

Washington State Auditor's Office
Financial Statements Audit Report

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

Audit Period
January 1, 2011 through December 31, 2011

Report No. 1007947

Issue Date
June 25, 2012



WASHINGTON
BRIAN SONNTAG
STATE AUDITOR



**Washington State Auditor
Brian Sonntag**

June 25, 2012

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,

BRIAN SONNTAG, CGFM
STATE AUDITOR

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Public Utility District No. 1 of Douglas County January 1, 2011 through December 31, 2011

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Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters in Accordance with *Government Auditing Standards*

**Public Utility District No. 1 of Douglas County
January 1, 2011 through December 31, 2011**

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

We have audited 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, 2011, and have issued our report thereon dated June 4, 2012. The prior year partial comparative information has been derived from the District's 2010 financial statements and, in our report dated July 1, 2011, we expressed unqualified opinions on the respective financial statements of each major fund.

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.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of the District's compliance with certain provisions of laws, regulations, contracts and 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*.

This report is intended for the information and use of management and the Board of Commissioners. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

A handwritten signature in black ink, appearing to read "Brian Sonntag". The signature is fluid and cursive, with the first name "Brian" and last name "Sonntag" clearly distinguishable.

BRIAN SONNTAG, CGFM
STATE AUDITOR

June 4, 2012

Independent Auditor's Report on Financial Statements

Public Utility District No. 1 of Douglas County January 1, 2011 through December 31, 2011

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

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, 2011, which collectively comprise the District's basic financial statements as listed on page 5. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year partial comparative information has been derived from the District's 2010 financial statements and, in our report dated July 1, 2011, we expressed unqualified opinions on the respective financial statements of each major fund.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of each major fund of Public Utility District No. 1 of Douglas County, as of December 31, 2011, and the changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The financial statements include partial prior year comparative information. Such information does not include all of 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 District's financial statements for the year ended December 31, 2010, from which such partial information was derived.

In accordance with *Government Auditing Standards*, we have also issued our report on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 6 through 12 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 the 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.

A handwritten signature in black ink, appearing to read "Brian Sonntag". The signature is fluid and cursive, with the first name "Brian" and last name "Sonntag" clearly distinguishable.

BRIAN SONNTAG, CGFM
STATE AUDITOR

June 4, 2012

Financial Section

Public Utility District No. 1 of Douglas County January 1, 2011 through December 31, 2011

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2011

BASIC FINANCIAL STATEMENTS

Statement of Net Assets – 2011

Statement of Revenues, Expenses and Changes in Net Assets – 2011

Statement of Cash Flows – 2011

Notes to Financial Statements – 2011

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, 2011 and 2010. 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), obligations to creditors (liabilities) and net assets (equity).
- The statement of revenues, expenses, and changes in net assets 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 2011, the overall financial position of the District improved. The District's total net assets increased by \$9.3 million to \$281 million. The following analysis provides a three-year comparison 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, 1,226 miles of overhead and underground distribution lines, 504 miles of fiber optic lines, and other buildings, equipment, inventories and related facilities.

Condensed Comparative Financial Information

Distribution System Balance Sheet (Dollars in Thousands)

	12/31/2011	12/31/2010	Increase (Decrease) 2011-2010		12/31/2009
			\$	%	
Current & Other Assets	\$ 57,427	52,978	\$ 4,449	8.4%	\$ 59,935
Capital Assets	128,046	131,531	(3,485)	-2.6%	130,477
Total Assets	<u>185,473</u>	<u>184,509</u>	<u>964</u>	<u>0.5%</u>	<u>190,412</u>
Current Liabilities	4,252	5,321	(1,069)	-20.1%	6,432
Noncurrent Liabilities	9,844	10,718	(874)	-8.2%	11,608
Total Liabilities	<u>14,096</u>	<u>16,039</u>	<u>(1,943)</u>	<u>-12.1%</u>	<u>18,040</u>
Invested in Capital Assets, net of debt	118,541	121,266	(2,725)	-2.2%	120,212
Restricted	100	100	-	0.0%	100
Unrestricted	52,737	47,104	5,633	12.0%	52,059
Total Net Assets	<u>\$ 171,378</u>	<u>\$ 168,470</u>	<u>\$ 2,908</u>	<u>1.7%</u>	<u>\$ 172,271</u>

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

	12/31/2011	12/31/2010	Increase (Decrease) 2011-2010		12/31/2009
			\$	%	
Operating Revenues					
Retail Electric Sales	\$ 17,334	\$ 15,474	\$ 1,860	12.0%	\$ 15,144
Electric Sales For Resale	24,497	19,272	5,225	27.1%	18,102
Broadband	2,217	1,837	380	20.7%	1,426
Other	342	337	5	1.5%	315
Nonoperating Revenues	967	933	34	3.6%	1,430
Total Revenues	<u>45,357</u>	<u>37,853</u>	<u>7,504</u>	<u>19.8%</u>	<u>36,417</u>
Operating Expenses					
Purchased Power	25,420	23,270	2,150	9.2%	22,176
Other	19,253	19,419	(166)	-0.9%	19,765
Nonoperating Expenses	482	494	(12)	-2.4%	519
Total Expenses	<u>45,155</u>	<u>43,183</u>	<u>1,972</u>	<u>4.6%</u>	<u>42,460</u>
Capital Contributions	2,706	1,429	1,277	89.4%	1,045
Net Earnings	2,908	(3,901)	6,809	-174.5%	(4,998)
Beginning Net Assets	168,470	172,371	(3,901)	-2.3%	177,369
Ending Net Assets	<u>\$ 171,378</u>	<u>\$ 168,470</u>	<u>\$ 2,908</u>	<u>1.7%</u>	<u>\$ 172,371</u>

Financial Analysis

During 2011, the Distribution System's overall financial position and results from operations improved. Net assets increased by 1.7% to \$171 million from \$168 million in 2010. Provided below is a year-over-year analysis of the changes in net assets, with the focus on changes between 2011 and 2010.

Revenues

2010 to 2011:

Revenues from sales to retail customers (Retail Electric Sales) in 2011 increased \$1.8 million (12%) from 2010. This was primarily a result of a 6% retail rate increase effective January 1, 2011. 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 2011 increased \$5.2 million (27%) from 2010. This is typically due to changes in weather conditions, river flow and electrical consumption patterns.

Revenues from the District's Douglas County Community Network (DCCN) in 2011 increased \$380,000 (21%) from 2010. This was primarily a result of a 6% rate increase effective January 1, 2011 and new customer connections.

2009 to 2010:

During 2010 as compared to 2009, total revenues increased \$1.4 million to \$37.8 million. The primary reasons for the increase were:

- A 6% electric rate increase effective January 1, 2010.
- Electric sales for resale increased 6.5% to \$19 million which is typically due to changes in weather conditions, river flow and electrical consumption patterns.
- The District's Douglas County Community Network (DCCN) experienced an increase of 384 customers compared to 2009. This resulted in a \$411,000 increase to broadband operating revenues.

Expenses

2010 to 2011:

Purchased power expense increased by \$2.1 million (9.2%). 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.

Other operating expenses and nonoperating expenses decreased .9% and 2.4%, respectively.

2009 to 2010:

During 2010 as compared to 2009, total expenses increased \$723,000 to \$43 million. The primary factor influencing the result was:

- A 4.9% increase in purchased power expense. 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.

Capital Asset and Long-Term Debt Activity

As of December 31, 2011 the Distribution System had approximately \$128 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 \$8.7 million, all in revenue bonds. Debt service payments for 2011 was \$1.2 million. Debt service coverage ratios for 2011 and 2010 were 8.0 and 3.7, 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 2011, the District's capital contributions increased \$1.2 million (89%) primarily resulting from a payment from the Sabey Corporation for the expansion and upgrade to the District's Pangborn Substation.

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 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 effort to relicense the Wells Project is discussed in the notes to the financial statements.

Condensed Comparative Financial Information

Wells Project Balance Sheets (Dollars in Thousands)

	12/31/2011	12/31/2010	Increase (Decrease)		12/31/2009
			2011-2010		
			\$	%	
Current and Other Assets	\$ 153,711	\$ 164,014	\$ (10,303)	-6.3%	\$ 75,493
Capital Assets	228,755	227,522	1,233	0.5%	223,980
Total Assets	<u>382,466</u>	<u>391,536</u>	<u>(9,070)</u>	<u>-2.3%</u>	<u>299,473</u>
Current Liabilities	23,616	24,455	(839)	-3.4%	20,865
Long-Term Liabilities	249,133	263,620	(14,487)	-5.5%	178,187
Total Liabilities	<u>272,749</u>	<u>288,075</u>	<u>(15,326)</u>	<u>-5.3%</u>	<u>199,052</u>
Invested in Capital Assets, Net of Related Debt	90,573	83,457	7,116	8.5%	74,881
Restricted	14,585	14,005	580	4.1%	11,540
Unrestricted	4,560	5,999	(1,439)	-24.0%	14,000
Total Net Assets	<u>\$ 109,718</u>	<u>\$ 103,461</u>	<u>\$ 6,257</u>	<u>6.0%</u>	<u>\$ 100,421</u>

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

	12/31/2011	12/31/2010	Increase (Decrease)		12/31/2009
			2011-2010		
			\$	%	
Operating Revenues	\$ 47,317	\$ 41,426	\$ 5,891	14.2%	\$ 41,706
Nonoperating Revenues	1,047	838	209	24.9%	1,530
Total Revenues	<u>48,364</u>	<u>42,264</u>	<u>6,100</u>	<u>14.4%</u>	<u>43,236</u>
Operating Expenses	26,529	26,319	210	0.8%	24,870
Nonoperating Expenses	15,578	12,905	2,673	20.7%	11,685
Total Expenses	<u>42,107</u>	<u>39,224</u>	<u>2,883</u>	<u>7.4%</u>	<u>36,555</u>
Net Earnings	6,257	3,040	3,217	105.8%	6,681
Beginning Net Assets	103,461	100,421	3,040	3.0%	93,740
Ending Net Assets	<u>\$ 109,718</u>	<u>\$ 103,461</u>	<u>\$ 6,257</u>	<u>6.0%</u>	<u>\$ 100,421</u>

Financial Analysis

Fluctuations shown in the comparison of balance sheets of the Wells Project at December 31, 2011 and 2010 were due mainly to progress on the generating unit rebuild project and construction or purchase of other capital projects, resulting in a decrease in cash and investments and an increase in capital assets. The increase in capital assets was largely offset by depreciation. The decrease in long-term liabilities was due to the retirement of outstanding bonds through regular debt service. Other significant financial 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, under the terms of the power sales contracts, includes amounts set aside for debt service but excludes depreciation, operating revenues fluctuate based on operating expenses (exclusive of depreciation) and debt service requirements. Amounts set aside for debt service in 2011 increased due to the commencement of debt service on the 2010 Bonds. Non-operating revenues consist mainly of investment income and the federal credit payment for a portion of the interest expense on the Build America Bonds (BABs). 2011 was the first full year of the BABs credit for the Wells Project, resulting in a non-operating revenue increase. See further information below regarding the BABs.

Expenses

2010 to 2011:

Total operating expenses increased by \$210,000 (0.8%) to \$26.5 million. There was a significant reduction in fish study expense, due to completion of the prior year's verification fish survival study, but that reduction was offset by increased expenses for major maintenance projects and privilege tax paid to the state of Washington. Hatchery operation and maintenance expenses also increased as a result of reduced hatchery sharing payments received from neighboring public utility districts.

The increase in nonoperating expenses was due to increased interest expense on the 2010 revenue bonds. Those bonds incurred interest for a full year in 2011, versus interest for only four months in 2010.

2009 to 2010:

During 2010 total operating expenses increased by \$1.5 million (5.8%) to \$26.3 million. The major cause of the increase was the verification fish survival study. Under the terms of the Habitat Conservation Plan (HCP) this study is required every ten years to verify the survival rate of yearling Chinook salmon and steelhead passing through the Wells Project as they migrate downstream. Total cost for this study was \$1.9 million, the majority of which was incurred in 2010. See further discussion of the HCP in the notes to the financial statements.

The increase in nonoperating expenses was due to interest expense on the 2010 revenue bonds which were issued on August 31, 2010.

Capital Assets and Long-Term Debt Activity

As of December 31, 2011 the Wells Project had approximately \$229 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, 2011 the Wells Project had long-term liabilities of \$249 million. This included \$235 million of revenue bonds outstanding, net of the current portion of \$14 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 semiannual credit payment from the federal government equal to 35% of the corresponding semiannual interest payment on the BABs. 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, 2011

	<u>ASSETS</u>		<u>TOTAL</u>	
	Hydroelectric Project	Distribution System	2011	2010
Current Assets				
Restricted:				
Construction Funds-Cash	\$ 94,924,096	-	\$ 94,924,096	101,806,977
Construction Funds-Investments	-	-	-	-
Debt Repayment Funds-Cash	8,849,000	100,149	8,949,149	17,344,139
Debt Repayment Funds-Investments	8,139,158	1,208,084	9,347,242	1,208,084
Reserve & Contingency Fund-Cash	5,741,607	-	5,741,607	2,742,937
Reserve & Contingency Fund-Investments	-	-	-	3,100,000
Wells Hydroelectric Project Licensing Fund-Cash	-	3,639,745	3,639,745	3,360,936
Wells Hydroelectric Project Licensing Fund-Investments	-	73,198	73,198	207,196
Total Restricted	<u>117,653,861</u>	<u>5,021,176</u>	<u>122,675,037</u>	<u>129,770,269</u>
Unrestricted:				
Cash	4,278,184	1,129,966	5,408,150	8,026,684
Investments	-	-	-	-
Rate Stabilization Fund-Cash	-	13,608,084	13,608,084	13,718,609
Rate Stabilization Fund-Investments	-	10,391,916	10,391,916	5,791,916
Receivables - Net	1,993,558	3,538,804	5,532,362	5,081,221
Materials and Supplies	-	5,513,917	5,513,917	5,004,875
Other Current & Accrued Assets	669,532	2,564,347	3,233,879	2,782,938
Total Unrestricted	<u>6,941,274</u>	<u>36,747,034</u>	<u>43,688,308</u>	<u>40,406,243</u>
Total Current Assets	<u>124,595,135</u>	<u>41,768,210</u>	<u>166,363,345</u>	<u>170,176,512</u>
Non-Current Assets				
Electric Plant:				
Electric Plant	257,565,299	198,970,679	456,535,978	453,604,613
Construction Work in Progress	60,878,886	7,347,499	68,226,385	60,298,025
Electric Plant - Gross	318,444,185	206,318,178	524,762,363	513,902,638
Less: Accumulated Depreciation & Amortization	89,689,637	78,271,926	167,961,563	154,849,357
Net Electric Plant	<u>228,754,548</u>	<u>128,046,252</u>	<u>356,800,800</u>	<u>359,053,281</u>
Intradistrict Note Receivable	-	9,400,000	9,400,000	8,890,000
Deferred Charges:				
Unamortized Debt Discount & Expense	2,899,339	213,785	3,113,124	3,343,400
Unamortized Loss on Reacquired Debt	3,143,556	-	3,143,556	3,523,272
Other Deferred Charges	23,073,736	6,047,623	29,121,359	31,058,071
Total Non-Current Assets	<u>257,871,179</u>	<u>143,707,660</u>	<u>401,578,839</u>	<u>405,868,024</u>
TOTAL ASSETS	<u>\$ 382,466,314</u>	<u>\$ 185,475,870</u>	<u>\$ 567,942,184</u>	<u>\$ 576,044,536</u>

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, 2011

	Wells		Distribution System	TOTAL	
	Hydroelectric Project			2011	2010
LIABILITIES & NET ASSETS					
Current Liabilities					
Accounts Payable	\$ 2,179,167	\$ 2,855,236		\$ 5,034,403	\$ 6,942,805
Other Accrued Liabilities	2,712,502	583,618		3,296,120	3,697,592
Payable from Restricted Assets:					
Accrued Interest Payable	4,139,279	35,149		4,174,428	4,370,343
Current Portion Long-Term Debt	14,585,000	780,000		15,365,000	14,765,000
Total Current Liabilities	<u>23,615,948</u>	<u>4,254,003</u>		<u>27,869,951</u>	<u>29,775,740</u>
Non-current Liabilities					
Bonds Payable, excluding current portion	234,845,000	8,725,000		243,570,000	258,935,000
Unamortized Bond Premiums (Discounts)	3,685,821	307,164		3,992,985	4,457,913
Bonds Payable, Net	<u>238,530,821</u>	<u>9,032,164</u>		<u>247,562,985</u>	<u>263,392,913</u>
Deferred Credits	565,865	117,319		683,184	741,847
Intradistrict Note Payable	9,400,000	-		9,400,000	8,890,000
Unamortized Gain on Redeemed Debt	-	31,098		31,098	53,296
Compensated Absences	636,030	663,014		1,299,044	1,260,172
Total Non-current Liabilities	<u>249,132,716</u>	<u>9,843,595</u>		<u>258,976,311</u>	<u>274,338,228</u>
Total Liabilities	<u>272,748,664</u>	<u>14,097,598</u>		<u>286,846,262</u>	<u>304,113,968</u>
Net Assets					
Invested in Capital Assets, Net of Related Debt	90,572,325	118,540,944		209,113,269	204,722,860
Restricted For Debt Service	14,585,000	100,149		14,685,149	14,105,461
Unrestricted	4,560,325	52,737,179		57,297,504	53,102,247
Total Net Assets	<u>109,717,650</u>	<u>171,378,272</u>		<u>281,095,922</u>	<u>271,930,568</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 382,466,314</u>	<u>\$ 185,475,870</u>		<u>\$ 567,942,184</u>	<u>\$ 576,044,536</u>

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

PUBLIC UTILITY DISTRICT NO. 1 OF DOUGLAS COUNTY

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
For The Fiscal Year Ended December 31, 2011

	Wells Hydroelectric Project	Distribution System	Intersystem Eliminations	TOTAL
				2011
				2010
Operating Revenues				
Retail Sales of Electric Energy	\$ -	\$ 17,334,365	\$ -	\$ 17,334,365
Energy Sales for Resale	47,316,631	24,497,310	(16,959,467)	54,854,474
Broadband	-	2,216,901	-	2,216,901
Other	-	341,593	-	341,593
Total Operating Revenues	<u>47,316,631</u>	<u>44,390,169</u>	<u>(16,959,467)</u>	<u>74,747,333</u>
Operating Expenses				
Operations	15,739,311	32,209,564	(16,959,467)	30,989,408
Maintenance	3,245,198	4,448,414	-	7,693,612
Depreciation	6,202,960	6,333,623	-	12,536,583
Taxes	1,341,258	1,681,223	-	3,022,481
Total Operating Expenses	<u>26,528,727</u>	<u>44,672,824</u>	<u>(16,959,467)</u>	<u>54,242,084</u>
Operating Income(Loss)	<u>20,787,904</u>	<u>(282,655)</u>	<u>-</u>	<u>20,505,249</u>
Non-operating Revenues (Expenses)				
Interest Income	262,889	987,237	-	1,250,126
Interest Expense	(12,780,704)	(444,589)	-	(13,225,293)
Amortization of Deferred Charges, Debt Discounts, Premiums and Costs	(2,797,315)	(37,238)	-	(2,834,553)
Other	784,258	(19,940)	-	764,318
Total Non-operating Revenues (Expenses)	<u>(14,530,872)</u>	<u>485,470</u>	<u>-</u>	<u>(14,045,402)</u>
Income (Loss) Before Contributions	6,257,032	202,815	-	6,459,847
Capital Contributions	-	2,705,507	-	2,705,507
Change In Net Assets	6,257,032	2,908,322	-	9,165,354
Net Assets, Beginning of Year	103,460,618	168,469,950	-	271,930,568
Net Assets, End of Year	<u>\$ 109,717,650</u>	<u>\$ 171,378,272</u>	<u>\$ -</u>	<u>\$ 281,095,922</u>

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

PUBLIC UTILITY DISTRICT NO. 1 OF DOUGLAS COUNTY

STATEMENT OF CASH FLOWS
For The Fiscal Year Ended December 31, 2011

	Wells Hydroelectric Project	Distribution System	Intersystem Eliminations	2011	2010
Cash Flow from Operating Activities					
Receipts from Customers	\$ 47,905,172	\$ 44,007,088	\$ (15,748,281)	\$ 76,163,979	\$ 63,867,251
Receipts for Other Agencies	-	5,608,199		5,608,199	11,434,984
Receipts from Internal Services Provided	1,720,108	745,613	(2,465,721)	-	-
Payments for Internal Services Used	(745,613)	(1,720,108)	2,465,721	-	-
Payments to Employees & Payroll Related	(10,810,868)	(8,231,485)	-	(19,042,353)	(18,565,713)
Payments to Suppliers & Other Agencies	(12,333,078)	(36,240,550)	15,748,281	(32,825,347)	(34,813,015)
Net Cash Provided by Operating Activities	<u>25,735,721</u>	<u>4,168,757</u>	-	<u>29,904,478</u>	<u>21,923,507</u>
Cash Flows from Investing Activities					
Purchase of Investments	(8,139,158)	(14,400,000)	-	(22,539,158)	(7,977,191)
Proceeds from Sales and Maturities of Investments	3,100,000	9,933,998	-	13,033,998	25,601,035
Interest on Investments	273,602	745,011	-	1,018,613	1,467,759
Net Cash Provided by Investing Activities	<u>(4,765,556)</u>	<u>(3,720,991)</u>	-	<u>(8,486,547)</u>	<u>19,091,603</u>
Cash Flows from Capital and Related Financing Activities					
Additions to Electric Plant in Service	(165,653)	194,118	-	28,465	(160,852)
Net Additions to Construction Work in Progress	(8,003,557)	(3,472,013)	-	(11,475,570)	(18,394,767)
Intradistrict Note Payable-Proceeds (Loaned)	510,000	(510,000)	-	-	-
Proceeds from Bond Issuance	-	-	-	-	112,489,155
Cost of Issuance, Underwriter's Discount, Refunding Escrow	-	-	-	-	(1,240,608)
Proceeds from (Refunds of) Capital Contributions	-	2,705,507	-	2,705,507	1,429,076
Principal Payments on Long-term Debt	(14,005,000)	(760,000)	-	(14,765,000)	(25,810,000)
Interest Payments on Long-term Debt	(12,974,639)	(445,534)	-	(13,420,173)	(9,301,174)
Build America Bonds Interest Rebates	779,389	-	-	779,389	-
Net Cash Used in Capital and Related Financing Activities	<u>(33,859,460)</u>	<u>(2,287,922)</u>	-	<u>(36,147,382)</u>	<u>59,010,830</u>
Net Increase (Decrease) in Cash and Cash Equivalents	<u>(12,889,295)</u>	<u>(1,840,156)</u>	-	<u>(14,729,451)</u>	<u>100,025,940</u>
Cash & Cash Equivalents, Beginning of Year	<u>126,682,182</u>	<u>20,318,100</u>	-	<u>147,000,282</u>	<u>46,974,342</u>
Cash & Cash Equivalents, End of Year	<u>\$ 113,792,887</u>	<u>\$ 18,477,944</u>	<u>\$ -</u>	<u>\$ 132,270,831</u>	<u>\$ 147,000,282</u>

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

PUBLIC UTILITY DISTRICT NO. 1 OF DOUGLAS COUNTY

STATEMENT OF CASH FLOWS
For The Fiscal Year Ended December 31, 2011

	Wells Hydroelectric Project	Distribution System	Intersystem Eliminations	TOTAL
				2011
				2010
Reconciliation of Net Operating Income to Net Cash Provided by Operating Activities				
Operating Income	\$ 20,787,904	\$ (282,654)	\$ -	9,337,581
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:				
Depreciation	6,202,960	6,333,623	-	12,039,620
Cash Provided by changes in Operating Assets and Liabilities:				
Accounts Receivable - Excluding Construction	(458,233)	(383,082)	-	386,016
Prepaid Expenses - Other Current and Accrued Assets	(24,935)	(435,279)	-	(151,544)
Materials and Supplies	-	(509,363)	-	824,007
Other Accrued Liabilities	866,302	-	-	162,645
Accounts Payable - Excluding Construction Payables	(1,638,277)	129,028	-	1,044,246
Other Current Liabilities	-	(206,230)	-	(974,808)
Retainage - Deferred Credits - Operating Only	-	(477,286)	-	(744,256)
Net Cash Provided by Operating Activities	\$ 25,735,721	\$ 4,168,757	\$ -	\$ 21,923,507
				\$ 29,904,478

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 principals 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 principals. Accounting records are maintained in accordance with the Uniform System of Accounts of the Federal Power Act, prescribed by the Federal Energy Regulatory Commission (FERC). The District's accounting records are further maintained in accordance with methods prescribed by the 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.

GASB recognizes Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 980, which has been adopted by the District. ASC 980 allows for the recognition of certain costs as assets and obligations as liabilities based upon the actions of a third-party regulator or by an enterprise's governing board. The District is regulated by the District's Board of Commissioners (Board). The accounting policies established by the Board are designed to accommodate the power sales revenues as set forth in the Wells Project's power sales contracts. The significant accounting policies for the Wells Project, which fall within the scope of ASC 980, are the treatment of plant and certain deferred costs as described later in this note.

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

Revenue Recognition:

The Distribution System recognizes revenue as billed on a monthly and bi-monthly basis. Service rates are established by the District's publicly elected Board of Commissioners. 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. This treatment of repair and maintenance costs is a method selected under the provisions of ASC 980.

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.

Receivables:

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

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

Inventories:

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

Cash and Cash Equivalents:

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

Investments and Deposits:

Investments of the District are in the form of time certificates with banks and direct obligations of the U.S. Government. The District's deposits and certificates of deposit are entirely covered by federal depository insurance (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington State Public Deposit Protection Commission (PDPC). Time certificates and U.S. Government obligations are recorded at amortized cost and cost, respectively. The District's practice is to hold all investments to maturity.

Custodial credit risk is the risk that in 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 insignificant.

Unamortized Debt Expense:

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

Excess Revenue Fund:

The Wells Project Excess Revenue Fund represents working capital in the Revenue Fund, as defined in the bondholders' resolution, in excess of the amount of working capital required by the power sales contracts.

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. Its 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 is allowed to take semi-annual draws from the Electric Distribution System's Wells Relicensing Fund. The interest rate for each draw is established at the time of the draw and is equal to the "asked yield" on US Treasury bonds maturing in May, 2018, as reported in the Wall Street Journal, plus 100 basis points. The Note matures upon the expiration of the current Wells Project license and any subsequent annual FERC licenses issued to the District in advance of the issuance of a new long-term license. It is expected that the District will exercise an option in the Note to extend its maturity date such that principal will be amortized over the life of the new long-term license.

NOTE 2 – DEPOSITS AND INVESTMENTS

Investments: The District had the following investments as of December 31, 2011 and 2010, respectively:

	Wells		Distribution	
	2011	2010	2011	2010
Certificates of Deposit	\$ 8,139,158	\$ 3,100,000	\$ 11,600,000	\$ 7,000,000
U.S. Treasury Securities	-	-	73,198	207,196
Total	\$ 8,139,158	\$ 3,100,000	\$ 11,673,198	\$ 7,207,196

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	December 31,	Increase	Decrease	December 31,
Distribution System	2010			2011
Utility plant not being depreciated:				
Land and land rights	\$ 2,247,030	\$ 44,879	\$ (653)	\$ 2,291,256
Construction work in progress	6,527,020	3,419,851	(2,599,372)	7,347,499
Subtotal	8,774,050	3,464,730	(2,600,025)	9,638,755
Utility plant being depreciated:				
Transmission	4,682,101	-	-	4,682,101
Distribution	136,378,288	1,528,686	(162,261)	137,744,713
General	52,351,287	1,059,613	(846,228)	52,564,672
Intangible plant	-	825,444	-	825,444
Miscellaneous	862,185	-	-	862,185
Subtotal	194,273,861	3,413,743	(1,008,489)	196,679,115
Accumulated depreciation	(71,517,113)	470,089	(7,224,902)	(78,271,926)
Net plant being depreciated	122,756,748	3,883,832	(8,233,391)	118,407,189
Net Utility Plant - Distribution	\$ 131,530,798	\$ 7,348,562	\$ (10,833,416)	\$ 128,045,944

Electric Plant Assets	December 31,	Increase	Decrease	December 31,
Wells Hydroelectric Project	2010			2011
Utility plant not being depreciated:				
Land and land rights	\$ 51,224,373	\$ -	\$ -	\$ 51,224,373
Construction work in progress	53,771,006	7,514,623	(406,743)	60,878,886
Subtotal	104,995,379	7,514,623	(406,743)	112,103,259
Utility plant being depreciated:				
Hydraulic generation	177,814,565	303,414	-	178,117,979
Transmission	16,872,812	-	-	16,872,812
General	10,577,460	178,471	-	10,755,931
Intangible plant	594,204	-	-	594,204
Subtotal	205,859,041	481,885	-	206,340,926
Accumulated depreciation	(83,332,244)	(6,357,393)	-	(89,689,637)
Net plant being depreciated	122,526,797	(5,875,508)	-	116,651,289
Net utility plant - Wells Project	\$ 227,522,176	\$ 1,639,115	\$ (406,743)	\$ 228,754,548

NOTE 4 – LONG-TERM DEBT

Wells Hydroelectric Project

	Purpose	Balance 12/31/2010	Additions	Reductions	Balance 12/31/2011	Due Within One Year
Revenue Bonds:						
Series of 2003A, serial bonds maturing annually to September 1, 2018, interest at 3.85% - 5.25%	Refunding	\$ 10,250,000	\$ -	\$ 1,180,000	\$ 9,070,000	\$ 1,230,000
Series of 2003B, serial bonds maturing annually to September 1, 2018, interest at 3.875% - 5.00%	Refunding	22,725,000	-	6,715,000	16,010,000	7,060,000
Series of 2003C, serial bonds maturing September 1, 2014 through 2018, interest at 4.125% - 5.00%	Refunding	31,905,000	-	-	31,905,000	-
Series of 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	39,340,000	-	865,000	38,475,000	900,000
Series of 2005B, serial bonds maturing annually to September 1, 2026 and term bonds maturing September 1, 2022, 2030 and 2035, interest at 3.20% - 5.25%	Refunding, Capital Improvements, and Colville Settlement	32,020,000	-	940,000	31,080,000	975,000
Series of 2005C, serial bonds maturing annually to September 1, 2014 and term bonds maturing September 1, 2018, interest at 4.604% - 5.112%	Colville Settlement	6,170,000	-	650,000	5,520,000	680,000
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	8,125,000	-	845,000	7,280,000	885,000
Series of 2010A, serial bonds maturing annually to September 1, 2022 and term bonds maturing September 1, 2030 and 2040, interest at 0.835% - 5.450%	Capital Improvements	53,850,000	-	955,000	52,895,000	970,000
Series of 2010B, serial bonds maturing annually to September 1, 2020 and term bonds maturing September 1, 2030 and 2040, interest at 0.835% - 5.495%	Capital Improvements	46,150,000	-	1,030,000	45,120,000	1,040,000
Series of 2010C, serial bonds maturing annually to September 1, 2029, interest at 2.00% - 5.00%	Refunding	12,900,000	-	825,000	12,075,000	845,000
Revenue bonds payable		263,435,000	-	14,005,000	249,430,000	14,585,000
Unamortized bond premiums (discounts)		4,124,973	32,316	471,468	3,685,821	-
Net bonds payable		267,559,973	32,316	14,476,468	253,115,821	14,585,000
Deferred credits		549,382	161,270	144,787	565,865	-
Intradistrict note payable		8,890,000	510,000	-	9,400,000	-
Compensated absences		1,419,168	1,836,103	1,823,550	1,431,721	795,691
Non-current liabilities		\$ 278,418,523	\$ 2,539,689	\$ 16,444,805	\$ 264,513,407	\$ 15,380,691

Following is a summary of future debt service requirements for Wells Project revenue bonds outstanding at December 31, 2011:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012 \$	14,585,000	11,961,999 \$	26,546,999
2013	15,015,000	11,354,669	26,369,669
2014	14,765,000	10,791,200	25,556,200
2015	15,425,000	10,135,738	25,560,738
2016	16,120,000	9,422,499	25,542,499
2017-21	45,970,000	37,670,354	83,640,354
2022-26	31,055,000	29,751,809	60,806,809
2027-31	36,745,000	21,303,434	58,048,434
2032-36	38,065,000	11,596,567	49,661,567
2037-40	21,685,000	3,031,877	24,716,877
Total	\$ 249,430,000	\$ 157,020,147	\$ 406,450,147

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 2011 and 2010.

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:

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

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

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 next 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 next 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 next 19 years and an economic gain (difference between the present values of the old and new debt service requirements) of \$2,259,000.

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 an escrow agent. As of December 31, 2011, the escrow agent was holding cash and investments of \$34,982,003 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, 2011 was as follows:

	Balance 12/31/2010	Additions	Reductions	Balance 12/31/2011	Due Within One Year
Revenue bonds payable	\$ 10,265,000	\$ -	\$ 760,000	\$ 9,505,000	\$ 780,000
Unamortized bond premiums (discounts)	332,940	-	25,776	307,164	
Total bonds payable	10,597,940	-	785,776	9,812,164	780,000
Deferred credits	192,465	15,961	91,106	117,320	
Unamortized gain on redeemed debt	53,296	6,788	28,986	31,098	
Compensated absences	1,071,592	1,321,212	1,187,376	1,205,428	542,415
Non-current liabilities	\$ 11,915,293	\$ 1,343,961	\$ 2,093,244	\$ 11,166,010	\$ 1,322,415

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. The bonds will mature and be retired during the next five years ending December 31 as follows:

	Principal	Interest	Total
2012	\$ 780,000	421,784	1,201,784
2013	810,000	396,434	1,206,434
2014	840,000	368,084	1,208,084
2015	655,000	336,583	991,583
2016	680,000	312,840	992,840
2017-2021	3,895,000	1,064,250	4,959,250
2022-2023	1,845,000	139,500	1,984,500
Total	\$ 9,505,000	\$ 3,039,475	\$ 12,544,475

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 2011 and 2010.

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 2010 and 2011 payments were \$237,455 and \$238,153, respectively. At December 31, 2011 the Plan Species Account had a cash and investment balance of \$942,709. Funds paid into the Plan Species Account are no longer owned by or under the substantive control of the District, therefore those funds are not included in the District's Balance Sheet.

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 \$54,755,000 of Phase I bonds outstanding, \$16,680,000 of Phase II bonds outstanding and \$69,140,000 of Phase III bonds outstanding. The District is obligated to pay 6.251%, 43.59% and 0% of the debt service for Phases 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 expires May 31, 2012. The District has engaged its best efforts to obtain a new license. In December 2006 and pursuant to the FERC Integrated Licensing Process, the District filed a Notice of Intent to relicense the Wells Project and a Pre-Application Document. In 2007 the District filed its Proposed Study Plan and received FERC's Study Plan Determination. By April 2009 all required relicensing studies had been completed. The District filed a Draft License Application on December 18, 2009 and Final Application on May 27, 2010. FERC issued the final Environmental Impact Statement on October 25, 2011. The Washington State Department of Ecology issued a final Water Quality Certification on February 27, 2012. There are no competitors for the license, and there are no known licensing issues outstanding that should hinder the issuance of a new license. If a new license is not issued by May 31, 2012, FERC will automatically issue a one year annual license. The annual license would remain in effect until a new long-term license is issued. The District seeks a 50-year license.

j) Generator and Turbine Refurbishment

In February 2005, the Wells Project's Generating Unit 1 experienced a fault in the generator windings and was taken out of service. The unit was subsequently rebuilt and has been returned to service. Investigation revealed that the failure was due to deteriorated insulation in the stator windings. Because the windings in all ten Project generators were of approximately the same age, it was determined that the most prudent course of action would be to rewind all the generators. In conjunction with the rewinding, other aspects of the generating units and turbines will be rebuilt. This generator and turbine refurbishment is in progress and will continue for the next several years, however it is significantly behind schedule. The District believes the schedule deficit is due mainly to poor management and planning by the prime contractor. It is expected that the contractor will recover some of the schedule deficit as the project work progresses. Liquidated damages are accruing and to date amount to about \$2.5 million. The cost of the generator and turbine refurbishment is being financed through the issuance of revenue bonds.

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 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. A cost-of living allowance (COLA) 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 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, 2011, are as follows:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
Employer*	7.25%**	7.25%**	7.25%***
Employee	6.00%****	4.64%****	*****

* The employer rates include the employer administrative expense fee currently set at 0.16%.

** The employer rate for state elected officials is 7.89% for Plan 1 and 5.31% 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 3.90% 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
2011	\$ 61,384	\$ 853,015	\$ 67,302
2010	50,269	\$ 732,776	\$ 54,321
2009	\$ 68,350	913,022	\$ 74,364

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 DEBITS AND CREDITS

Distribution System

The Distribution System had deferred debits of \$6,047,623 and \$5,659,732 respectively at December 31, 2011 and 2010. The deferred debits consist of preliminary survey and investigation, such as wind development costs, undistributed balances in clearing accounts, miscellaneous work in progress and retiree benefits. The retiree benefits are amortized and the remaining deferred debits are capitalized or expended according to generally accepted accounting principles. The Distribution System has deferred credits of \$117,319 and \$192,465 respectively at December 31, 2011 and 2010. The deferred credits consist of funds retained for contract performance and secured funds for installation costs.

Wells Hydroelectric Project

The Wells Hydroelectric Project had deferred debits of \$23,118,476 and \$25,398,339 respectively at December 31, 2011 and 2010. The deferred debits consist of improvements to recreational facilities, repair and maintenance costs, miscellaneous fish improvements, preliminary survey and investigation, legal settlement charges, and miscellaneous clearing accounts. The deferred debits are amortized over the life of the bonds which were issued to fund the projects or refinance the revenue bonds that originally funded the projects, except for the miscellaneous clearing accounts which are cleared annually. The Wells Hydroelectric Project has deferred credits of \$565,865 and \$549,382 respectively at December 31, 2011 and 2010. The deferred credits consist of funds retained for contract performance.

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, 2011 the District has capitalized \$27.4 million dollars of community network equipment.

Douglas County Community Network	2011
Operating Revenue:	
Wholesale Broadband Residential & Business	\$ 1,197,435
Broadband Governmental	429,788
Colocation & Bandwidth	440,151
Television	149,527
	<u>\$ 2,216,901</u>
Operating Expenses:	
Operation & Maintenance	\$ 1,373,816
Administration & General	323,337
	<u>\$ 1,697,153</u>

Northwest Open Access Network (NoaNet):

The District, along with 11 other Washington State Public Utility Districts and Energy Northwest, is a member of NoaNet, a Washington nonprofit mutual corporation. NoaNet was incorporated in February 2000 to provide a broadband communications backbone 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 2001, NoaNet issued \$27 million in telecommunications network revenue bonds (taxable) to finance the repayment of the founding members and the costs of initial construction, operations and maintenance. The 2001 revenue bonds were fully refunded in 2011 and remain outstanding through December 2016. As of December 2011, \$11.6 million (unaudited) of the bonds remain long-term liabilities. In addition, NoaNet has opened two lines of credit with Bank of America to fund capital expenditures. The long-term liability for the notes is \$800 thousand (unaudited) as of December 31, 2011. Each member of NoaNet has entered into repayment agreements to guarantee the debt of NoaNet. The District's guarantee of NoaNet's liabilities is limited to a 5.21% (maximum) share of the outstanding bonds and a 5.74% share of the lines of credit.

In 2010, NoaNet accepted two Broadband Technology Opportunities Program (BTOP) grants. The BTOP grants will contribute \$138 million toward expanding telecommunication facilities in Washington State. NoaNet is managing the grants and partnering with several subrecipients that are receiving pass-through grant funds to construct telecommunication facilities. NoaNet will receive \$76 million in BTOP grant funds. All other grant funds will flow through to grant subrecipients.

The management of NoaNet anticipates meeting operating costs through profitable operations; however members have been contributing to help meet debt service obligations. During 2011 and 2010 the District contributed (expensed) \$20,850 and \$38,424, respectively, toward NoaNet's debt service. In May 2012, the District notified NoaNet that they would be withdrawing from membership in NoaNet. The District's ongoing liabilities to NoaNet are limited to a 5.21% (maximum) share of the outstanding bonds and a 5.74% share of the lines of credit. 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



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.

Our mission is to work with our audit clients and citizens as an advocate for government accountability. 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.

The State Auditor's Office employees are located around the state to deliver services effectively and efficiently.

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 and fraud, whistleblower and citizen hotline investigations.

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

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

State Auditor
Chief of Staff
Deputy Chief of Staff
Chief Policy Advisor
Director of Audit
Director of Performance Audit
Director of Special Investigations
Director for Legal Affairs
Director of Quality Assurance
Local Government Liaison
Communications Director
Public Records Officer
Main number
Toll-free Citizen Hotline

Brian Sonntag, CGFM
Ted Rutt
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