# Annual Report

# PUD #1 of Ferry County

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MCAG No. 1778

Submitted pursuant to RCW 43.09.230

To the

Office of the State Auditor

For the fiscal year ended December 31, 2011

Certified correct this 31st day of May, 2013 to the best of my knowledge:

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# MANAGEMENT'S DISCUSSION AND ANALYSIS
# DECEMBER 31, 2011

The following discussion and analysis is designed to provide an overview of Public Utility District No. 1 of Ferry County's (the District) financial activity, to assist the public in focusing on the significant financial issues facing the District, and to identify changes in the District's financial position.

The District is a municipal corporation of the State of Washington and was established in 1936 and began operations in 1945. At that time the system served 300 customers. In 2011 the system served an average of 3,397 customers. The only utility the District operates and distributes is an electric system. The District purchases all of its electricity from the Bonneville Power Administration (BPA) as a full-requirements customer. A three-member Board of Commissioners locally elected to six-year terms governs the District.

Beginning in October 2011 with Bonneville Power Administration's 2012 fiscal year, a new billing structure was implemented. The true effect on the cost of purchased power for the next two fiscal years was an unknown factor at that time. Resale power rates were raised by the District in October 2011 based on a rate impact model provided by BPA projecting power costs to the District. A 10.2% increase to cost of purchased power for the BPA 2012 fiscal year was realized by the District.

Previously, in 2010, for the first time in several years a positive operating margin was realized. As a result of the increased rates and increasing sales revenues from a major industrial customer, the District's margin between the sale of electric energy and the wholesale power purchases did continue throughout 2011.

The District continues to maintain adequate reserves for potential liabilities, debt service payments, and unforeseen events. In March 2011, the District utilized its Bond Reserve Fund, the Rural Utility Services Cushion of Credit Account, and reserve funds to pay its RUS debt in full, ahead of schedule, eliminating the majority of all debt service. A Vacation, Sick Leave and Storm Fund reserve account is also maintained by the District of sufficient magnitude to fully cover these direct and unforeseen event liabilities in the amount of $980,000. Please refer to Note 1e of the Financial Statements regarding Restricted Funds for further information.

A ten year zero percent loan of $354,600 was received from the State of Washington Department of Commerce Community Economic Revitalization Board (CERB) during 2008 in support of a construction project for an industrial customer in the District's service area. The District's second repayment installment was made in January of 2011. Please refer to the Note 5b to the Financial Statements for further information on this long-term debt.

During 2011, the District continued to have only minor construction projects for small commercial and residential customers in its service area. This is in opposition to larger

expansions and multiple solar installations seen in prior years.
With respect to the general economy of Ferry County, the major industry is mining (extraction) and is linked to world markets for mined commodities. Even with the increased value of these items seen during 2011, the local mining officials are reluctant to project operations beyond a five year period. For the most part they only operate within a 24-month cycle.

The recession seen nation-wide has caused the District to keep a tight watch on expenses and cut costs whenever possible. The most significant cuts where in the cost of medical insurance when the District and employees were able to change plans in 2010 and save a minimum of $75,000 a year. Two employees retired from the District in late 2010. The District chose to combine duties of current staff members and reduce the number of full time employee saving over $100,000 annually and has maintained that staff level throughout 2011.

The District’s overall financial position remains healthy. With the combination of increased wholesale power rates, the pay off of the only interest bearing debt service, and strict attention to budget goals, the District is continuing to improve its financial position from recent years.

# OVERVIEW OF THE FINANCIAL STATEMENTS

The Financial Statements include the Management's Discussion and Analysis, Basic Financial Statements with accompanying notes, and Supplemental Information. The District conforms to generally accepted accounting principles as applicable to proprietary funds of public utility districts operated in the State of Washington. The District uses the Uniform Systems of Accounts as prescribed by the United States Department of Agriculture Rural Utilities Service (RUS). The District's financial statements are presented on an accrual basis of accounting. Accrual accounting recognizes revenues when earned and expenses when they are incurred, regardless of when cash is received or paid.

- The *Balance Sheet* presents information on the District's assets, liabilities and equity at year end. It also provides information about the nature and amounts of investment in resources (assets) and the District's obligations to its creditors (liabilities).

- The *Statement of Revenue, Expenses and Changes in Net Assets* accounts for the years revenue and expense transactions. This statement measures the District's operations over the past year and may be used to determine if the District has been successful in recovering its costs through rates and other charges.

- The *Statement of Cash Flows* provides information on the District's cash receipts and disbursements during the year. This statement reports changes in cash resulting from operations, investing and financing activities.

- The *Notes to the Financial Statements* provide additional information that is an integral part of the financial statements. This information includes the disclosure of significant accounting policies, financial activities, risks, commitments, obligations and subsequent events.

## SELECTED FINANCIAL INFORMATION

| | 2011 |
|---|---|
| Total Capital Assets | 10,610,645 |
| Total Current Assets | 4,134,861 |
| Total Assets | 14,745,506 |
| Total Energy Sales | 6,891,713 |
| Other Electric Revenue | 79,764 |
| Total Operating Revenues | 6,971,477 |
| Cost of Purchased Power | 3,026,848 |
| O&M Expenses | 1,071,010 |
| Customer Services | 352,954 |
| G&A, Taxes | 1,118,663 |
| Depreciation and Amortization | 669,273 |
| Total Operating Expenses | 6,238,748 |
| Operating Income (Loss) | 732,729 |
| Income Before Contributions, Transfers, Extraordinary and Special Items | 754,919 |
| Cash & Cash Equivalents | 948,555 |

See Note 3 Utility Plant and Depreciation for capital assets.

## SIGNIFICANT LONG-TERM DEBT

As of December 31, 2011, the District no longer had any significant long-term debt outstanding. See Note 5.

## CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the District's ratepayers, investors, and other readers with a general overview of the District's finances and to show the District's accountability for money it receives.  If you have questions about this report or need additional information, contact the District's Auditor at Public Utility District No. 1 of Ferry County, P.O. Box 1039, Republic, WA 99166.

PUD No. 1 of Ferry County

# BALANCE SHEET

For the period ending December 31, 2011

| Assets | 2011 |
|---|---|
| Cash and Cash Equivalents | 948,555 |
| Deposits with Fiscal Agents/Trustees | - |
| Receivables (Net) | |
| Notes Receivable | 774,652 |
| Accounts Receivable | 464,760 |
| Inventories | 491,493 |
| Prepayments | 18,578 |
| Other Current Assets | 74,735 |
| Restricted Assets | |
| Storm Fund | 980,000 |
| Bond Reserve | 400 |
| Customer Deposits | 120,000 |
| High Cost Line Extension Grant Fund | 153,702 |
| Restrict Fund – Transportation & Oper Equipment | - |
| Revolving Loan and Grant Fund | 107,986 |
| Total Current Assets | 4,134,861 |
| Assets Being Depreciated | |
| Plant | 18,963,516 |
| Machinery and Equipment | 3,027,754 |
| Assets Not Being Depreciated | |
| Land | 200,484 |
| Investment in Economic Development Projects | - |
| Construction Work in Progress | 744,428 |
| Retirement Work in Progress | 81,428 |
| Preliminary Survey & Investigation | |
| Biomass Generation | - |
| RUS Planning Documents | - |
| Less Accumulated Depreciation | |
| Less Accumulated Depreciation | (12,406,965) |
| Capital Assets (Net) | 10,610,645 |
| Total Non Current Assets | 10,610,645 |
| Total Assets | 14,745,506 |

## Liabilities

| | |
|---|---|
| **Accounts Payable** | **466,531** |
| **Customer Deposits** | **120,000** |
| **Accrued Taxes** | **35,212** |
| **Current Portion of Long Term Debt** | **35,460** |
| **Other Current Liabilities** | **241** |
| **Payables from Restricted Assets** | |
| **Debt Interest** | **0** |
| **Total Current Liabilities** | **657,444** |
| **RUS Revenue Bonds & CERB Loan** | **248,170** |
| **Compensated Absences** | **148,892** |
| **PERS 1 Supplemental Vacation Accrual** | **0** |
| **Total Non Current Liabilities** | **397,062** |
| **Total Liabilities** | **1,054,506** |

## Net Assets

| | |
|---|---|
| **Total Invested in Capital Assets, Net of Related Debt** | **10,327,013** |
| **Restricted Assets** | **1,362,088** |
| **Unrestricted Assets** | **2,001,899** |
| **Total Net Assets** | **13,691,000** |
| **Total Net Assets and Liabilities** | **14,745,506** |

Notes to Financial Statements are an integral part of this statement

PUD No. 1 of Ferry County

# Statement of Revenue, Expenses, and Changes in Net Assets

For the period ending December 31, 2011

| | 2011 |
|---|---|
| Total Energy Sales | 6,891,713 |
| Income from Plant Leased to Others | 47,649 |
| Other Revenue | 32,115 |
| Total Operating Revenues | 6,971,477 |
| Cost of Purchased Power | 3,026,848 |
| Operating Expense | 481,716 |
| Maintenance Expense | 589,294 |
| Customer Services | 352,954 |
| General & Administrative Services | 749,503 |
| Depreciation Expense | 667,125 |
| Amortization Expense | 2,148 |
| Taxes Other than Income Taxes | 369,160 |
| Total Operating Expenses | 6,238,748 |
| Operating income (loss) | 732,729 |
| Income from Non-Utility Operations | 6,516 |
| Interest and Dividend Income | 22,947 |
| Gains/Losses from Disposition of Property | 5,008 |
| Extraordinary Income | 0- |
| Interest on Long-term Debt | (12,291) |
| Non Operating Revenues (Expenses) | 22,180 |
| Income before Contributions, Transfers Extraordinary and Special Items | 754,909 |
| Contributions, transfers, extraordinary and special items | (241,625) |
| Total Assets Beginning of Year | 13,177,716 |

| | |
|---|---|
| Total Assets End of Year | 13,691,000 |

Notes to Financial Statements are an integral part of this statement

PUD #1 of Ferry County

# Statement of Cash Flows

For the year ending December 31, 2011

| | 2011 |
|---|---|
| **Cash Flows from Operating Activities** | |
| Receipts from Customers | 7,235,896 |
| Payments to employees & suppliers | (5,624,671) |
| Cash Flows from Operating Activities | 1,611,225 |
| | |
| **Cash Flows from Non Capital Financing Activities** | |
| Extraordinary Income | - |
| Cash Flows from Non Capital Financing Activities | - |
| | |
| **Cash Flows from Capital & related Financing Activities** | |
| Proceeds from Capital Debt | (162,602) |
| Capital Contributions | (241,625) |
| Purchase of Capital Assets | (496,371) |
| Principal Paid on Capital Debt | (551,292) |
| Interest Paid on Capital Debt | (12,291) |
| Proceeds (Loss) from Sale of Capital Assets | 5,008 |
| Cash Flows from Capital & related Financing Activities | (1,459,173) |
| | |
| **Cash Flows from Investing Activities** | |
| Interest and Dividends | 14,116 |
| Grant Income | 23,453 |
| Proceeds (Loss) from Sale of Investments | (6,400) |
| Cash Flows from Investing Activities | 31,169 |
| Net increase (decrease) in cash & cash equivalents | 183,221 |
| | |
| Cash & Cash Equivalents Beginning of Year | 765,334 |
| Cash & Cash Equivalents End of Year | 948,555 |
| Net Increase (decrease) to Cash & Cash Equivalents | 183,221 |

Notes to Financial Statements are an integral part of this statement

PUD #1 of Ferry County

# Statement of Cash Flows

## Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities

For the year ending December 31, 2011

| | 2011 |
|---|---|
| **Operating Income** | 732,729 |
| **Adjustments to reconcile net operating revenues to cash Provided (Used) by Operating Activities:** | |
| Depreciation Expense | 669,273 |
| Change in Operating Assets and Liabilities: | |
| Accounts Payable | 10,764 |
| Accounts Receivable | 4,107 |
| Bad Debts | - |
| Customer Deposits | 12,750 |
| Materials & Supplies | (24,736) |
| Compensated Absences/Accrued Payroll | 7,269 |
| Misc Jobbing Expense | (26,191) |
| Misc Jobbing Revenue | 18,335 |
| Notes Receivable | (3,791) |
| Other Current Assets | (2,997) |
| Prepayments | (351) |
| Taxes Payable | (25,754) |
| Misc Receipts from customers | 20,532 |
| Miscellaneous | 6,800 |
| Restricted Funds converted to cash/cash equivalents | 212,486 |
| Change in Assets and Liabilities | 209,223 |
| **Cash Provided (Used) by Operating Activities** | 878,496 |
| **Net Cash provided by Operating Activities** | **1,611,225** |

Notes to Financial Statements are an integral part of this statement

January 1, 2011 through December 31, 2011

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

## NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Public Utility District No. 1 of Ferry County conform to generally accepted accounting principles as applicable to proprietary funds of public utility districts operated in the State of Washington. (See note 3 – Utility Plant and Depreciation regarding historical departure from GAAP.) The District is governed by an elected three member Board of Commissioners and is operated by various management personnel as prescribed by Chapter 54 RCW - Public Utility Districts. The following is a summary of the more significant policies:

### A. Reporting Entity.

Public Utility District No. 1 of Ferry County is a municipal corporation of Washington State. The District was organized to provide utility services to its owners, the people who formed the District, on a nonprofit, cost-of-service basis. The Board of Commissioners consists of three elected officials and is responsible for the legislative and fiscal control of the District. The financial statements include all of the funds of the District over which the Board of Commissioners exercises operating control.

### B. Basis of Accounting and Presentation

The accounting records of the District are maintained in accordance with methods prescribed by the State Auditor under the authority of Chapter 43.09 RCW. The District uses the Uniform System of Accounts as prescribed by the United States Department of Agriculture Rural Utilities Service (RUS).

The District uses the full-accrual basis of accounting where revenues are recognized when earned and expenses are recognized when incurred. Capital asset purchases of greater than $5,000 are capitalized and long-term liabilities are accounted for in the appropriate funds. Unbilled service receivables are not material and are not accrued.

The District distinguishes between operating revenues and expenses from non-operating ones. Operating revenues and expenses result from providing services and producing and delivering goods in connection with a district’s principal ongoing operations. The principal operating revenues of the district are charges to customers for electricity energy sales. The district also recognizes as operating revenue utility plant leased to others, and other revenue. Operating expenses for the district include cost of purchased power, operating expenses, maintenance expenses, customer service expenses, general and administration expenses, depreciation and amortization expense, and taxes. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

In December 2010, GASB issued Statement N. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-Nov 30, 1989 FASB and AICPA Pronouncements*. This statement incorporated into GASB’s authoritative literature

FASB and AICPA pronouncements issued on or before November 30, 1989 that do not conflict with GASB pronouncements and classified post-November 30, 1989 non-GASB standards as "other accounting literature." GASB Statement No. 62 is effective for financial statements for periods beginning after December 15, 2011. The District's financial statements have not been impact by this issuance.

C. Cash and Cash Equivalents

The District considers all cash investments (including restricted assets) to be cash equivalents.

D. Utility Plant and Depreciation-See Note 3

E. Restricted Funds

In accordance with Board resolutions and certain other agreements, separate restricted funds are required to be established. The assets held in these funds are designated for specific uses. There is one bond reserve kept for the annual debt service payment for the District's BIA land lease. Customer deposits are required by law to be available for refund. The Vacation, Sick Leave, and Storm Fund was established by Board resolution as a way of "self-insuring" against leave liabilities and major catastrophes. Use of this Fund requires specific Board approval. The Revolving Loan and Grant Fund was established for economic development and is overseen by a board that consists of the elected Commissioners of the District and three other persons who are customers of the District. The Revolving Loan and Grant Fund can only be used for loans or grants for economic development projects. The RUS High-Cost Line Extension Fund (Grant Fund) is designated for zero-interest loans to customers for high-cost line extensions. By Board action, the Revolving Loan and Grant Fund and the High-cost Line Extension Fund can be dissolved and the remaining monies used for any lawful purpose by the District. The Reserve Fund – Transportation and Operating Equipment is for the sole purpose of future replacement needs in these areas. The funding comes from the sale of any and all surplus equipment. The restricted funds as of December 31, 2011 are listed below.

| | 2011 |
|---|---|
| Storm Fund | 980,000 |
| Bond Reserves | 400 |
| Customer Deposits | 120,000 |
| High Cost Line Extension Grant Fund | 153,702 |
| Restricted Fund – Transportation & Oper Equipment | - |
| Revolving Loan and Grant Fund | 107,986 |
| Total Restricted Funds | 1,362,088 |

F. Receivables

Once a year, the Board of Commissioners authorizes the write-off of the uncollectible receivable accounts against the allowance account. As of Dec. 31, 2011, the allowance for uncollected accounts is $30,000.

G. Inventories

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

H. Investments

The District investments are stated at cost. The District does not have any derivatives.

I. Compensated Absences

In April of 1993, the District converted from a benefit plan utilizing separate vacation and sick leave accruals to a single personal leave bank. The District accrues its direct liability for personal leave benefits as they are earned by the employee, and places a limitation of 1200 hours on the potential leave accumulation. For employees hired on or after April 1, 2011, the accrued Personal Leave shall not exceed 700 hours. Because a varying percentage of the former sick leave accrual was convertible by employees upon retirement to pay for retiree health insurance benefits, an estimated liability was on the books to reflect this. As of the end of 2010 there were no longer any employees at the District that have sick leave accruals so the books no longer reflect a liability for this reason. (All employees with sick leave accrual have retired.) The costs of benefit accruals are expensed monthly as employee payroll overhead. The District has established a vacation, sick leave and storm fund of sufficient magnitude to fully cover these direct and estimated liabilities.

Compensated absences at the end of December 31, 2011 amount to $148,892

J. Unamortized Debt Expense

Costs relating to the sale of bonds are deferred and amortized over the lives of the various bond issues.

K. Construction Financing

The District has no cost sharing agreement or other long-term financing agreements.

L. Purchase Commitments

The District is a member of Energy Northwest (formerly known as Washington Public Power Supply System) and has participant rights and obligations relative to this membership.

## NOTE 2 - DEPOSITS AND INVESTMENTS

a. Deposits

The District's deposits are entirely covered by federal depository insurance (FDIC), invested in the State Treasurer Local Government Investment Pool, or are federal or municipal obligations.

b. Investments

The District strictly adheres to the State of Washington RCWs pertaining to Eligible Investments for Public Funds. These include RCW 39.59.020, RCW 39.59.030, RCW 43.84.080 and RCW 43.250.040. Thus the District finds no need for a custodial risk policy and so to date has not implemented one. As of December 31, 2011, the District had the following cash and investments, including restricted funds:

| Investments | 2011 |
|---|---|
| State Investment Pool | 2,216,261 |
| New York NY Cap | 97,656 |
| FNMA | 0- |
| Federal Home Loan Corp | 0- |
| RUS Cushion of Credit | 0- |
| | 2,314,205 |

Other property and investments are shown on the balance sheet at cost.

In February of 2011, at the direction of the Board of Commissioners, investments held in FNMA and Federal Home Loan Corp were sold. The funds were then re-invested in the Washington State Investment Pool. Management does intend to hold all remaining time deposits and securities until maturity; this is however at the discretion on the Board of Commissioners.

## NOTE 3 - UTILITY PLANT AND DEPRECIATION

Capital assets are defined by the District as assets with initial individual cost of more than $5,000 and an estimated useful life in excess of five years.

Major expenses for capital assets, including capital leases and major repairs that increase useful life expectancy are capitalized. Maintenance, repairs, and minor renewals are accounted for as expenses when incurred.

Historically the District has accounted for its assets using RUS reporting guidelines. Customer contributions in aid of construction were not included in the recorded cost following these RUS guidelines. This method of accounting for Utility Plant capital assets is a departure from generally accepted accounting principles (GAAP). Per GAAP accounting regulations Utility Plant should be recorded at full cost and depreciated over its useful life. This departure from GAPP has resulted in an understatement of the District's Utility Plant and thus an understatement to the correlating accumulated depreciation expense accounts; in 2009 contributions in aid totaled $124,332.76 and in 2010 $220,211.11. In 2007 & 2008 during higher construction years the contribution dollars amounted to $382,395.40 and $582,971.04 respectively. Though the differences in these two accounting methods would be considered immaterial a disclosure of this departure is required.

The original cost of operating property retired or otherwise disposed of and the cost of removal, less salvage, is charged to accumulated depreciation. However, in the case of the sale of a significant operating unit or system, the original cost is removed from the utility plant accounts, accumulated depreciation is charged with the accumulated depreciation related to the property sold, and the net gain or loss on disposition is credited or charged to income.

Capital assets are depreciated using the straight line method within useful life guidelines as established by the Rural Utilities Service.

| Assets | Estimated Life-Years |
|---|---|
| Buildings | 33.33 |
| Equipment-Shop | 16.67 |
| Transportation | 10.00 |
| Computer Hardware | 6.25 |
| Distribution-Poles | 25.03 |
| Transmission Plant | 36.39 |

Per RUS guidelines
Utility Plant Activity for the year ended December 31, 2011

| Utility Plant not being depreciated | Beginning Balance | Increase | Decrease | Ending Balance |
|---|---|---|---|---|
| Land | 200,484 | - | - | 200,484 |
| Construction Work in Progress | 1,091,906 | 729,229 | 1,076,707 | 744,428 |
| Retirement Work in Progress | 85,424 | 92,791 | 96,787 | 81,428 |
| Bio Mass Study & RUS Plan Doc | 13,816 | - | 13,816 | - |
| Total Utility Plant not being depreciated | 1,391,630 | 822,020 | 1,187,310 | 1,026,340 |
| Utility Plant Being Depreciated | | | | |
| Buildings | 728,535 | 13,325 | - | 741,860 |
| Equipment | 2,302,461 | 222,102 | 238,670 | 2,285,893 |
| Distribution Plant | 17,181,355 | 598,177 | 110,920 | 17,668,612 |
| All Other Utility Plant | 58,800 | - | | 58,800 |

| | | | | |
|---|---|---|---|---|
| Transmission Plant | 1,146,686 | 133,181 | 43,764 | 1,236,103 |
| Total Utility Plant being depreciated | 21,417,837 | 966,785 | 393,354 | 21,991,268 |
| Total Utility Plant | 22,809,467 | 1,788,805 | 1,580,664 | 23,017,608 |
| Less accumulated depreciation for: | | | | |
| Transmission Plant | (715,845) | 78,997 | 33,159 | (670,007) |
| Distribution Plant | (8,831,174) | 141,512 | 639,185 | (9,328,847) |
| General Plant | (1,322,139) | - | 80,604 | (1,402,743) |
| Equipment | (1,136,027) | 231,277 | 77,732 | (982,482) |
| All other Plant | (20,738) | - | 2,148 | (22,886) |
| Total accumulated depreciation | (12,025,923) | 451,786 | 832,828 | (12,406,965) |
| Total utility plant being depreciated, net | 9,391,914 | 1,418,571 | 1,226,182 | 9,584,303 |
| TOTAL UTILITY PLANT, NET | 10,783,544 | 2,240,591 | 2,413,492 | 10,610,643 |

## NOTE 4 - CONSTRUCTION IN PROGRESS

Construction in progress, representing expenditures to date on projects which are not fully completed for electrical plant or unitized to plant accounts, totals $744,428 as of December 31, 2011. (See Note 3 – Utility Plant and Depreciation regarding historical departure from GAAP)

## NOTE 5 - LONG-TERM DEBT

a. Long Term Debt

The annual requirements to amortize all debts outstanding as of December 31, 2011 including interest are as follows:

As of December 31, 2011

| | CERB | Total Debt |
|---|---|---|
| 2012 | 35,460 | 35,460 |
| 2013 | 35,460 | 35,460 |
| 2014 | 35,460 | 35,460 |
| 2015 | 35,460 | 35,460 |
| 2016 | 35,460 | 35,460 |

| | | |
|---|---|---|
| 2017-2019 | 106,380 | 106,380 |
| Total Debt | 283,680 | 283,680 |

There was $250,000 in assets of the District restricted for the final debt service payments as of December 31, 2010 as required by the RUS bond indentures. The District used those funds and the $208,593 held in the Rural Utility Services Cushion of Credit Account to pay the RUS debt in full. This took place in March 2011. The District's only long-term debt is the CERB zero interest loan referenced above.

All long-term debt for the District was incurred solely for the construction of electrical lines to service the ultimate consumer. Arbitrage rules are not applicable for the District, as all revenue bonds were expended within the time requirement.

During the year ended December 31, 2011, the following changes occurred in long-term Liabilities.

| ID Number & Class | Date Issued | Date to Mature | Interest Rate | Original Amount | Beginning Balance 1/1/2011 | Additions in 2011 | Principal Paid in 2011 | Balances Outstanding as of 12/31/2011 | Due Within One Year |
|---|---|---|---|---|---|---|---|---|---|
| 263.82 US REA 14220 | 1976 | 2011 | 2.00% | 500,000 | 20,867 | | 20,867 | 0- | 0- |
| 263.82 US REA 14230 | 1976 | 2011 | 2.00% | 500,000 | 20,867 | | 20,867 | 0- | 0- |
| 263.82 US REA 14240 | 1977 | 2012 | 2.00% | 175,500 | 14,515 | | 14,515 | 0- | 0- |
| 263.82 US REA 14250 | 1977 | 2012 | 2.00% | 175,500 | 14,515 | | 14,515 | 0- | 0- |
| 263.82 US REA 1B260 | 1979 | 2014 | 5.00% | 338,000 | 67,587 | | 67,587 | 0- | 0- |
| 263.82 US REA 1B270 | 1979 | 2014 | 5.00% | 338,000 | 67,587 | | 67,587 | 0- | 0- |
| 263.82 US REA 1B280 | 1980 | 2015 | 5.00% | 462,000 | 126,678 | | 126,678 | 0- | 0- |
| 263.82 US REA 1B290 | 1980 | 2015 | 5.00% | 457,000 | 125,307 | | 125,307 | 0- | 0- |
| 263.82 US REA 1B291 | 1980 | 2015 | 5.00% | 5,000 | 1,432 | | 1,432 | 0- | 0- |
| 263.82 US REA 1B300 | 1983 | 2018 | 5.00% | 273,500 | 109,211 | | 109,211 | 0- | 0- |
| 263.82 US REA 1B310 | 1983 | 2018 | 5.00% | 239,500 | 95,634 | | 95,634 | 0- | 0- |
| 263.82 US REA 1B311 | 1983 | 2018 | 5.00% | 34,000 | 14,235 | | 14,235 | 0- | 0- |
| Total RUS | | | | 3,498,000 | 678,434 | | 678,434 | 0- | 0- |
| CERB | 2008 | 2019 | 0.00% | 354,600 | 319,140 | - | 35,460 | 283,680 | 35,460 |
| Total Debt | | | | 354,600 | 319,140 | - | 35,460 | 283,680 | 35,460 |
| Compensated Absences | | | | | 141,864 | 7,028 | | 148,892 | |
| Total Liabilities | | | | 3,852,600 | 1,139,438 | 7,028 | 713,894 | 432,572 | 35,460 |

b. CERB Loan. In 2007-2008, The Washington State Community Revitalization Board (CERB) provided the District $39,400 in grant funds and a 0% interest loan of $354,600 payable in equal installments over ten years beginning in January 2010. The grant and loan funds were used to assist in financing the upgrade 7 ½ miles of distribution line to Columbia River Carbonates (CRC). In an agreement with CRC, CRC made a one-time payment of $60,000 and will make annual payments of $21,883 to the District which substantially offset the loan repayment. CRC represents a new industrial load for the District.

CERB is authorized to make loans and grants to the State's political subdivisions like the District to improve the economic vitality of the State. CERB grants and loans are intended to assist in financing the cost of public facilities that are required by industrial sector businesses that will create or retain jobs.

NOTE 6 – RESTRICTED ASSETS

The District's Balance Sheet reports $ 1,362,088 of restricted assets as of December 31, 2011.

NOTE 7 - PENSION PLANS

Substantially all of the District's 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, at P.O. Box 48380, Olympia, WA 98504-8380. 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 participants who joined the system by September 30, 1977 are Plan 1 members. Those who joined on or after October 1, 1977, 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 participants 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 defined benefit retirement benefits are financed from a combination of investment earnings and employer and employee contributions. PERS retirement benefit provisions are established in state statute 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 annual benefit is two percent of the average final compensation (AFC) per year of service, capped at 60 percent. (The AFC is based on the greatest compensation during any 24 eligible consecutive compensation months.) Plan 1 members who retire from inactive status prior to the age of 65 may receive actuarially reduced benefits. The benefit is actuarially reduced to reflect the choice of a survivor option. A cost-of living allowance (COLA) is granted at age 66 based upon years of service times the COLA amount, increased by three percent annually. Plan 1 members may also elect to receive an optional COLA amount that provides an automatic annual adjustment based on the Consumer Price Index. The adjustment is capped at three percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

PERS Plan 2 members are vested after the completion of five years of eligible service. Plan 2 members may retire at the age of 65 with five years of service with an allowance of two percent of the AFC per year of service. (The AFC is based on the greatest compensation during any eligible consecutive 60-month period.) 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. The benefit is also actuarially reduced 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 three percent annually.

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 benefit calculated at 1 percent of the AFC per year of service. (The AFC is based on the greatest compensation during any eligible consecutive 60-month period.) Effective June 7, 2006, 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 to retire with full benefits at age 65, or they may retire at age 55 with 10 years of service. Plan 3 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. The benefit is also actuarially reduced to reflect the choice 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.

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 Employee Retirement Benefits Board.

<u>Funding Policy</u>

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 six 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 Employee Retirement Benefits Board sets Plan 3 employee contribution rates. Six rate options are available ranging from 5 to 15 percent; two of the options are graduated rates dependent on the employee's age. As a result of the implementation of the Judicial Benefit Multiplier Program in January 2007, a second tier of employer and employee rates was developed to fund, along with investment earnings, the increased retirement benefits of those justices and judges that participate in the program. The methods used to determine the contribution requirements are established under state statute in accordance with Chapters 41.40 and 41.45 RCW.

The required contribution rates expressed as a percentage of current-year covered payroll as of December 31, 2011, were as follows:

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

* The employer rates include the employer administrative expense fee currently set at 0.16%.
** The employer rate for state elected officials is 7.89% for Plan 1 and 5.31% for Plan 2 and Plan 3.
*** Plan 3 defined benefit portion only.
**** The employee rate for state elected officials is 7.50% for Plan 1 and 3.90% for Plan 2.
***** Variable from 5.0% minimum to 15.0% maximum based on rate selected by the PERS 3 member.

Both the District and the employees made the required contributions throughout 2011. PERS Plan 2 was the only plan in which District's employees participated during 2011. Employees previously participating in Plan 1 retired in 2010 so no additional contributions were made into that plan after 2010. The District's required contributions for the years ended December 31 were as follows:

| | **PERS Plan 1** | **PERS Plan 2** | **PERS Plan 3** |
|---|---|---|---|
| 2011 | $0.00 | $124,342.18 | $0.00 |

NOTE 8 - DEFERRED DEBITS (OR CREDITS)

In accordance with generally accepted accounting principles for regulated businesses, the District has no deferred debits as of December, 31 2011. The balance of the deferred debit reported in previous years was for the RUS Planning Study completed in 2007 and it was written down over four years, leaving a zero balance at the end of 2011.

NOTE 9 - DEFERRED COMPENSATION PLAN

The District offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. This plan is with The Great West Life Assurance Co. of Denver, Colorado. The plan, available to eligible employees, permits them to defer a portion of their compensation until future years. The District provides a fifty-cent-for-one-dollar (50%) match of employee contributions. It is capped at two percent (2%) of employee regular straight-time wages. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency.

Compensation deferred under the plan and all income attributable to the plan is solely the property of the employee. The District's rights to this property have been amended to exclude these funds from the claims of the District's general creditors.

The District has no liability for losses under the plan, but does have the duty of due care that would be required of an ordinary prudent investor in the implementation of this plan on the behalf of the District's employees.

NOTE 10 – PRIOR PERIOD ADJUSTMENT

The District discovered an accounting error related to depreciation of plant assets that understated depreciation expenses and thus accumulated depreciation for 2008 – 2010 relative to the District's Underground Conductor plant account. The error was corrected in 2011. The respective accumulated depreciation account was increased and the Net Capital Assets on the Balance Sheet was decreased by $38,472 for 2011 and $85,823 for the years 2008-2010.

NOTE 11 - CONTRACTS WITH ENERGY NORTHWEST

Energy Northwest (ENW), formerly Washington Public Power Supply System (WPPSS), is Washington municipal corporation operating as a Joint Operating Agency comprised of 28 public utilities from numerous regions throughout the state of Washington. (This venture is defined as a Joint Operating Agency, as described in RCW 43.52 – Operating Agencies.)

A. ENERGY NORTHWEST Nuclear Project Nos. 1, 2, & 3

The District has entered into "Net Billing Agreements" with Energy Northwest and the Bonneville Power Administration (BPA). Under terms of these agreements, the District has purchased a maximum of .105 percent, .171 percent and .091 percent of the capability of Energy Northwest's Nuclear Project Nos. 1 and 2 and Energy Northwest's 70 percent ownership share of its Nuclear Project No. 3, respectively, and has sold this capability to BPA. BPA is unconditionally obligated to pay the District, and the District is unconditionally obligated to pay Energy Northwest, the pro-rata share of the total annual costs of each project, including debt service on revenue bonds issued to finance the projects, whether or not the projects are completed, operable or operating and notwithstanding the suspension, reduction or curtailment of the projects' output. The Ninth Circuit Court of Appeals has ruled that the various utilities entering into the "Net Billing Agreements" have legal authority to do so. The effect of these net-billing agreements is that the cost of power sold by BPA to all of its customers, including the District, includes the cost of these projects.

Nuclear Project number 1 and number 3 (Satsop site) were terminated by Energy Northwest on May13, 1994, subject to repayment of the debt service on the outstanding revenue bonds.

Nuclear Project No. 2, Columbia Generating Station Nuclear Power Plant (Columbia) was completed and placed in operation on December 13, 1984. It is owned by Energy Northwest and its participants, and operated by Energy Northwest. The plant is a 1,153 MW boiling water nuclear power station located on the Department of Energy's Hanford Reservation north of Richland, Washington. It is currently operating under a 40-year Nuclear Regulatory Commission license.

B. PACKWOOD LAKE HYDROELECTRIC PROJECT

The District is a participant in Energy Northwest's Packwood Project, located in the Cascade Mountains south of Mount Rainier. In late 2011, the District signed an agreement with Public Utility District #1 of Clallam County for the sale and purchase of project output and associated environmental attributes. The rights to the District's 1% share of the project are assigned to Clallam County through 2028. In return, Clallam will pay the District's share of project costs directly to ENW, a 10% mark-up of the costs to the District and $15 for each REC provided to Clallam from this assignment. The District did not receive any payments in 2011.

## NOTE 12 - RISK MANAGEMENT

The District maintains an all-risk blanket coverage policy with the Federated Rural Electric Insurance Corporation insuring against most normal hazards and liabilities. It also maintains a commercial umbrella policy, and officers, directors, managers and corporate indemnification coverage with the same carrier.

Workers compensation insurance coverage is provided by the District through the State of Washington Department of Labor and Industries. Rather than pay monthly insurance premiums, the District has elected to self-insure for unemployment insurance purposes. Claims are filed with, and processed by, the State of Washington Employment Security Department and, upon authentication and payment, are reimbursed by the District. At December 31, 2011 the District's estimated liability for potential claims was minimal.