges currently in a judicial retirement system); employees of legislative committees; community and technical colleges, college and university employees not participating in national higher education retirement programs; judges of district and municipal courts; and employees of local governments.

PERS members who joined the system by September 30, 1977 are Plan 1 members. Those who joined on or after October 1, 1977 and by either, February 28, 2002 for state and higher education employees, or August 31, 2002 for local government employees, are Plan 2 members unless they exercise an option to transfer their membership to Plan 3. PERS members joining the system on or after March 1, 2002 for state and higher education employees, or September 1, 2002 for local government employees have the irrevocable option of choosing membership in either PERS Plan 2 or PERS Plan 3. The option must be exercised within 90 days of employment. An employee is reported in Plan 2 until a choice is made. Employees who fail to choose within 90 days default to PERS Plan 3. Notwithstanding, PERS Plan 2 and Plan 3 members may opt out of plan membership if terminally ill, with less than five years to live.

PERS is comprised of and reported as three separate plans for accounting purposes: Plan 1, Plan 2/3, and Plan 3. Plan 1 accounts for the defined benefits of Plan 1 members. Plan 2/3 accounts for the defined benefits of Plan 2 members and the defined benefit portion of benefits for Plan 3 members. Plan 3 accounts for the defined contribution portion of benefits for Plan 3 members. Although members can only be a member of either Plan 2 or Plan 3, the defined benefit portions of Plan 2 and Plan 3 are accounted for in the same pension trust fund. All assets of this Plan 2/3 defined benefit plan may legally be used to pay the defined benefits of any of the Plan 2 or Plan 3 members or beneficiaries, as defined by the terms of the plan. Therefore, Plan 2/3 is considered to be a single plan for accounting purposes.

PERS Plan 1 and Plan 2 defined benefit retirement benefits are financed from a combination of investment earnings and employer and employee contributions. PERS retirement benefit provisions are established in Chapters 41.34 and 41.40 RCW and may be amended only by the State Legislature.

PERS Plan 1 members are vested after the completion of five years of eligible service. Plan 1 members are eligible for retirement after 30 years of service, or at the age of 60 with five years of service, or at the age of 55 with 25 years of service. The monthly benefit is 2 percent of the average final compensation (AFC) per year of service. (AFC is the monthly average of the 24 consecutive highest-paid service credit months.) The retirement benefit may not exceed 60 percent of AFC. The monthly benefit is subject to a minimum for PERS Plan 1 retirees who have 25 years of service and have been retired 20 years, or who have 20 years of service and have been retired 25 years. Plan 1 members retiring from inactive status prior to the age of 65 may receive actuarially reduced benefits. If a survivor option is chosen, the benefit is further reduced. Plan 1 members may elect to receive an optional COLA that provides an automatic annual adjustment based on the Consumer Price Index. The adjustment is capped at 3 percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

PERS Plan 1 provides duty and non-duty disability benefits. Duty disability retirement benefits for disablement prior to the age of 60 consist of a temporary life annuity payable to the age of 60. The allowance amount is $350 a month, or two-thirds of the monthly AFC, whichever is less. The benefit is reduced by any workers' compensation benefit and is payable as long as the member remains disabled or until the member attains the age of 60. A member with five years of covered employment is eligible for non-duty disability retirement. Prior to the age of 55, the allowance amount is 2 percent of the AFC for each year of service reduced by 2 percent for each year that the member's age is less than 55. The total benefit is limited to 60 percent of the AFC and is actuarially reduced to reflect the choice of a survivor option. A cost-of living allowance is granted at age 66 based upon years of service times the COLA amount. This benefit was eliminated by the Legislature, effective July 1, 2011. Plan 1 members may elect to receive an optional COLA that provides an automatic annual adjustment based on the Consumer Price Index. The adjustment is capped at 3 percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

PERS Plan 1 members can receive credit for military service. Members can also purchase up to 24 months of service credit lost because of an on-the-job injury.

PERS Plan 2 members are vested after the completion of five years of eligible service. Plan 2 members are eligible for normal retirement at the age of 65 with five years of service. The monthly benefit is 2 percent of the AFC per year of service. (AFC is the monthly average of the 60 consecutive highest-paid service months.)

PERS Plan 2 members who have at least 20 years of service credit and are 55 years of age or older are eligible for early retirement with a reduced benefit. The benefit is reduced by an early retirement factor (ERF) that varies according to age, for each year before age 65.

PERS Plan 2 members who have 30 or more years of service credit and are at least 55 years old can retire under one of two provisions:

- With a benefit that is reduced by 3 percent for each year before age 65.
- With a benefit that has a smaller (or no) reduction (depending on age) that imposes stricter return-to-work rules.

PERS Plan 2 retirement benefits are also actuarially reduced to reflect the choice, if made, of a survivor option. There is no cap on years of service credit; and a cost-of-living allowance is granted (based on the Consumer Price Index), capped at 3 percent annually.

The surviving spouse or eligible child or children of a PERS Plan 2 member who dies after leaving eligible employment having earned ten years of service credit may request a refund of the member's accumulated contributions.

PERS Plan 3 has a dual benefit structure. Employer contributions finance a defined benefit component and member contributions finance a defined contribution component. The defined benefit portion provides a monthly benefit that is 1 percent of the AFC per year of service. (AFC is the monthly average of the 60 consecutive highest-paid service months.)

Effective June 7, 2006, PERS Plan 3 members are vested in the defined benefit portion of their plan after ten years of service; or after five years of service, if twelve months of that service are earned after age 44; or after five service credit years earned in PERS Plan 2 prior to June 1, 2003. Plan 3 members are immediately vested in the defined contribution portion of their plan.

Vested Plan 3 members are eligible for normal retirement at age 65, or they may retire early with the following conditions and benefits:

- If they have at least ten service credit years and are 55 years old, the benefit is reduced by an ERF that varies with age, for each year before age 65.
- If they have 30 service credit years and are at least 55 years old, they have the choice of a benefit that is reduced by 3 percent for each year before age 65; or a benefit with a smaller (or no) reduction factor (depending on age) that imposes stricter return-to-work rules.

PERS Plan 3 defined benefit retirement benefits are also actuarially reduced to reflect the choice, if made, of a survivor option. There is no cap on years of service credit and Plan 3 provides the same cost-of-living allowance as Plan 2.

PERS Plan 3 defined contribution retirement benefits are solely dependent upon contributions and the results of investment activities.

The defined contribution portion can be distributed in accordance with an option selected by the member, either as a lump sum or pursuant to other options authorized by the Director of the Department of Retirement Systems.

PERS Plan 2 and Plan 3 provide disability benefits. There is no minimum amount of service credit required for eligibility. The Plan 2 monthly benefit amount is 2 percent of the AFC per year of service. For Plan 3, the monthly benefit amount is 1 percent of the AFC per year of service.

These disability benefit amounts are actuarially reduced for each year that the member's age is less than 65, and to reflect the choice of a survivor option. There is no cap on years of service credit, and a cost-of-living allowance is granted (based on the Consumer Price Index) capped at 3 percent annually.

PERS Plan 2 and Plan 3 members may have up to ten years of interruptive military service credit; five years at no cost and five years that may be purchased by paying the required contributions. Effective July 24, 2005, a member who becomes totally incapacitated for continued employment while serving the uniformed services, or a surviving spouse or eligible children, may apply for interruptive military service credit. Additionally, PERS Plan 2 and Plan 3 members can also purchase up to 24 months of service credit lost because of an on-the-job injury.

PERS members may also purchase up to five years of additional service credit once eligible for retirement. This credit can only be purchased at the time of retirement and can be used only to provide the member with a monthly annuity that is paid in addition to the member's retirement benefit.

Beneficiaries of a PERS Plan 2 or Plan 3 member with ten years of service who is killed in the course of employment receive retirement benefits without actuarial reduction, if the member was not at normal retirement age at death. This provision applies to any member killed in the course of employment, on or after June 10, 2004, if found eligible by the Department of Labor and Industries.

A one-time duty-related death benefit is provided to the estate (or duly designated nominee) of a PERS member who dies in the line of service as a result of injuries sustained in the course of employment, or if the death resulted from an occupational disease or infection that arose naturally and proximately out of said member's covered employment, if found eligible by the Department of Labor and Industries.

Funding Policy

Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates, Plan 2 employer and employee contribution rates, and Plan 3 employer contribution rates. Employee contribution rates for Plan 1 are established by statute at 6 percent for state agencies and local government unit employees, and at 7.5 percent for state government elected officials. The employer and employee contribution rates for Plan 2 and the employer contribution rate for Plan 3 are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. All employers are required to contribute at the level established by the Legislature. Under PERS Plan 3, employer contributions finance the defined benefit portion of the plan and member contributions finance the defined contribution portion. The Director of the Department of Retirement Systems sets Plan 3 employee contribution rates. Six rate options are available ranging from 5 percent to 15 percent; two of the options are graduated rates dependent on the employee's age. As a result of the implementation of the Judicial Benefit Multiplier Program in January 2007, a second tier of employer and employee rates was developed to fund, along with investment earnings, the increased retirement benefits of those justices and judges that participate in the program. The methods used to determine the contribution requirements are established under state statute in accordance with Chapters 41.40 and 41.45 RCW.

The required contribution rates expressed as a percentage of current-year covered payroll, as of December 31, 2013, are as follows:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
Employer*	9.21%**	9.21%**	9.21%***
Employee	6.00%****	4.92%****	*****

* The employer rates include the employer administrative expense fee currently set at 0.18%.
** The employer rate for state elected officials is 13.73% for Plan 1 and 9.21% for Plan 2 and Plan 3.
*** Plan 3 defined benefit portion only.
**** The employee rate for state elected officials is 7.50% for Plan 1 and 4.92% for Plan 2.
***** Variable from 5.0% minimum to 15.0% maximum based on rate selected by the PERS 3 member.

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

	PERS Plan 1	PERS Plan 2	PERS Plan 3
2013	$ 66,213	$ 1,177,981	$ 84,373
2012	$ 59,314	$ 1,010,268	$ 77,051
2011	$ 61,384	$ 853,015	$ 67,302

Deferred Compensation Plans

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 2% of regular straight-time wages. 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 OUTFLOW OF RESOURCES AND REGULATORY ASSETS

Distribution System

The Distribution System had deferred outflows of $252,156 and $306,672 respectively at December 31, 2013 and 2012. The deferred outflows consist of unamortized losses on reacquired debt related to the sale of bonds.

The Distribution System had regulatory assets of $5,224,454 and $5,557,890, respectively, at December 31, 2013 and 2012. Regulatory assets amortized by the Distribution System consist of preliminary survey and investigation costs. The balance is primarily wind development costs and other miscellaneous work in progress.

Wells Hydroelectric Project

The Wells Hydroelectric Project had deferred outflows of $1,868,076 and $2,368,020 respectively at December 31, 2013 and 2012. Deferred outflows consist of unamortized losses on reacquired debt related to the sale of bonds.

The Wells Project had regulatory assets of $17,678,944 and $20,417,077, respectively, at December 31, 2013 and 2012. Regulatory assets amortized by the Wells Project consist of the following: improvements to recreational facilities, repair and maintenance costs, miscellaneous fish improvements, preliminary survey and investigation, legal settlement charges, and miscellaneous clearing accounts. Regulatory assets are amortized using the sinking fund method.

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. 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, 2013 the District has capitalized $28.5 million dollars of community network equipment.

Douglas County Community Network	2013
Operating Revenue:	
Wholesale Broadband Residential & Business	$ 1,456,546
Broadband Governmental	574,848
Colocation & Bandwidth	256,712
Television	113,931
	$ 2,402,037
Operating Expenses:	
Operation & Maintenance	$ 1,159,520
Administration & General	311,492
	$ 1,471,012

Northwest Open Access Network (NoaNet):

NoaNet was incorporated in February 2000 to provide a broadband communications backbone 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 2012 the District withdrew from membership in NoaNet. The District remains obligated to a 5.21% (maximum) share of the 2011 revenue bonds and a 5.74% share of the 2009 line of credit. As of December 31, 2013 there were $8.2 million revenue bonds outstanding and $83 thousand outstanding on the 2009 line of credit.

The management of NoaNet anticipates meeting debt serve and operating costs through profitable operations; however members have contributed to help meet debt service obligations. During 2013 and 2012 the District contributed (expensed) $0 toward NoaNet's debt service. An audited annual report for NoaNet may be obtained by writing to: Northwest Open Access Network, 5802 Overlook Ave NE, Tacoma, WA 98422. NoaNet's web site is www.noanet.net

Note 9 – BEGINNING OF YEAR NET POSITION RESTATEMENT

As reported last year, the District implemented GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which established standards that reclassified certain items that were previously reported as assets and liabilities. Prospectively, debt issuance costs are to be recognized as an expense in the period incurred. Historically, the District reported debt issuance costs as an asset and amortized the costs over the life of the bond issue. The effects of reporting debt issuance costs as described for the year ended December 31, 2012 were as follows:

	As Previously Reported	Effect of Writing Off Previous Debt Issuance Costs	As Restated
Statements of Net Position:			
Deferred Outflows	$ 7,047,449	(4,372,757)	2,674,692
Total Assets and Deferred Outflows	595,503,084	(4,372,757)	591,130,327
Total Net Position	285,521,963	(4,372,757)	281,149,206
Statements of Revenues, Expenses and Changes in Net Position:			
Amortization of Other Charges, Debt Discounts, Premiums and Costs	(2,930,053)	(355,181)	(3,285,234)
Change in Net Position	6,226,359	(355,181)	5,871,178
Net Position, Beginning of Year	279,295,604	(4,017,576)	275,278,028
Net Position, End of Year	$ 285,521,963	(4,372,757)	281,149,206

ABOUT THE STATE AUDITOR'S OFFICE

The State Auditor's Office is established in the state's Constitution and is part of the executive branch of state government. The State Auditor is elected by the citizens of Washington and serves four-year terms.

We work with our audit clients and citizens to achieve our vision of government that works for citizens, by helping governments work better, cost less, deliver higher value, and earn greater public trust.

In fulfilling our mission to hold state and local governments accountable for the use of public resources, we also hold ourselves accountable by continually improving our audit quality and operational efficiency and developing highly engaged and committed employees.

As an elected agency, the State Auditor's Office has the independence necessary to objectively perform audits and investigations. Our audits are designed to comply with professional standards as well as to satisfy the requirements of federal, state, and local laws.

Our audits look at financial information and compliance with state, federal and local laws on the part of all local governments, including schools, and all state agencies, including institutions of higher education. In addition, we conduct performance audits of state agencies and local governments as well as fraud, state whistleblower and citizen hotline investigations.

The results of our work are widely distributed through a variety of reports, which are available on our website and through our free, electronic subscription service.

We take our role as partners in accountability seriously, and provide training and technical assistance to governments, and have an extensive quality assurance program.

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