Washington State Auditor's Office

Financial Statements Audit Report

Public Utility District No. 1 of Douglas County

Audit Period
January 1, 2009 through December 31, 2009

Report No. 1003921

Issue Date
July 19, 2010

WASHINGTON
BRIAN SONNTAG
STATE AUDITOR

Washington State Auditor
Brian Sonntag

July 19, 2010

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 District's financial condition.

Sincerely,

BRIAN SONNTAG, CGFM
STATE AUDITOR

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Public Utility District No. 1 of Douglas County
January 1, 2009 through December 31, 2009

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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, 2009 through December 31, 2009

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, 2009, and have issued our report thereon dated July 6, 2010. The prior year partial comparative information has been derived from the District's 2008 financial statements and, in our report dated May 22, 2009, 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 the 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 opinions 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.

BRIAN SONNTAG, CGFM
STATE AUDITOR

July 6, 2010

Independent Auditor's Report on Financial Statements

Public Utility District No. 1 of Douglas County
January 1, 2009 through December 31, 2009

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, 2009, 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 opinions on these financial statements based on our audit. The prior year partial comparative information has been derived from the District's 2008 financial statements and, in our report dated May 22, 2009, 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 respective financial position of each major fund of Public Utility District No. 1 of Douglas County, as of December 31, 2009, and the respective changes in financial position and 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, 2008, 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.

The management's discussion and analysis on pages 6 through 12 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

BRIAN SONNTAG, CGFM
STATE AUDITOR

July 6, 2010

Financial Section

Public Utility District No. 1 of Douglas County
January 1, 2009 through December 31, 2009

REQUIRED SUPPLEMENTAL INFORMATION

Management's Discussion and Analysis – 2009

BASIC FINANCIAL STATEMENTS

Balance Sheet – 2009
Statement of Revenues, Expenses and Changes in Net Assets – 2009
Statement of Cash Flows – 2009
Notes to Financial Statements – 2009

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, 2009 and 2008. 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.

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 22 miles of 115-kV transmission lines, 15 substations, 1,215 miles of overhead and underground distribution lines, 461miles of fiber optic lines, and other buildings, equipment, inventories and related facilities.

Condensed Comparative Financial Information

Distribution System Balance Sheet (Dollars in Thousands)						
	12/31/2009		12/31/2008	Increase (Decrease) 2009-2008 $	%	12/31/2007
Capital Assets	$ 144,000		$ 135,243	$ 8,757	6.5%	$ 124,312
Current & Other Assets	46,412		62,560	(16,148)	-25.8%	72,408
Total Assets	190,412		197,803	(7,391)	-3.7%	196,720
Noncurrent Liabilities	11,608		12,473	(865)	-6.9%	13,257
Current Liabilities	6,432		7,961	(1,529)	-19.2%	12,947
Total Liabilities	18,040		20,434	(2,394)	-11.7%	26,204
Invested in Capital Assets, net of debt	120,312		112,941	7,371	6.5%	103,994
Unrestricted	52,059		64,428	(12,369)	-19.2%	66,522
Total Net Assets	$ 172,371		$ 177,369	$ (4,998)	-2.8%	$ 170,516

Distribution System Statement of Earnings and Net Assets (Dollars in Thousands)					
	12/31/2009	12/31/2008	Increase (Decrease) 2009-2008 $	%	12/31/2007
Operating Revenues					
Retail Electric Sales	$ 15,144	$ 13,703	$ 1,441	10.5%	$ 13,351
Electric Sales For Resale	18,102	26,849	(8,747)	-32.6%	26,457
Broadband	1,426	906	520	57.4%	738
Other	315	299	16	5.4%	309
Nonoperating Revenues	1,430	2,387	(957)	-40.1%	3,732
Total Revenues	36,417	44,144	(7,727)	-17.5%	44,587
Operating Expenses					
Purchased Power	22,176	20,862	1,314	6.3%	20,106
Other	19,765	16,998	2,767	16.3%	15,256
Nonoperating Expenses	519	553	(34)	-6.1%	590
Total Expenses	42,460	38,413	4,047	10.5%	35,952
Capital Contributions	1,045	1,121	(76)	-6.8%	8,209
Net Earnings	(4,998)	6,852	(11,850)	-172.9%	16,844
Beginning Net Assets	177,369	170,517	6,852	4.0%	153,673
Ending Net Assets	$ 172,371	$ 177,369	$ (4,998)	-2.8%	$ 170,517

Financial Analysis

During 2009, the Distribution System's overall financial position declined slightly. Net assets decreased by 2.8% to $172 million.

Revenues

2008 to 2009:
During 2009 as compared to 2008, total revenues decreased by $7 million to $36.4 million. The primary reason for the decrease in revenue is a result of two components of operating revenue:

- Electric sales for resale decreased 32.6% to $18.1 million because of low river flow volume leading to less electricity generated and low wholesale electric prices related to the recessionary economy.

- Interest rates on Distribution System investments remained low and investment volume declined, resulting in a 40% decrease in non-operating revenue.

2007 to 2008:
During 2008 as compared to 2007, total revenues decreased by $400,000 to $44.1 million. The primary reason for the decrease in revenue was the low interest rates on Distribution System investments which caused interest earned to drop 36% to $2.4 million. Retail electric revenue and electric sales for resale revenue saw modest increases of 2.6% and 1.5% respectively while broadband revenue increased 23% to $900,000.

Expenses

2008 to 2009:
During 2009 as compared to 2008, total operating expenses increased $4 million to $42.4 million, a 10.5% increase. Factors influencing these results include:

- The City of East Wenatchee passed an ordinance to tax electric energy sales at the rate of 6%, effective February 1, 2009. This resulted in a $262,000 increase to the Distribution System's operating tax expense.
- A 6.3% 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.
- The District's Douglas County Community Network (DCCN) broadband system continued to experience significant growth in customer connections increasing operational and maintenance costs.
- The Distribution Engineering office space in the District's headquarters building was renovated, including removal of existing cubical space and replacement of ceiling, flooring and the HVAC system.
- Depreciation expense increased by $744,000.

2007 to 2008:
As compared to 2007, total operating expenses increased by 6.8% to $38.4 million in 2008. Factors influencing these results include:

- A 3.8% increase in purchased power expense. The Distribution System purchased the bulk of its power from the Wells Project. Other power resources included: Rocky Reach Dam, Nine Canyon Wind Project and a long-term exchange contract with Shell Energy.
- Employee benefits costs increased significantly, due mainly to increases in required contributions to the Public Employees' Retirement System and increases in employee health insurance premiums.
- During the summer, Douglas County experienced three significant wildfires which damaged the District's electrical distribution system, increasing maintenance expenses. The fires where located on Badger Mountain, near Brown's Canyon and in the Palisades.
- The District's DCCN system experienced significant growth in customer connections increasing operational costs.

Capital Asset and Long-Term Debt Activity

During 2009, capital assets, net of capital contributions increased $7.3 million. 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 $10.2 million, all in revenue bonds. Debt service payments for 2009 were $1.2 million. Debt service coverage ratios for 2009 and 2008 were 1.5 and 9.5, respectively. The Distribution System's current bond ratings from the firms of Standard & Poor's and Moody's Investors Service are "AA" and "Aa2," 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 captial contributions that help fund new construction projects. In 2009, the District's capital contributions decreased 6.8% to $1 million. This is primarily due to the effect of the recession on new housing developments and residential construction.

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.

Condensed Comparative Financial Information

Wells Project Balance Sheets
(Dollars in Thousands)

	12/31/2009	12/31/2008	Increase (Decrease) 2009-2008 $	Increase (Decrease) 2009-2008 %	12/31/2007
Current and Other Assets	$ 75,493	$ 96,351	$ (20,858)	-21.6%	$ 125,947
Capital Assets	223,980	208,697	15,283	7.3%	178,780
Total Assets	299,473	305,048	(5,575)	-1.8%	304,727
Long-Term Liabilities	178,187	188,107	(9,920)	-5.3%	197,339
Other Liabilities	20,865	23,201	(2,336)	-10.1%	19,745
Total Liabilities	199,052	211,308	(12,256)	-5.8%	217,084
Invested in Capital Assets, Net of Related Debt	74,881	75,257	(376)	-0.5%	64,184
Restricted	11,540	11,075	465	4.2%	11,130
Unrestricted	14,000	7,408	6,592	89.0%	12,329
Total Net Assets	$ 100,421	$ 93,740	$ 6,681	7.1%	$ 87,643

Wells Project Statements of Earnings and Net Assets					
(Dollars in Thousands)					
			Increase (Decrease) 2009-2008		
	12/31/2009	12/31/2008	$	%	12/31/2007
Operating Revenues	$ 41,706	$ 38,895	$ 2,811	7.2%	$ 37,693
Nonoperating Revenues	1,530	3,106	(1,576)	-50.7%	3,935
Total Revenues	43,236	42,001	1,235	2.9%	41,628
Operating Expenses	24,870	23,974	896	3.7%	22,019
Nonoperating Expenses	11,685	11,930	(245)	-2.1%	11,977
Total Expenses	36,555	35,904	651	1.8%	33,996
Net Earnings	6,681	6,097	584	9.6%	7,632
Beginning Net Assets	93,740	87,643	6,097	7.0%	80,011
Ending Net Assets	$ 100,421	$ 93,740	$ 6,681	7.1%	$ 87,643

Financial Analysis

Fluctuations shown in the comparison of financial position of the Wells Project at December 31, 2009 and 2008 were due mainly to progress on the generating unit rebuild project and construction or purchase of other capital projects, resulting in an increase in capital assets and a decrease in cash and investments. The decrease in long-term liabilities was largely the result of 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 debt service but excludes depreciation, operating revenues fluctuate based on operating expenses (exclusive of depreciation) and debt service requirements.

Non-operating revenues consist mainly of investment income. Due to the continued use, as planned, of the remaining 2005 Bond proceeds to fund the Wells project generator rebuild (see Capital Assets and Long-Term Debt Activity below), less cash was available to invest in 2009. This, together with the general decline in interest rates, resulted in decreased non-operating revenues in 2009.

Expenses

2008 to 2009:

During 2009 as compared to 2008, total annual operating expenses increased by $900,000 to $24.9 million, a 3.7% increase. The primary reasons for the increase were:

- The Wells Project incurred significant costs for personnel and training related to new North American Electric Reliability Corporation security and reliability standards. During 2009, the first full year of such costs, these costs for the Wells Project increased by $365,000.
- The Wells Project's consulting engineer, Jacobs Civil, worked on several large, new tasks in 2009, including improvements to oil containment at Wells Dam, modifications to the pollution abatement system at Methow Fish Hatchery, and a safety report required every

five years by FERC. Wells Project operating costs for work done by the consulting engineer increased by $253,000 in 2009.

- Depreciation expense increased by $347,000.

The slight decrease in non-operating expenses was due mainly to the scheduled decrease in interest expense on the outstanding Wells Project bonds.

2007 to 2008:

During 2008 as compared to 2007, total annual operating expenses increased by $2 million to $24 million, an 8.9% increase. The primary reasons for the increase were:

- The Twisp River fish trap weir was repaired and modified at a cost of $424,000. The weir provides for trapping adult spring Chinook for the purpose of broodstock collection for the Methow Fish Hatchery.
- The District contracts with the State of Washington Department of Fish & Wildlife to operate the Methow and Wells fish hatcheries and to conduct evaluations of the hatcheries. Costs under those contracts increased by $327,000.
- Employee benefits costs increased significantly, due mainly to increases in required contributions to the Public Employees' Retirement System and increases in employee health insurance premiums.
- The auditorium in the District's headquarters building was renovated, including replacement of the HVAC system, removal of asbestos containing materials, and replacement of the ceiling, flooring and certain walls.
- The average number of Wells Project employees increased by four in 2008.
- Depreciation expense increased by $312,000.

<u>Capital Assets and Long-Term Debt Activity</u>

As of December 31, 2009 the Wells Project had approximately $224 million invested in capital assets, net of accumulated depreciation, including its hydraulic generation and transmission plant, fish rearing facilities, and related land, office buildings and equipment. Capital costs of the Wells Project, other than major additions or replacements, are typically funded from revenues. Costs of major additions or replacements are funded from bond proceeds.

As of December 31, 2009 the Wells Project had long-term liabilities of $178 million. This included $164 million of revenue bonds outstanding, net of the current portion of $12 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. Please see the notes to the financial statements for further information regarding the 2005 and 2006 Bonds and other Wells Project bonds.

Proceeds of the 2005 Bonds will be exhausted by late 2010. Prior to that time, in order to finance the continuation of the Wells Project generator rebuild, additional revenue bonds will be issued in the approximate amount of $100 million.

In the spring of 2002 the bond rating firm of Standard & Poor's upgraded its rating of the Wells Project to "AA." This rating was affirmed in the fall of 2003. Additionally, in the fall of 2003 Moody's Investors Service upgraded its bond rating for the Wells Project to "Aa2." These ratings were affirmed by Standard & Poor's and Moody's, respectively, in 2005 and 2006. In October 2009 Moody's again affirmed its rating of "Aa2" with a stable outlook for the Wells Project.

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, 2009

ASSETS	Wells Hydroelectric Project	Distribution System	TOTAL 2009	TOTAL 2008
Non-Current Assets				
Electric Plant:				
Electric Plant	$ 253,141,401	$ 184,159,274	$ 437,300,675	$ 411,836,056
Construction Work in Progress	48,514,202	11,783,717	60,297,919	53,110,679
Electric Plant - Gross	301,655,603	195,942,991	497,598,594	464,946,735
Less: Accumulated Depreciation & Amortization	77,675,842	65,465,819	143,141,661	132,408,289
Net Electric Plant	223,979,761	130,477,172	354,456,933	332,538,446
Intradistrict Note Receivable	-	8,205,000	8,205,000	6,310,000
Deferred Charges:				
Unamortized Debt Discount & Expense	2,520,141	249,665	2,769,806	2,983,946
Unamortized Loss on Reacquired Debt	3,333,599	-	3,333,599	3,675,683
Other Deferred Charges	27,101,651	5,068,328	32,169,979	34,328,350
Total Non-Current Assets	256,935,152	144,000,165	400,935,317	379,836,425
Current Assets				
Restricted:				
Construction Funds-Cash	127,855	-	127,855	11,197
Construction Funds-Investments	17,749,178	-	17,749,178	41,870,878
Debt Repayment Funds-Cash	10,424,234	100,123	10,524,357	3,424,642
Debt Repayment Funds-Investments	875,662	1,208,084	2,083,746	4,247,147
Reserve & Contingency Fund-Cash	1,897,336	-	1,897,336	222,613
Reserve & Contingency Fund-Investments	3,800,000	-	3,800,000	5,300,000
Wells Hydroelectric Project Licensing Fund-Cash	-	6,920,124	6,920,124	655,467
Wells Hydroelectric Project Licensing Fund-Investments	-	406,199	406,199	7,492,212
Total Restricted	34,874,265	8,634,530	43,508,795	63,224,156
Unrestricted:				
Cash	5,577,681	4,587,000	10,164,681	17,640,254
Investments	-	-	-	8,285,678
Rate Stabilization Fund-Cash	-	17,339,989	17,339,989	-
Rate Stabilization Fund-Investments	-	3,891,916	3,891,916	21,914,775
Receivables - Net	1,454,518	4,160,842	5,615,360	4,291,145
Materials and Supplies	-	5,828,479	5,828,479	5,146,930
Other Current & Accrued Assets	631,417	1,969,149	2,600,566	2,511,507
Total Unrestricted	7,663,616	37,777,375	45,440,991	59,790,289
Total Current Assets	42,537,881	46,411,905	88,949,786	123,014,445
TOTAL ASSETS	$ 299,473,033	$ 190,412,070	$ 489,885,103	$ 502,850,870

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, 2009

LIABILITIES & NET ASSETS	Wells Hydroelectric Project	Distribution System	TOTAL 2009	TOTAL 2008
Non-current Liabilities				
Bonds Payable, excluding current portion	$ 164,070,000	$ 10,265,000	$ 174,335,000	$ 186,610,000
Unamortized Bond Premiums (Discounts)	4,866,769	358,716	5,225,485	5,686,069
Bonds Payable, Net	168,936,769	10,623,716	179,560,485	192,296,069
Deferred Credits	416,537	317,286	733,823	453,523
Intradistrict Note Payable	8,205,000	-	8,205,000	6,310,000
Unamortized Gain on Redeemed Debt	-	88,840	88,840	124,384
Compensated Absences	628,024	578,541	1,206,565	1,395,527
Total Non-current Liabilities	178,186,330	11,608,383	189,794,713	200,579,503
Current Liabilities				
Accounts Payable	4,604,087	3,335,467	7,939,554	12,000,950
Other Accrued Liabilities	1,779,457	2,323,048	4,102,505	4,259,923
Payable from Restricted Assets:				
Accrued Interest Payable	2,941,676	38,873	2,980,549	3,111,405
Current Portion Long-Term Debt	11,540,000	735,000	12,275,000	11,790,000
Total Current Liabilities	20,865,220	6,432,388	27,297,608	31,162,278
Total Liabilities	199,051,550	18,040,771	217,092,321	231,741,781
Net Assets				
Invested in Capital Assets, Net of Related Debt	74,881,101	120,211,864	195,092,965	188,098,273
Restricted For Debt Service	11,540,000	100,123	11,640,123	11,175,095
Unrestricted	14,000,382	52,059,312	66,059,694	71,835,721
Total Net Assets	100,421,483	172,371,299	272,792,782	271,109,089
TOTAL LIABILITIES AND NET ASSETS	$ 299,473,033	$ 190,412,070	$ 489,885,103	$ 502,850,870

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, 2009

	Wells Hydroelectric Project	Distribution System	Intersystem Eliminations	TOTAL 2009	TOTAL 2008
Operating Revenues					
Retail Sales of Electric Energy	$ -	$ 15,144,234	$ -	$ 15,144,234	$ 13,702,856
Energy Sales for Resale	41,705,693	18,102,522	(14,977,713)	44,830,502	51,840,634
Broadband	-	1,425,597	-	1,425,597	906,073
Other	-	315,158	-	315,158	301,191
Total Operating Revenues	41,705,693	34,987,511	(14,977,713)	61,715,491	66,750,754
Operating Expenses					
Operations	15,063,350	29,535,232	(14,977,713)	29,620,869	27,985,887
Maintenance	3,187,740	5,318,551	-	8,506,291	7,675,631
Depreciation	5,465,476	5,569,712	-	11,035,188	9,944,610
Taxes	1,153,756	1,517,485	-	2,671,241	2,326,305
Total Operating Expenses	24,870,322	41,940,980	(14,977,713)	51,833,589	47,932,433
Operating Income	16,835,371	(6,953,469)	-	9,881,902	18,818,321
Non-operating Revenues (Expenses)					
Interest Income	1,530,497	1,506,086	-	3,036,583	5,587,636
Interest Expense	(9,105,126)	(495,329)	-	(9,600,455)	(9,951,850)
Amortization of Deferred Charges, Debt Discounts,		(23,892)		(23,892)	
Premiums and Costs	(2,579,725)	-	-	(2,579,725)	(2,530,345)
Other	-	(75,990)	-	(75,990)	(94,880)
Total Non-operating Revenues (Expenses)	(10,154,354)	910,875	-	(9,243,479)	(6,989,439)
Income (loss) Before Contributions	6,681,017	(6,042,594)	-	638,423	11,828,882
Capital Contributions	-	1,045,270	-	1,045,270	1,121,236
Change In Net Assets	6,681,017	(4,997,324)	-	1,683,693	12,950,118
Net Assets, Beginning of Year	93,740,466	177,368,623	-	271,109,089	258,158,971
Net Assets, End of Year	$ 100,421,483	$ 172,371,299	$ -	$ 272,792,782	$ 271,109,089

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, 2009

	Wells Hydroelectric Project	Distribution System	Intersystem Eliminations	TOTAL 2009	TOTAL 2008
Cash Flow from Operating Activities					
Receipts from Customers	$ 41,946,145	$ 34,183,718	$ (14,977,713)	$ 61,152,150	$ 68,504,507
Receipts from Other Agencies	-	11,761,490		11,761,490	11,489,147
Receipts from Internal Services Provided	1,758,766	466,768	(2,225,534)	-	-
Payments for Internal Services Used	(466,768)	(1,758,766)	2,225,534	-	-
Payments to Employees & Payroll Related	(10,470,130)	(7,715,003)	-	(18,185,133)	(17,350,167)
Payments to Suppliers & Other Agencies	(10,635,183)	(40,288,414)	14,977,713	(35,945,884)	(35,958,311)
Net Cash Provided by Operating Activities	22,132,830	(3,350,207)	-	18,782,623	26,685,176
Cash Flows from Investing Activities					
Purchase of Investments	(9,248,263)	(7,600,000)	-	(16,848,263)	(58,447,600)
Proceeds from Sales and Maturities of Investments	42,945,200	36,311,013	-	79,256,213	63,228,574
Interest on Investments	400,032	1,662,137	-	2,062,169	2,816,424
Net Cash Provided by Investing Activities	34,096,969	30,373,150	-	64,470,119	7,597,398
Cash Flows from Capital and Related Financing Activities					
Additions to Electric Plant in Service	(487,934)	(219,912)	-	(707,846)	(1,803,195)
Net Additions to Construction Work in Progress	(22,935,832)	(13,004,080)	-	(35,939,912)	(45,836,615)
Intradistrict Note Payable-Proceeds (Loaned)	1,895,000	(1,895,000)	-	-	-
Proceeds from Capital Contributions	-	(75,966)	-	(75,966)	4,265,519
Principal Payments on Long-term Debt	(11,075,000)	(715,000)	-	(11,790,000)	(11,825,000)
Interest Payments on Long-term Debt	(9,234,344)	(484,505)	-	(9,718,849)	(10,031,393)
Net Cash Used in Capital and Related Financing Activities	(41,838,110)	(16,394,463)	-	(58,232,573)	(65,230,684)
Net Increase (Decrease) in Cash and Cash Equivalents	14,391,689	10,628,480	-	25,020,169	(30,948,110)
Cash & Cash Equivalents, Beginning of Year	3,635,417	18,318,756	-	21,954,173	52,902,283
Cash & Cash Equivalents, End of Year	$ 18,027,106	$ 28,947,236	$ -	$ 46,974,342	$ 21,954,173

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, 2009

	Wells Hydroelectric Project	Distribution System	Intersystem Eliminations	TOTAL 2009	TOTAL 2008
Reconciliation of Net Operating Income to Net Cash Provided by Operating Activities					
Operating Income	$ 16,835,371	$ (6,953,469)	$ -	$ 9,881,902	18,818,321
Adjustments to Reconcile Operating Income to Net Cash					
Provided by Operating Activities:					
Depreciation	5,465,476	5,569,712	-	11,035,188	9,944,610
Cash Provided by changes in Operating Assets and Liabilities:					
Accounts Receivable - Excluding Construction	(184,537)	(803,793)	-	(988,330)	1,555,132
Prepaid Expenses - Other Current and Accrued Assets	7,525	(39,408)	-	(31,883)	(316,727)
Materials and Supplies	-	(682,486)	-	(682,486)	95,592
Other Accrued Liabilities	176,975	-	-	176,975	(36,517)
Accounts Payable - Excluding Construction Payables	(186,118)	(509,429)	-	(695,547)	388,972
Other Current Liabilities	-	280,636	-	280,636	(3,088,288)
Retainage - Deferred Credits - Operating Only	18,138	(211,970)	-	(193,832)	(675,919)
Net Cash Provided by Operating Activities	$ 22,132,830	$ (3,350,207)	$ -	$ 18,782,623	$ 26,685,176

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

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

Revenue Recognition:

The Distribution System recognizes revenue as billed on a monthly and bi-monthly basis. Service rates are established by the District's publicly elected Board of Commissioners. 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. Revenue for the Wells Project is billed monthly and pays all annual expenses and debt service, whether or not the project is operable.

Utility Plant and Depreciation:

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

Wells Project plant, including land and all related facilities, is recorded at cost. Cost is comprised of the following: (a) all direct construction and acquisition costs; (b) all indirect costs up to the commencement of initial power generated on September 7, 1967, and only those indirect costs related to the construction and acquisition since that date; and (c) interest costs capitalized up to certain dates, which were subsequent to the date generating units were placed in service. Under FERC accounting, interest costs would cease to be capitalized after units are placed in service. Management of the District elected to capitalize interest costs through January 1, 1969, as to the 1963 series bonds, and to September 1, 1972, as to the 1965 series bonds, because it believed this was the accounting treatment specifically prescribed in the bond resolutions and power sales contracts. Depreciation of substantially all depreciable assets is provided over estimated useful lives ranging from 15 to 95 years, using the sinking fund method (6% rate).

Receivables:

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

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

Inventories:

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

Cash and Cash Equivalents:

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

Investments and Deposits:

Investments of the District are in the form of time certificates, deposits with banks, direct obligations of the U.S. Government, and a Repurchase Agreement with underlying securities consisting of Government National Mortgage Association (GNMA) securities, which are fully guaranteed by the U.S. Government, pursuant to the requirements of Chapter 39.58 RCW and the District's master bond resolutions. 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, U.S. Government obligations, and the

Repurchase Agreement are recorded at amortized cost, cost, and cost plus contractual earnings, 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. Annual leave granted each employee varies in accordance with years of service and may be carried forward from year-to-year, capped at a maximum bank of 1200 hours. The District records the cost of personal leave as the leave is taken.

Accounting Estimates:

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

Insurance:

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

For purposes of certain employee benefits insurance the District is a member of the Central Washington Public Utilities Unified Insurance Program Trust (Trust). The Trust was organized pursuant to the provisions of RCW Title 54 and interlocal governmental agreements. It's general objectives include provision for the central collection and disbursement of employee benefit premiums (and in the case of self-insured plans, 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 (Report Numbers 1000681 and 1000682).

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

NOTE 2 – DEPOSITS AND INVESTMENTS

Investments: The District had the following investments as of December 31, 2009 and 2008, respectively:

	Wells		Distribution	
	2009	2008	2009	2008
U.S. Treasury Securities	$ -	$ -	$ 406,199	$ 654,216
Repurchase Agreement	17,749,178	41,870,878		
Certificates of Deposit	4,675,662	13,022,600	5,100,000	18,800,300
Total	$ 22,424,840	$ 54,893,478	$ 5,506,199	$ 19,454,516

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. The book cost of operating property retired or otherwise disposed of, less salvage, is charged to accumulated depreciation. The following changes occurred in the District's utility plant:

Electric Plant Assets Distribution System	**Balance December 31, 2008**	**Increase**	**Decrease**	**Balance December 31, 2009**
Hydraulic Generation	$ -			$ -
Transmisssion	4,887,716	110,126	(551)	4,997,291
Distribution	124,369,125	4,469,043	(357,902)	128,480,266
General	42,135,113	8,292,012	(607,901)	49,819,224
Miscellaneous	862,185	-	-	862,185
Subtotal	172,254,139	12,871,181	(966,354)	184,158,966
Construction Work in Progress	11,522,895	11,945,737	(11,684,915)	11,783,717
Accumulated Depreciation	(59,936,017)	(6,717,564)	1,187,762	(65,465,819)
Net Utility Plant - Distribution	$ 123,841,017	$ 18,099,354	$ (11,463,507)	$ 130,476,864

Electric Plant Assets Wells Hydroelectric Project	Balance December 31, 2008	Increase	Decrease	Balance December 31, 2009
Hydraulic Generation	$ 211,507,018	$ 13,192,944	$ -	$ 224,699,962
Transmisssion	17,559,811	14,677	(18,182)	17,556,306
Distribution	-	-	-	-
General	10,330,778	374,491	(414,340)	10,290,929
Miscellaneous	184,002	430,000	(19,798)	594,204
Subtotal	239,581,609	14,012,112	(452,320)	253,141,401
Construction Work in Progress	41,587,784	20,833,598	(13,907,180)	48,514,202
Accumulated Depreciation	(72,472,272)	(5,638,617)	435,047	(77,675,842)
Net Utility Plant - Wells Project	$ 208,697,121	$ 29,207,093	$ (13,924,453)	$ 223,979,761

NOTE 4 – SHORT TERM DEBT

The District had no short-term debt activity during 2009, and had no outstanding short-term debt at December 31, 2009.

NOTE 5 – LONG-TERM DEBT

Wells Hydroelectric Project

	Purpose	Balance 12/31/2008	Additions	Reductions	Balance 12/31/2009	Due Within One Year
Revenue Bonds:						
Series of 1999A, serial bonds maturing annually to September 1, 2019 and term bonds maturing September 1, 2029; interest at 5.45% - 6.125%	Land Purchases, Recreation Action Plan & Habitat Conservation Plan	$ 8,740,000	$ -	$ 220,000	$ 8,520,000	$ 235,000
Series of 1999B, serial bonds maturing annually to September 1, 2009, interest at 5.20%	Land Purchases, Recreation Action Plan & Habitat Conservation Plan	140,000	-	140,000	-	-
Series of 2000A, serial bonds maturing annually to September 1, 2010 and term bonds maturing September 1, 2015 and 2018, interest at 5.95% - 6.35%	Refunding	6,205,000	-	465,000	5,740,000	490,000
Series of 2003A, serial bonds maturing annually to September 1, 2018, interest at 3.25% - 5.25%	Refunding	12,035,000	-	645,000	11,390,000	1,140,000
Series of 2003B, serial bonds maturing annually to September 1, 2018, interest at 3.25% - 5.00%	Refunding	35,470,000	-	6,240,000	29,230,000	6,505,000
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	40,970,000	-	800,000	40,170,000	830,000
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	33,670,000	-	740,000	32,930,000	910,000
Series of 2005C, serial bonds maturing annually to September 1, 2014 and term bonds maturing September 1, 2018, interest at 4.478% - 5.112%	Colville Settlement	7,390,000	-	595,000	6,795,000	625,000
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	10,160,000	-	1,230,000	8,930,000	805,000
Revenue bonds payable		186,685,000	-	11,075,000	175,610,000	11,540,000
Unamortized bond premiums (discounts)		5,301,577	-	434,808	4,866,769	-
Total bonds payable		191,986,577	-	11,509,808	180,476,769	11,540,000
Deferred credits		164,442	8,679,812	8,187,265	656,989	240,452
Intradistrict note payable		6,310,000	1,895,000	-	8,205,000	-
Compensated absences		1,386,359	1,822,774	1,863,180	1,345,953	717,929
Non-current liabilities		$ 199,847,378	$ 12,397,586	$ 21,560,253	$ 190,684,711	$ 12,498,381

Following is a summary of future debt service requirements for Wells Project revenue bonds outstanding at December 31, 2008:

		Principal		Interest		Total
2010	$	11,540,000	$	8,407,387	$	19,947,387
2011		11,965,000		7,979,175		19,944,175
2012		12,545,000		7,413,009		19,958,009
2013		12,980,000		6,811,202		19,791,202
2014		12,710,000		6,269,671		18,979,671
2015-2019		55,965,000		21,472,583		77,437,583
2020-2024		15,345,000		12,774,969		28,119,969
2025-2029		19,675,000		8,429,219		28,104,219
2030-2034		18,620,000		3,729,207		22,349,207
2035		4,265,000		201,662		4,466,662
Total	$	175,610,000	$	83,488,084	$	259,098,084

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 2009 and 2008.

Advance Debt Refunding

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

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

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

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.

Debt service on these refunded bonds and other outstanding Wells Project bonds which were refunded in prior years is met by cash and investments held in irrevocable trust with an escrow agent. As of December 31, 2008, the escrow agent was holding cash and investments of $34,918,057 which are expected to fully fund debt service on all outstanding Wells Project refunded bonds. The trust account assets and the liability for the corresponding refunded bonds are not included in the District's financial statements.

Distribution System

Long-term liability activity for the year ended December 31, 2009 was as follows:

	Balance 12/31/2008	Additions	Reductions	Balance 12/31/2009	Due Within One Year
Revenue bonds payable	$ 11,715,000	$ -	$ 715,000	$ 11,000,000	$ 735,000
Unamortized bond premiums (discounts)	384,492	-	25,776	358,716	
Total bonds payable	12,099,492	-	740,776	11,358,716	735,000
Deferred credits	289,082	267,570	239,366	317,286	
Unamortized gain on redeemed debt	124,384		35,544	88,840	
Compensated absences	861,550	1,146,563	962,620	1,045,493	466,952
Non-current liabilities	$ 13,374,508	$ 1,414,133	$ 1,978,306	$ 12,810,335	$ 1,201,952

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
2010	$ 735,000	$ 466,481	$ 1,201,481
2011	760,000	445,534	1,205,534
2012	780,000	421,784	1,201,784
2013	810,000	396,434	1,206,434
2014	840,000	368,084	1,208,084
2015-2019	3,560,000	1,402,924	4,962,924
2020-2023	3,515,000	450,250	3,965,250
Total	$ 11,000,000	$ 3,951,491	$ 14,951,491

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 2009 and 2008.

NOTE 6 – 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) <u>Endangered Species</u>

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

The District has negotiated with state and federal fisheries resource agencies and Indian tribes, a multispecies Habitat Conservation Plan (HCP). The 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 have been observed at the Wells Project but are not covered in the HCP. The United States Fish and Wildlife Service issued a biological opinion for bull trout for the Wells Project operations under the terms of the HCP in May of 2004. Under the amended Wells Project license FERC has the authority to require the District to carry out specified measures for the purpose of participating in the development and implementation of a bull trout recovery plan.

There is extensive litigation in the federal court system under the ESA, challenging actions taken by the responsible federal agencies in regard to anadromous fish. Future legal actions to protect fish may have a significant impact on the amount and/or cost of power generated at the Wells Project. As the ultimate outcome of this matter is not determinable, no accruals have been made to the financial statements.

e) <u>Land Acquisition</u>

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

f) <u>Energy Northwest – Nine Canyon Wind Project</u>

The Nine Canyon Wind Project is located eight miles southwest of Kennewick, Washington in the Horse Heaven Hills. The project was developed in two phases. Phase I consists of thirty seven 1.3 MW wind turbine generators and Phase II consists of an additional twelve 1.3 MW units. The District is responsible for 6.25% of Phase I debt service and 43.59% of Phase II debt service, and 15.4% of operations and maintenance costs.

g) <u>Douglas PUD – Chelan PUD Power Sales Contract</u>

The District has a long term power sales contract with Chelan PUD to purchase 2.77% 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 initial term of the power sales contract expires on October 31, 2011. The District recently exercised its option to extend the contract and purchase an additional 2.77% (5.54% total) of the output. The District has the right to extend the term of the contract for five successive 10-year periods. Discussions with Chelan PUD are on-going regarding the appropriate pricing for its post 2011 share of Rocky Reach output.

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 Distirct 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. All required studies have been completed. The District has made substantial progress developing resource management plans and settlement agreements. The District filed a Draft License Application on December 18, 2009 and Final Application on May 27, 2010. The District will seek 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. The cost is being financed through the issuance of revenue bonds.

NOTE 7 – 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 Retirements Systems, Communications Unit, P.O. Box 48380, Olympia, WA 98504-8380.

The Public Employees' Retirement System (PERS) includes two defined benefit pension plans, Plan 1 and Plan 2, and a combination defined benefit/defined contribution plan, Plan 3. Participants who joined the system by September 30, 1977, are Plan 1 members. Plan 1 members are eligible for retirement at any age after 30 years of service, or at age 60 with five years of service, or at age 55 with 25 years of service. The pension benefit is two percent of the average final compensation per year of service, capped at 60 percent.

Plan 2 members may retire at age 65 with five years of service, or at age 55 with 20 years of service, with an allowance of two percent of the average final compensation per year of service. Plan 2 members who retire prior to the age of 65 receive reduced benefits. If retirement is at age 55 or older with at least 30 years of service, a three percent per year reduction applies; otherwise an actuarial reduction will apply. There is no cap on years of service credit and a cost-of-living allowance is granted, capped at three percent annually.

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

Employer and employee contribution rates are established periodically by the State Legislature. The required contribution rates expressed as a percentage of current year covered payroll, as of December 31, 2009 were:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
Employer	5.31%*	5.31%*	5.31%*
Employee	6.00%	3.90%	Variable 5-15% employee selected

*employer rates include an administrative expense fee of .16%

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

	PERS Plan1	PERS Plan 2	PERS Plan 3
2009	$ 68,350	$ 913,022	$ 74,364
2008	66,037	877,553	69,157
2007	55,768	673,090	41,584
2006	33,066	334,946	13,383

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 8 – DEFERRED DEBITS AND CREDITS

Distribution System

The Distribution System had deferred debits of $5,068,328and $4,823,765respectively at December 31, 2009 and 2008. 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 $317,286and $289,082respectively at December 31, 2009 and 2008. The deferred credits consist of funds retained for contract performance, secured funds for installation costs, and retiree benefits.

Wells Hydroelectric Project

The Wells Hydroelectric Project had deferred debits of $27,101,651 and $29,504,585 respectively at December 31, 2009 and 2008. 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 2000, 2003, 2005 and 2006 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 $416,537 and $164,442 respectively at December 31, 2009 and 2008. The deferred credits consist of funds retained for contract performance.

NOTE 9 – 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, 2009 the District has capitalized $24.1 million dollars of community network equipment.

Douglas County Community Network	**2009**
Operating Revenue:	
Wholesale Broadband Residential & Business	$ 793,160
Broadband Governmental	307,725
Colocation & Bandwidth	255,265
Television	69,447
	$ 1,425,597
Operating Expenses:	
Operation & Maintenance	$ 1,471,566
Administration & General	347,213
	$ 1,818,779

Northwest Open Access Network (NoaNet):

The District, along with 13 other Washington State Public Utility Districts and Energy Northwest, is a member of NoaNet, a Washington nonprofit mutual corporation. NoaNet was incorporated in February 2000 to provide a broadband communications backbone, over Public Benefit Fibers leased from Bonneville Power Administration, throughout the State of Washington for assisting its members in the efficient management of load, conservation and acquisition of electric energy as well as other purposes. The network began commercial operation in January 2001.

In July 2001, NoaNet issued $27 million in telecommunications network revenue bonds (taxable) to finance the repayment of the founding members and the costs of initial construction, operations and maintenance. The Bonds are currently being redeemed and remain outstanding through December 2016 with interest due semi-annually at rates ranging from 5.05% to 7.09%. As of December 2009, $14.6 million (unaudited) of the bonds remain long-term liabilities. In addition, NoaNet opened lines of credit with Bank of America to fund capital expenditures. The lines of credit are not being fully utilized; $2.7 million (unaudited) remains outstanding at December 31, 2008. 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 5.74% interest.

The management of NoaNet anticipates meeting operating costs through profitable operations; however members have been contributing to help meet debt service obligations. A NoaNet annual report may be obtained by writing to Northwest Open Access Network, 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 in cooperation 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 our 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 continue to refine our reporting efforts to ensure the results of our audits are useful and understandable.

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

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