Washington State Auditor's Office

Financial Statements Audit Report

Public Utility District No. 1 of Douglas County

Audit Period
January 1, 2010 through December 31, 2010

Report No. 1006346

Issue Date
September 13, 2011

WASHINGTON
BRIAN SONNTAG
STATE AUDITOR

Washington State Auditor
Brian Sonntag

September 13, 2011

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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January 1, 2010 through December 31, 2010

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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, 2010 through December 31, 2010

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, 2010, and have issued our report thereon dated July 1, 2011. The prior year partial comparative information has been derived from the District's 2009 financial statements and, in our report dated July 6, 2010, 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 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.

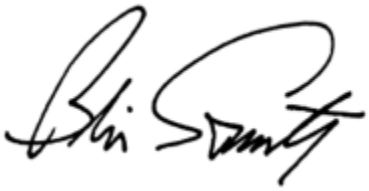
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be deficiencies, significant deficiencies or material weaknesses. We did not identify 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 1, 2011

Independent Auditor's Report on Financial Statements

Public Utility District No. 1 of Douglas County
January 1, 2010 through December 31, 2010

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, 2010, 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 2009 financial statements and, in our report dated July, 6, 2010, 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.

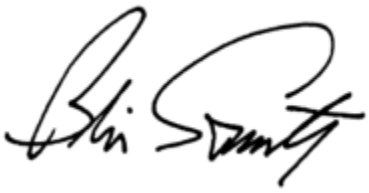
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each major fund of Public Utility District No. 1 of Douglas County, as of December 31, 2010, and the respective changes in financial position and, where applicable, 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, 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 1, 2011

Financial Section

Public Utility District No. 1 of Douglas County
January 1, 2010 through December 31, 2010

REQUIRED SUPPLEMENTAL INFORMATION

Management's Discussion and Analysis – 2010

BASIC FINANCIAL STATEMENTS

Balance Sheet – 2010
Statement of Revenues, Expenses and Changes in Net Assets – 2010
Statement of Cash Flows – 2010
Notes to Financial Statements – 2010

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, 2010 and 2009. 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 2010, the overall financial position of the District declined. The District's total net assets decreased by $862,000 to $272 million. The following analysis provides a three-year comparision of key financial information for the Distribution System and for the Wells Project.

DISTRIBUTION SYSTEM

The service area of the Distribution System includes Douglas County, with an area of 1,820 square miles. The assets (properties) of the Distribution System include 41 miles of 115-kV transmission lines, 13 substations, 1,224 miles of overhead and underground distribution lines, 467 miles of fiber optic lines, and other buildings, equipment, inventories and related facilities.

Condensed Comparative Financial Information

Distribution System Balance Sheet
(Dollars in Thousands)

	12/31/2010	12/31/2009	Increase (Decrease) 2010-2009 $	%	12/31/2008
Capital Assets	$ 146,312	$ 144,000	$ 2,312	1.6%	$ 135,243
Current & Other Assets	38,196	46,412	(8,216)	-17.7%	62,560
Total Assets	184,508	190,412	(5,904)	-3.1%	197,803
Noncurrent Liabilities	10,718	11,608	(890)	-7.7%	12,473
Current Liabilities	5,321	6,432	(1,111)	-17.3%	7,961
Total Liabilities	16,039	18,040	(2,001)	-11.1%	20,434
Invested in Capital Assets, net of debt	122,126	120,312	1,814	1.5%	112,941
Unrestricted	46,344	52,059	(5,715)	-11.0%	64,428
Total Net Assets	$ 168,470	$ 172,371	$ (3,901)	-2.3%	$ 177,369

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

	12/31/2010	12/31/2009	Increase (Decrease) 2010-2009 $	%	12/31/2008
Operating Revenues					
Retail Electric Sales	$ 15,474	$ 15,144	$ 330	2.2%	$ 13,703
Electric Sales For Resale	19,272	18,102	1,170	6.5%	26,849
Broadband	1,837	1,426	411	28.8%	906
Other	337	315	22	7.0%	299
Nonoperating Revenues	933	1,430	(497)	-34.8%	2,387
Total Revenues	37,853	36,417	1,436	3.9%	44,144
Operating Expenses					
Purchased Power	23,270	22,176	1,094	4.9%	20,862
Other	19,419	19,765	(346)	-1.8%	16,998
Nonoperating Expenses	494	519	(25)	-4.8%	553
Total Expenses	43,183	42,460	723	1.7%	38,413
Capital Contributions	1,429	1,045	384	36.7%	1,121
Net Earnings	(3,901)	(4,998)	1,097	-21.9%	6,852
Beginning Net Assets	172,371	177,369	(4,998)	-2.8%	170,517
Ending Net Assets	$ 168,470	$ 172,371	$ (3,901)	-2.3%	$ 177,369

Financial Analysis

During 2010, the Distribution System's overall financial position and results from operations declined slightly. Net assets decreased by 2.3% to $168 million from $172 million in 2009.

Revenues

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 Commuity Network (DCCN) experienced an increase of 384 customers compared to 2009. This resulted in a $411,000 increase to broadband operating 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.

Expenses

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.

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.

Capital Asset and Long-Term Debt Activity

During 2010, capital assets, net of capital contributions increased $1.05 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 $9.5 million, all in revenue bonds. Debt service payments for 2010 was $1.2 million. Debt service coverage ratios for 2010 and 2009 were 3.7 and 1.5, 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 captial contributions that help fund new construction projects. In 2010, the District's capital contributions increased $384,000 to $1.4 million.

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)

	12/31/2010	12/31/2009	Increase (Decrease) 2010-2009 $	Increase (Decrease) 2010-2009 %	12/31/2008
Current and Other Assets	$ 164,014	$ 75,493	$ 88,521	117.3%	$ 96,351
Capital Assets	227,522	223,980	3,542	1.6%	208,697
Total Assets	391,536	299,473	92,063	30.7%	305,048
Current Liabilities	24,455	20,865	3,590	17.2%	23,201
Long-Term Liabilities	263,620	178,187	85,433	47.9%	188,107
Total Liabilities	288,075	199,052	89,023	44.7%	211,308
Invested in Capital Assets, Net of Related Debt	83,457	74,881	8,576	11.5%	75,257
Restricted	14,005	11,540	2,465	21.4%	11,075
Unrestricted	5,999	14,000	(8,001)	-57.2%	7,408
Total Net Assets	$ 103,461	$ 100,421	$ 3,040	3.0%	$ 93,740

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

	12/31/2010	12/31/2009	Increase (Decrease) 2010-2009 $	Increase (Decrease) 2010-2009 %	12/31/2008
Operating Revenues	$ 41,426	$ 41,706	$ (280)	-0.7%	$ 38,895
Nonoperating Revenues	838	1,530	(692)	-45.2%	3,106
Total Revenues	42,264	43,236	(972)	-2.2%	42,001
Operating Expenses	26,319	24,870	1,449	5.8%	23,974
Nonoperating Expenses	12,905	11,685	1,220	10.4%	11,930
Total Expenses	39,224	36,555	2,669	7.3%	35,904
Net Earnings	3,040	6,681	(3,641)	-54.5%	6,097
Beginning Net Assets	100,421	93,740	6,681	7.1%	87,643
Ending Net Assets	$ 103,461	$ 100,421	$ 3,040	3.0%	$ 93,740

Financial Analysis

Fluctuations shown in the comparison of balance sheets of the Wells Project at December 31, 2010 and 2009 were due mainly to the issuance of the 2010 revenue bonds and progress on the generating unit rebuild project and construction or purchase of other capital projects. Combined, these items resulted in an increase in cash and investments, capital assets and bonds payable. Other significant financial items are discussed in further detail below and in the notes to the financial statements.

Revenues

Operating revenues changed very little in 2010. 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). See further information below regarding the BABs. The continued general decline in interest rates together with the expiration of a five year fixed rate investment contract in early September 2010 resulted in decreased non-operating revenues in 2010.

Expenses

2009 to 2010:
During 2010 total operating expenses increased by $1.5 million to $26.3 million, a 5.8% increase. 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 large 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.

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.

Capital Assets and Long-Term Debt Activity

As of December 31, 2010 the Wells Project had approximately $228 million invested in capital assets, net of accumulated depreciation, including its hydraulic generation and transmission plant, fish rearing facilities, and related land, office buildings and equipment. 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, 2010 the Wells Project had long-term liabilities of $264 million. This included $249 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.

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. In the summer of 2010 Moody's downgraded the Wells Project's rating to "Aa3" with a stable outlook, and Standard & Poor's affirmed its "AA" rating of 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, 2010

ASSETS	Wells Hydroelectric Project	Distribution System	TOTAL 2010	TOTAL 2009
Current Assets				
Restricted:				
Construction Funds-Cash	$ 101,806,977	$ -	$ 101,806,977	127,855
Construction Funds-Investments	-	-	-	17,749,178
Debt Repayment Funds-Cash	17,243,678	100,461	17,344,139	10,524,357
Debt Repayment Funds-Investments	-	1,208,084	1,208,084	2,083,746
Reserve & Contingency Fund-Cash	2,742,937	-	2,742,937	1,897,336
Reserve & Contingency Fund-Investments	3,100,000	-	3,100,000	3,800,000
Wells Hydroelectric Project Licensing Fund-Cash	-	3,360,936	3,360,936	6,920,124
Wells Hydroelectric Project Licensing Fund-Investments	-	207,196	207,196	406,199
Total Restricted	124,893,592	4,876,677	129,770,269	43,508,795
Unrestricted:				
Cash	4,888,590	3,138,094	8,026,684	10,164,681
Investments	-	-	-	-
Rate Stabilization Fund-Cash	-	13,718,609	13,718,609	17,339,989
Rate Stabilization Fund-Investments	-	5,791,916	5,791,916	3,891,916
Receivables - Net	1,553,588	3,527,633	5,081,221	5,615,360
Materials and Supplies	-	5,004,875	5,004,875	5,828,479
Other Current & Accrued Assets	644,597	2,138,341	2,782,938	2,600,566
Total Unrestricted	7,086,775	33,319,468	40,406,243	45,440,991
Total Current Assets	131,980,367	38,196,145	170,176,512	88,949,786
Non-Current Assets				
Electric Plant:				
Electric Plant	257,083,414	196,521,199	453,604,613	437,300,675
Construction Work in Progress	53,771,005	6,527,020	60,298,025	60,297,919
Electric Plant - Gross	310,854,419	203,048,219	513,902,638	497,598,594
Less: Accumulated Depreciation & Amortization	83,332,244	71,517,113	154,849,357	143,141,661
Net Electric Plant	227,522,175	131,531,106	359,053,281	354,456,933
Intradistrict Note Receivable	-	8,890,000	8,890,000	8,205,000
Deferred Charges:				
Unamortized Debt Discount & Expense	3,111,675	231,725	3,343,400	2,769,806
Unamortized Loss on Reacquired Debt	3,523,272	-	3,523,272	3,333,599
Other Deferred Charges	25,398,339	5,659,732	31,058,071	32,169,979
Total Non-Current Assets	259,555,461	146,312,563	405,868,024	400,935,317
TOTAL ASSETS	$ 391,535,828	$ 184,508,708	$ 576,044,536	$ 489,885,103

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, 2010

LIABILITIES & NET ASSETS	Wells Hydroelectric Project	Distribution System	TOTAL 2010	TOTAL 2009
Current Liabilities				
Accounts Payable	$ 4,171,197	$ 2,771,608	$ 6,942,805	$ 7,939,554
Other Accrued Liabilities	1,945,361	1,752,231	3,697,592	4,102,505
Payable from Restricted Assets:				
Accrued Interest Payable	4,333,215	37,128	4,370,343	2,980,549
Current Portion Long-Term Debt	14,005,000	760,000	14,765,000	12,275,000
Total Current Liabilities	24,454,773	5,320,967	29,775,740	27,297,608
Non-current Liabilities				
Bonds Payable, excluding current portion	249,430,000	9,505,000	258,935,000	174,335,000
Unamortized Bond Premiums (Discounts)	4,124,973	332,940	4,457,913	5,225,485
Bonds Payable, Net	253,554,973	9,837,940	263,392,913	179,560,485
Deferred Credits	549,382	192,465	741,847	733,823
Intradistrict Note Payable	8,890,000	-	8,890,000	8,205,000
Unamortized Gain on Redeemed Debt	-	53,296	53,296	88,840
Compensated Absences	626,082	634,090	1,260,172	1,206,565
Total Non-current Liabilities	263,620,437	10,717,791	274,338,228	189,794,713
Total Liabilities	288,075,210	16,038,758	304,113,968	217,092,321
Net Assets				
Invested in Capital Assets, Net of Related Debt	83,457,062	121,265,798	204,722,860	195,092,965
Restricted For Debt Service	14,005,000	100,461	14,105,461	11,640,123
Unrestricted	5,998,556	47,103,691	53,102,247	66,059,694
Total Net Assets	103,460,618	168,469,950	271,930,568	272,792,782
TOTAL LIABILITIES AND NET ASSETS	$ 391,535,828	$ 184,508,708	$ 576,044,536	$ 489,885,103

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, 2010

	Wells Hydroelectric Project	Distribution System	Intersystem Eliminations	TOTAL 2010	TOTAL 2009
Operating Revenues					
Retail Sales of Electric Energy	$ -	$ 15,473,655	$ -	$ 15,473,655	$ 15,144,234
Energy Sales for Resale	41,426,232	19,272,450	(14,821,693)	45,876,989	44,830,502
Broadband	-	1,836,616	-	1,836,616	1,425,597
Other	-	337,358	-	337,358	315,158
Total Operating Revenues	41,426,232	36,920,079	(14,821,693)	63,524,618	61,715,491
Operating Expenses			-		
Operations	17,055,700	30,293,210	(14,821,693)	32,527,217	29,620,869
Maintenance	2,263,830	4,606,748	-	6,870,578	8,506,291
Depreciation	5,862,000	6,177,620	-	12,039,620	11,035,188
Taxes	1,137,321	1,612,300	-	2,749,621	2,671,241
Total Operating Expenses	26,318,851	42,689,878	(14,821,693)	54,187,036	51,833,589
Operating Income(Loss)	15,107,381	(5,769,799)	-	9,337,582	9,881,902
Non-operating Revenues (Expenses)					
Interest Income	568,611	1,006,060	-	1,574,671	3,036,583
Interest Expense	(10,222,743)	(469,970)	-	(10,692,713)	(9,600,455)
Amortization of Deferred Charges, Debt Discounts, Premiums and Costs	(2,682,793)	(23,892)	-	(2,706,685)	(2,603,617)
Other	268,679	(72,824)	-	195,855	(75,990)
Total Non-operating Revenues (Expenses)	(12,068,246)	439,374	-	(11,628,872)	(9,243,479)
Income (Loss) Before Contributions	3,039,135	(5,330,425)	-	(2,291,290)	638,423
Capital Contributions	-	1,429,076	-	1,429,076	1,045,270
Change In Net Assets	3,039,135	(3,901,349)	-	(862,214)	1,683,693
Net Assets, Beginning of Year	100,421,483	172,371,299	-	272,792,782	271,109,089
Net Assets, End of Year	$ 103,460,618	$ 168,469,950	$ -	$ 271,930,568	$ 272,792,782

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, 2010

	Wells Hydroelectric Project	Distribution System	Intersystem Eliminations	TOTAL 2010	TOTAL 2009
Cash Flow from Operating Activities					
Receipts from Customers	$ 41,521,528	$ 37,270,215	$ (14,924,492)	$ 63,867,251	$ 61,152,150
Receipts from Other Agencies	-	11,434,984		11,434,984	11,761,490
Receipts from Internal Services Provided	2,037,977	592,811	(2,630,788)	-	-
Payments for Internal Services Used	(592,811)	(2,037,977)	2,630,788	-	-
Payments to Employees & Payroll Related	(10,448,866)	(8,116,847)	-	(18,565,713)	(18,185,133)
Payments to Suppliers & Other Agencies	(10,387,177)	(39,350,330)	14,924,492	(34,813,015)	(35,945,884)
Net Cash Provided by Operating Activities	22,130,651	(207,144)	-	21,923,507	18,782,623
Cash Flows from Investing Activities					
Purchase of Investments	(3,477,191)	(4,500,000)	-	(7,977,191)	(16,848,263)
Proceeds from Sales and Maturities of Investments	22,802,032	2,799,003	-	25,601,035	79,256,213
Interest on Investments	575,757	892,002	-	1,467,759	2,062,169
Net Cash Provided by Investing Activities	19,900,598	(808,995)	-	19,091,603	64,470,119
Cash Flows from Capital and Related Financing Activities					
Additions to Electric Plant in Service	(230,347)	69,495	-	(160,852)	(707,846)
Net Additions to Construction Work in Progress	(11,173,169)	(7,221,598)	-	(18,394,767)	(35,939,912)
Intradistrict Note Payable-Proceeds (Loaned)	685,000	(685,000)	-	-	-
Proceeds from Bond Issuance	112,489,155		-	112,489,155	-
Cost of Issuance, Underwriter's Discount, Refunding Escrow	(1,240,608)		-	(1,240,608)	-
Proceeds from (Refunds of) Capital Contributions	-	1,429,076	-	1,429,076	(75,966)
Principal Payments on Long-term Debt	(25,075,000)	(735,000)	-	(25,810,000)	(11,790,000)
Interest Payments on Long-term Debt	(8,831,204)	(469,970)	-	(9,301,174)	(9,718,849)
Net Cash Used in Capital and Related Financing Activities	66,623,827	(7,612,997)	-	59,010,830	(58,232,573)
Net Increase (Decrease) in Cash and Cash Equivalents	108,655,076	(8,629,136)	-	100,025,940	25,020,169
Cash & Cash Equivalents, Beginning of Year	18,027,106	28,947,236	-	46,974,342	21,954,173
Cash & Cash Equivalents, End of Year	$ 126,682,182	$ 20,318,100	$ -	$ 147,000,282	$ 46,974,342

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, 2010

	Wells Hydroelectric Project	Distribution System	Intersystem Eliminations	TOTAL 2010	TOTAL 2009
Reconciliation of Net Operating Income to Net Cash Provided by Operating Activities					
Operating Income	$ 15,107,381	$ (5,769,800)	$ -	$ 9,337,581	9,881,902
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:					
Depreciation	5,862,000	6,177,620	-	12,039,620	11,035,188
Cash Provided by changes in Operating Assets and Liabilities:					
Accounts Receivable - Excluding Construction	35,880	350,136	-	386,016	(988,330)
Prepaid Expenses - Other Current and Accrued Assets	13,180	(164,724)	-	(151,544)	(31,883)
Materials and Supplies	-	824,007	-	824,007	(682,486)
Other Accrued Liabilities	162,645	-	-	162,645	176,975
Accounts Payable - Excluding Construction Payables	949,565	94,681	-	1,044,246	(695,547)
Other Current Liabilities	-	(974,808)	-	(974,808)	280,636
Retainage - Deferred Credits - Operating Only	-	(744,256)	-	(744,256)	(193,832)
Net Cash Provided by Operating Activities	$ 22,130,651	$ (207,144)	$ -	$ 21,923,507	$ 18,782,623

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 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 1000680 and 1000681).

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, 2010 and 2009, respectively:

	Wells		Distribution	
	2010	2009	2010	2009
Certificates of Deposit	$ 3,100,000	$ 4,675,662	$ 7,000,000	$ 5,100,000
Repurchase Agreement	-	17,749,178	-	-
U.S. Treasury Securities	-	-	207,196	406,199
Total	$ 3,100,000	$ 22,424,840	$ 7,207,196	$ 5,506,199

NOTE 3 – UTILITY PLANT

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

Electric Plant Assets Distribution System	**Balance December 31, 2009**	**Increase**	**Decrease**	**Balance December 31, 2010**
Hydraulic Generation	$ -			$ -
Transmisssion	4,997,291	84,273	-	5,081,564
Distribution	128,480,266	9,193,034	(570,688)	137,102,612
General	49,819,224	4,274,921	(619,615)	53,474,530
Miscellaneous	862,185	-	-	862,185
Subtotal	184,158,966	13,552,228	(1,190,303)	196,520,891
Construction Work in Progress	11,783,717	7,174,723	(12,431,420)	6,527,020
Accumulated Depreciation	(65,465,819)	(7,387,522)	1,336,228	(71,517,113)
Net Utility Plant - Distribution	$ 130,476,864	$ 13,339,429	$ (12,285,495)	$ 131,530,798

Electric Plant Assets Wells Hydroelectric Project	**Balance December 31, 2009**	**Increase**	**Decrease**	**Balance December 31, 2010**
Hydraulic Generation	$ 224,699,962	$ 3,785,866	$ (183,446)	$ 228,302,382
Transmisssion	17,556,306	53,062	-	17,609,368
Distribution	-	-	-	-
General	10,290,929	538,715	(252,184)	10,577,460
Miscellaneous	594,204	-	-	594,204
Subtotal	253,141,401	4,377,643	(435,630)	257,083,414
Construction Work in Progress	48,514,202	10,152,687	(4,895,883)	53,771,006
Accumulated Depreciation	(77,675,842)	(6,055,671)	399,268	(83,332,245)
Net Utility Plant - Wells Project	$ 223,979,761	$ 8,474,659	$ (4,932,245)	$ 227,522,175

NOTE 4 – LONG-TERM DEBT

Wells Hydroelectric Project

Revenue Bonds:	Purpose	Balance 12/31/2009	Additions	Reductions	Balance 12/31/2010	Due Within One Year
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	$ 8,520,000	$ -	$ 8,520,000	$ -	$ -
Series of 2000A, serial bonds maturing annually to September 1, 2010 and term bonds maturing September 1, 2015 and 2018, interest at 6.10% - 6.35%	Refunding	5,740,000	-	5,740,000	-	-
Series of 2003A, serial bonds maturing annually to September 1, 2018, interest at 3.60% - 5.25%	Refunding	11,390,000	-	1,140,000	10,250,000	1,180,000
Series of 2003B, serial bonds maturing annually to September 1, 2018, interest at 3.25% - 5.00%	Refunding	29,230,000	-	6,505,000	22,725,000	6,715,000
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	40,170,000	-	830,000	39,340,000	865,000
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	32,930,000	-	910,000	32,020,000	940,000
Series of 2005C, serial bonds maturing annually to September 1, 2014 and term bonds maturing September 1, 2018, interest at 4.506% - 5.112%	Colville Settlement	6,795,000	-	625,000	6,170,000	650,000
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	8,930,000	-	805,000	8,125,000	845,000
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	-	53,850,000	955,000
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	-	46,150,000	1,030,000
Series of 2010C, serial bonds maturing annually to September 1, 2029, interest at 2.00% - 5.00%	Refunding	-	12,900,000	-	12,900,000	825,000
Revenue bonds payable		175,610,000	112,900,000	25,075,000	263,435,000	14,005,000
Unamortized bond premiums (discounts)		4,866,769	679,522	1,421,318	4,124,973	-
Total bonds payable		180,476,769	113,579,522	26,496,318	267,559,973	14,005,000
Deferred credits		656,989	9,256,997	9,028,856	885,130	335,748
Intradistrict note payable		8,205,000	685,000	-	8,890,000	-
Compensated absences		1,345,953	1,877,289	1,804,074	1,419,168	793,086
Non-current liabilities		$ 190,684,711	$ 125,398,808	$ 37,329,248	$ 278,754,271	$ 15,133,834

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

	Principal	Interest	Total
2011	$ 14,005,000	$ 12,529,479	$ 26,534,479
2012	14,585,000	11,961,999.12	26,546,999
2013	15,015,000	11,354,668.52	26,369,669
2014	14,765,000	10,791,199.78	25,556,200
2015	15,425,000	10,135,738.34	25,560,738
2016-20	56,660,000	40,285,958.80	96,945,959
2021-25	29,695,000	31,234,638.32	60,929,638
2026-30	36,135,000	23,099,458.56	59,234,459
2031-35	40,630,000	13,674,243.76	54,304,244
2036-40	26,520,000	4,482,241.52	31,002,242
Total	$ 263,435,000	$ 169,549,626	$ 432,984,626

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 2010 and 2009.

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.

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, 2010, the escrow agent was holding cash and investments of $34,950,030 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, 2010 was as follows:

	Balance 12/31/2009	Additions	Reductions	Balance 12/31/2010	Due Within One Year
Revenue bonds payable	$ 11,000,000	$ -	$ 735,000	$ 10,265,000	$ 760,000
Unamortized bond premiums (discounts)	358,716	-	25,776	332,940	
Total bonds payable	11,358,716	-	760,776	10,597,940	760,000
Deferred credits	317,286	99,060	223,881	192,465	
Unamortized gain on redeemed debt	88,840		35,544	53,296	
Compensated absences	1,045,493	1,174,838	1,074,391	1,145,940	511,850
Non-current liabilities	$ 12,810,335	$ 1,273,898	$ 2,094,592	$ 11,989,641	$ 1,271,850

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
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	655,000	336,584	991,584
2016-2020	3,720,000	1,242,090	4,962,090
2021-2023	2,700,000	274,500	2,974,500
Total	$ 10,265,000	$ 3,485,010	$ 13,750,010

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 2010 and 2009.

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). 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) 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 amount of the 2010 payment was $237,455. 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) Land Acquisition

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.

g) 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 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.

h) Douglas PUD – Chelan PUD Power Sales Contract

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.

i) 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.

j) 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 filed a Draft License Application on December 18, 2009 and Final Application on May 27, 2010. The District will seek a 50-year license.

k) 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 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, which is increased 3 percent annually. Plan 1 members may also 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 1 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 (based on the consumer Price Index), 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 while actively serving in the military, if such credit makes them eligible to retire. 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. Effective July 22, 2007, said refund (adjusted as needed for specified legal reductions) is increased from 100 percent to 200 percent of the accumulated contributions if the member's death occurs in the uniformed service to the United States while participating in *Operation Enduring Freedom* or *Persian Gulf, Operation Iraqi Freedom.*

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 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, 2010, are as follows:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
Employer*	5.31%**	5.31%**	5.31%***
Employee	6.00%****	3.90%****	*****

* 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
2010	$ 50,269	$ 732,776	$ 54,321
2009	$ 68,350	$ 913,022	$ 74,364
2008	$ 66,037	$ 877,553	$ 69,157

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 $5,659,732 and $5,068,328 respectively at December 31, 2010 and 2009. 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 $192,465 and $317,286 respectively at December 31, 2010 and 2009. 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 $25,398,339 and $27,101,651 respectively at December 31, 2010 and 2009. 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 $549,382 and $416,537 respectively at December 31, 2010 and 2009. 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, 2010 the District has capitalized $27.1 million dollars of community network equipment.

Douglas County Community Network	2010
Operating Revenue:	
Wholesale Broadband Residential & Business	$ 1,027,316
Broadband Governmental	341,221
Colocation & Bandwidth	347,245
Television	120,834
	$ 1,836,616
Operating Expenses:	
Operation & Maintenance	$ 1,199,982
Administration & General	339,961
	$ 1,539,943

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 2010, $12.6 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 long-term liabilities for those notes are $1.4 million as of December 31, 2010. 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 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	**Brian Sonntag, CGFM**
Chief of Staff	**Ted Rutt**
Deputy Chief of Staff	**Doug Cochran**
Chief Policy Advisor	**Jerry Pugnetti**
Director of Audit	**Chuck Pfeil, CPA**
Director of Performance Audit	**Larisa Benson**
Director of Special Investigations	**Jim Brittain, CPA**
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