Washington State Auditor's Office

Troy Kelley

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Financial Statements and Federal Single Audit Report

Public Utility District No. 1 of Clallam County

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

Published September 18, 2014

Report No. 1012582

Washington State Auditor
Troy Kelley

September 18, 2014

Board of Commissioners
Public Utility District No. 1 of Clallam County
Port Angeles, Washington

Report on Financial Statements and Federal Single Audit

Please find attached our report on Public Utility District No. 1 of Clallam County's financial statements and compliance with federal laws and regulations.

We are issuing this report in order to provide information on the District's financial condition.

Sincerely,

TROY KELLEY
STATE AUDITOR

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

Federal Summary

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

The results of our audit of Public Utility District No. 1 of Clallam County are summarized below in accordance with U.S. Office of Management and Budget Circular A-133.

FINANCIAL STATEMENTS

An unmodified opinion was issued on the basic financial statements.

Internal Control Over Financial Reporting:

- ***Significant Deficiencies:*** We reported no deficiencies in the design or operation of internal control over financial reporting that we consider to be significant deficiencies.

- ***Material Weaknesses:*** We identified no deficiencies that we consider to be material weaknesses.

We noted no instances of noncompliance that were material to the financial statements of the District.

FEDERAL AWARDS

Internal Control Over Major Programs:

- ***Significant Deficiencies:*** We reported no deficiencies in the design or operation of internal control over major federal programs that we consider to be significant deficiencies.

- ***Material Weaknesses:*** We identified deficiencies that we consider to be material weaknesses.

We issued an unmodified opinion on the District's compliance with requirements applicable to its major federal program.

We reported findings that are required to be disclosed under section 510(a) of OMB Circular A-133.

Identification of Major Programs:

The following was a major program during the period under audit:

CFDA No.	Program Title
66.468	Capitalization Grants for Drinking Water State Revolving Funds

The dollar threshold used to distinguish between Type A and Type B programs, as prescribed by OMB Circular A-133, was $300,000.

The District did not qualify as a low-risk auditee under OMB Circular A-133.

Schedule of Federal Audit Findings and Questioned Costs

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

1. The District does not have adequate internal controls to ensure compliance with federal suspension and debarment requirements.

CFDA Number and Title:	66.468 Capitalization Grants for Drinking Water State Revolving Funds
Federal Grantor Name:	U.S. Environmental Protection Agency
Federal Award/Contract Number:	NA
Pass-through Entity Name:	Public Works Board
Pass-through Award/Contract Number:	DM10-952-010
Questioned Cost Amount:	$0

Background

For the fiscal year ending December 31, 2013, the District spent $570,541 in federal funds received from a Public Works Board Drinking Water State Revolving Fund loan for the Fairview New Water Supply project.

Federal requirements prohibit grant recipients from contracting with or making subawards to vendors who have been suspended or debarred from doing business with the federal government. The District is required to verify that all vendors receiving $25,000 or more in federal funds have not been suspended or debarred. The District can obtain a written certification from the vendor or insert a clause into the contract where the vendor states it is not suspended or debarred. Alternatively, the District may review the federal Excluded Parties List (EPLS) issued by the U.S. General Services Administration. This requirement must be met prior to entering into a contract with the vendor.

Description of Condition

We reviewed the District's internal controls and compliance with regulations over its Drinking Water State Revolving Fund program. The District did not have internal controls to ensure compliance with the suspension and debarment requirements. We consider this control deficiency a material weakness.

Cause of Condition

The District misunderstood the suspension and debarment requirements and believed they did not apply to professional service contracts.

Effect of Condition and Questioned Costs

The District paid an engineering firm $538,205 for consulting services and did not verify whether the firm was suspended or debarred. This material weakness in internal controls increases the risk the District will enter into contracts with vendors who are suspended or debarred from receiving federal funds. Payments on contracts to suspended or debarred vendors would be unallowable and could require the District to repay the funding to the grantor.

We were able to verify the vendor had not been suspended or debarred and, therefore, we are not questioning costs.

Recommendation

We recommend the District establish and follow internal controls to verify suspension and debarment status of all vendors prior to entering into a contract.

District's Response

The District has traditionally had a decentralized approach to grant management. It is, however, in the process of developing a centralized oversight plan to monitor all grant compliance requirements including federal suspension and debarment requirements.

Auditor's Remarks

We appreciate the steps the District is taking to resolve this issue. We will review the condition during our next audit.

Applicable laws and Regulations

U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations,* Section 300, states in part:

> The auditee shall:
>
> > (b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs.
> >
> > (c) Comply with laws, regulations, and the provisions of contracts or grant agreements related to each of its Federal programs.

Title 2, Code of Federal Regulations, Section 180.300 – What must I do before I enter into a covered transaction with another person at the next lower tier?

> When you enter into a covered transaction with another person at the next lower tier, you must verify that the person with whom you intend to do business is not excluded or disqualified. You do this by:
>
> (a) Checking the EPLS; or
>
> (b) Collecting a certification from that person if allowed by this rule; or
>
> (c) Adding a clause or condition to the covered transaction with that person.

U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations,* Section 500, states in part:

> (a) The audit shall be conducted in accordance with GAGAS.

Government Auditing Standards, December 2011 Revision, paragraph 4.23 states:

> 4.23 When performing GAGAS financial audits, auditors should communicate in the report on internal control over financial reporting and compliance, based upon the work performed, (1) significant deficiencies and material weaknesses in internal control; (2) instances of fraud and noncompliance with provisions of laws or regulations that have a material effect on the audit and any other instances that warrant the attention of those charged with governance; (3) noncompliance with provisions of contracts or grant agreements that has a material effect on the audit; and (4) abuse that has a material effect on the audit.

The American Institute of Certified Public Accountants defines significant deficiencies and material weaknesses in its *Codification of Statements on Auditing Standards*, section 265, as follows:

> **.07** For purposes of generally accepted auditing standards, the following terms have the meanings attributed as follows:
>
> Material weakness. A deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.
>
> Significant deficiency. A deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness yet important enough to merit attention by those charged with governance.

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

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

Board of Commissioners
Public Utility District No. 1 of Clallam County
Port Angeles, Washington

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Public Utility District No. 1 of Clallam County, Washington, as of and for the years ended December 31, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated September 11, 2014. As discussed in Note 1 to the financial statements, during the year ended December 31, 2013, the District implemented Governmental Accounting Standards Board Statement No. 65*, Items Previously Reported as Assets and Liabilities*.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

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

COMPLIANCE AND OTHER MATTERS

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

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

PURPOSE OF THIS REPORT

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Troy X. Kelley

TROY KELLEY
STATE AUDITOR

September 11, 2014

Independent Auditor's Report on Compliance for Each Major Federal Program and on Internal Control over Compliance in Accordance with OMB Circular A-133

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

Board of Commissioners
Public Utility District No. 1 of Clallam County
Port Angeles, Washington

REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM

We have audited the compliance of Public Utility District No. 1 of Clallam County, Washington, with the types of compliance requirements described in the U.S. *Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2013. The District's major federal programs are identified in the accompanying Federal Summary.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination on the District's compliance.

Opinion on Each Major Federal Program

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2013.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance with those requirements, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying Schedule of Federal Audit Findings and Questioned Costs as Finding 1. Our opinion on each major federal program is not modified with respect to these matters.

District's Response to Findings

The District's response to the noncompliance findings identified in our audit is described in the accompanying Schedule of Federal Audit Findings and Questioned Costs. The District's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

REPORT ON INTERNAL CONTROL OVER COMPLIANCE

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program in order to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Federal Audit Findings and Questioned Costs as Finding 1 to be a material weakness.

District's Response to Findings

The District's response to the internal control over compliance findings identified in our audit is described in the accompanying Schedule of Federal Audit Findings and Questioned Costs. The District's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

PURPOSE OF THIS REPORT

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Troy X. Kelley

TROY KELLEY
STATE AUDITOR

September 11, 2014

Independent Auditor's Report on Financial Statements

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

Board of Commissioners
Public Utility District No. 1 of Clallam County
Port Angeles, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of Public Utility District No. 1 of Clallam County, Washington, as of and for the years ended December 31, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed on page 17.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Public Utility District No. 1 of Clallam County, as of December 31, 2013 and 2012, and the changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Matters of Emphasis

As discussed in Note 1 to the financial statements, in 2013, the District adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 18 through 22 and information on postemployment benefits other than pensions on page 57 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the District's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. This schedule is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United

States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated September 11, 2014 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Troy X. Kelley

TROY KELLEY
STATE AUDITOR

September 11, 2014

Financial Section

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

REQUIRED SUPPLEMENTARY INFORMATION

BASIC FINANCIAL STATEMENTS

REQUIRED SUPPLEMENTARY INFORMATION

SUPPLEMENTARY AND OTHER INFORMATION

This discussion and analysis is designed to provide an overview of the Clallam County Public Utility District's (District) financial activities for the years ended December 31, 2013, and 2012. This section is intended to be read in conjunction with the basic financial statements and accompanying notes.

Overview of the Financial Statements

Clallam County P.U.D. is a municipal corporation with financial activities in the areas of electric, water, and sewer. The operations of the District include the electric system, nine water systems, and four sewer systems. In accordance with Generally Accepted Accounting Principles the District uses full accrual basis accounting where revenues are recognized when earned and expenses when incurred. The basic financial statements include the Statement of Net Position, the Statement of Revenues, Expenses and Changes in Net Position, and the Statement of Cash Flows.

The net position represents the difference between assets and deferred outflows, and liabilities and deferred inflows of resources as presented in the Statement of Net Position. This statement provides information about the amount of investments in resources (assets) and the obligations to creditors (liabilities). The net position increases when revenues exceed expenses. This statement provides the basis for evaluating the capital structure, and assessing liquidity and financial flexibility of the District.

The Statement of Revenue, Expenses and Changes in Net Position reports revenues, expenses, and the change in net position for the years indicated. This statement measures the success of the District's operations and can be used to evaluate the level of cost recovery from charges for products and services.

The Statement of Cash Flows provides information concerning cash receipts and disbursements resulting from operational, financing, and investing activities. This statement provides insight into the District's ability to generate cash flow and to meet obligations and is an important indicator of the District's liquidity and financial strength.

The Notes to the Financial Statements are presented at the end of the financial statements and provide additional information that is essential to a full understanding of the basic financial statements.

Financial Highlights

- The District's Net Position increased by $3.6 Million in 2013 primarily due to net operating income of $3.9 Million, the result of an electric rate increase of 3% and better than anticipated power sales.

- Total assets increased in 2013 by $4 Million primarily due to additions in Net Plant of $4.6 Million.

- The District has a sales agreement with Bonneville Power Administration (BPA), a federal power-marketing agency, to purchase power through September 30, 2028. On October 1, 2013, the District's wholesale power purchase costs increased by 9%.

- The District has a contract with the City of Port Angeles to purchase water to serve the needs of 1,555 District water customers out of a total of 4,375 water customers. The District owns other water sources that serve the needs of the rest of the water customers. The City did not increase its Wholesale Water Rate in 2013.

- The District increased its water rates by 6% January 1, 2013. This increase was part of a three- year rate plan to increase rates in 2011-2013. There was no waste water rate increase in 2013.

Financial Analysis

The District's overall financial position improved during 2013. The District's net position increased by $3.6 Million and $4.6 Million during 2013 and 2012, respectively. The information for years 2011 and 2012 has been restated to reflect the implementation of GASB 65. The following information provides analysis of the 2013, 2012 and 2011 condensed financial information provided in the following table:

Condensed Statement of Net Position (000's)

	2013	**2012**	**Change**	**% Change**	**2011**
Current Assets	$ 41,551	$ 38,543	3,008	7.8%	$ 36,043
Utility Plant, Net	146,808	142,512	4,296	3.0%	137,066
Other Noncurrent Assets	3,067	6,376	(3,309)	(51.9)%	9,688
Total Assets	**$ 191,426**	**$ 187,431**	**$ 3,995**	**2.1%**	**$ 182,797**
Current Liabilities	13,940	12,136	1,804	14.9%	10,518
Noncurrent Liabilities	25,509	26,913	(1,404)	(5.2)%	28,477
Total Liabilities	39,449	39,049	400	1.0%	38,995
Deferred Inflows	31	42	(11)	(26.2%)	52
Net Investment in Capital Assets	122,319	120,397	45,020	37.4%	116,188
Restricted for:					
Debt Service	1,502	1,483	20	1.3%	1,466
Unrestricted	28,125	26,461	(41,434)	156.6%	26,096
Net Position	151,946	148,340	3,606	2.4%	143,750
Total Liabilities and Net Position	**$191,426**	**$187,431**	**$3,995**	**2.1%**	**$182,797**

Condensed Statement of Revenue Expenses and Changes in Net Position (000's)

	2013	2012	Change	% Change	2011
Operating Revenues	$ 55,024	$ 54,011	$104	0.2%	$ 53,907
Non-Operating Revenues	476	458	73	19.0%	385
Total Revenues	55,500	54,469	177	0.3%	54,292
Operating Expenses	51,117	49,495	1,788	3.7%	47,707
Non-Operating Expenses	1,535	1,377	372	36.2%	1,005
Total Expenses	52,652	50,872	2,160	4.4%	48,712
Capital Contributions	757	994	(210)	(17.4)%	1,205
Change in Net Position	3,605	4,591	(2,193)	(32.4)%	6,785
Net Position as Restated Beginning of the Year	148,341	143,750	6,760	4.9%	136,965
Net Position End of the Year	**$151,946**	**$148,341**	**$4,567**	**3.2%**	**$143,750**

Assets

Total assets increased by $4 Million and $4.6 Million in 2013 and 2012, respectively. The increase in total assets in 2012 was due primarily to an increase in utility plant of $5.4 Million. The increase in total assets in 2013 was due to a $4.3 Million increase in utility plant. The increase in current assets was due to an increase in cash. The increases in electric utility plant included distribution pole replacements, underground replacements, transmission rebuilds and construction of new substations. Water utility plant increased by $131.4 Thousand and $304.2 Thousand in 2013 and 2012, respectively. The increase in water utility plant for 2013 and 2012 included upgrades to water mains, services and hydrants throughout all water systems, and completion of the design and initial construction to replace the Bluffs Well. The Sequim office and Coastal View Structure were removed from Electric Plant in 2013. Also, the old Fairview Water Treatment Plant was removed from Water Plant in 2013.

Liabilities

Total liabilities increased by $400 Thousand in 2013 and increased by $54 Thousand in 2012. Current liabilities increased by $1.8 Million in 2013 due to timing differences between warrants issued and redeemed. Current liabilities increased by $1.6 Million in 2012 for similar reasons. Noncurrent liabilities decreased by $1.4 Million in 2013. Electric and water debt payments were $1.7 Million in principal and $1.1 Million in interest in 2013 and payment amounts were $1.6 Million for principal and $1.1 Million for interest in 2012.

Net Position

The District's net position increased by $3.6 Million in 2013 from net income of $2.85 Million and Contributed Capital of $757 Thousand. The District's Net Position increased by $4.6 Million in 2012 from the District's net income of $3.6 Million and Contributed Capital of $994 Thousand.

Operating Revenues

Operating revenues in 2013 increased $1 Million mainly due to a 3% Electric Rate increase on July 1, 2013. Operating revenues increased by $104 Thousand in 2012. District electric customers increased by 147 in 2013 and 52 in 2012. Water customers increased by 18 in 2013 and 8 in 2012.

Operating Expenses

During 2012, operating costs increased by $1.8 Million. The District's purchased power costs increased due to the October 1, 2011, BPA rate increase. Operating costs increased by $1.6 Million in 2013. This increase was due to increases in purchased power, purchased water, operating and maintenance costs and taxes. The increase in operating revenues resulted in an increase in taxes.

Utility Plant and Long Term Debt Activity

Electric Net Utility Plant increased by $4.2 Million and $5.2 Million in 2013 and 2012, respectively. The main capital projects included distribution pole replacements, underground replacements, transmission rebuilds, substation SCADA installations and upgrades and beginning construction of a new substation. Water Net Utility Plant increased by $131 Thousand and $304 Thousand in 2013 and in 2012. The increases in 2013 and 2012 Water Net Plant Assets included upgrades to water mains, services and hydrants throughout water systems, and continued construction to replace the Bluffs Well. Gales Addition Reservoir costs were transferred from Work In Progress to Preliminary Surveys due to uncertainty of continuation of the project.

Payments made to the Electric Refunding bond of 2010 consisted of $176.7 Thousand in interest and $960 Thousand in principal in 2012. In 2012, the District paid $554 Thousand in interest and $410 Thousand in principal on the Build America Bonds of 2010. The District also paid $348 Thousand and $348 Thousand in interest in 2013 and 2012, respectively, on the Electric Revenue Bond of 2008. In 2013 the District paid $157 Thousand in interest and $980 Thousand in principal on the Electric refunding bonds of 2010 and paid $532 Thousand in interest and $425 Thousand in principal on the Build America Bonds of 2010. The electric and water systems both met the required bond covenant minimum debt service coverage ratio of 1.25 in 2013 and 2012.

In 2013, the District paid $21.6 Thousand in interest and $76.7 Thousand in principal to the 2003 Water Revenue Loan and $23.6 Thousand in interest and $181 Thousand in principal to the State of Washington Drinking Water Revolving Loan Fund. The District paid $25 Thousand in interest and $74 Thousand principal to the 2003 Water revenue loan and $181 Thousand in principal and $25.4 in interest to the State of Washington Drinking Water State Revolving Fund Loan in 2012. The electric and water systems both met the required bond covenant minimum debt service coverage ratio of 1.25 in 2013 and 2012. The District maintained compliance with its required bond covenants. For additional information on Capital Assets and Long-Term Liabilities, refer to Notes 3 and 6, respectively.

Requests for Financial Information

If you have questions about this financial report or need additional financial information, contact the Clallam County PUD No. 1, PO Box 1090, Port Angeles, WA 98362.

DECEMBER 31,

Assets	**2013**	**2012**
CURRENT ASSETS		
Cash and cash equivalents	$ 30,542,311	$ 27,374,201
Accounts Receivable, Net	3,197,554	3,331,046
Other Accounts Receivable	898,702	896,442
Materials and Supplies	3,946,337	3,902,826
Prepayments	1,461,539	1,551,631
Interest Receivable	2,791	4,175
Restricted Assets		
Bond Funds Cash and Investments	1,327,829	1,308,307
Funds Held by Fiscal Agent	174,098	174,098
TOTAL CURRENT ASSETS	41,551,161	38,542,726
NONCURRENT ASSETS		
Restricted Assets		
Rural Economic Development Fund	536,807	535,487
Debt Service Reserve Fund	2,009,911	2,009,911
Construction Fund 2010	-	3,500,000
Total Restricted Assets	2,546,718	6,045,398
Utility Plant		
Non-depreciable	13,636,726	12,508,868
Depreciable, Net	133,171,451	130,003,085
Total Utility Plant, Net	146,808,177	142,511,953
Other Noncurrent Assets		
Preliminary Surveys	519,978	330,769
Total Other Noncurrent Assets	519,978	330,769
TOTAL NONCURRENT ASSETS	149,874,873	148,888,120
TOTAL ASSETS	$191,426,034	$187,430,846

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

DECEMBER 31,

Liabilities and Net Position	2013	2012
CURRENT LIABILITIES		
Accounts Payable	$ 7,948,365	$ 6,236,451
Customer Deposits	1,043,517	1,012,883
Accrued Taxes	1,464,306	1,421,684
Accrued Liabilities	1,402,290	1,378,464
Current Portion of Capital Leases	15,452	58,141
Payables from Restricted Assets		
Accrued Interest Payable	360,202	365,467
Current Portion on Long-Term Debt	1,706,543	1,663,161
TOTAL CURRENT LIABILITIES	13,940,675	12,136,251
NONCURRENT LIABILITIES		
Revenue Bonds Payable	24,498,873	25,504,959
Unamortized Premium on Bonds	273,445	337,191
Capital Leases Payable	4,958	20,410
Customer Advances for Construction	361,432	315,763
Accrued Other Post Employment Benefits	333,617	519,523
Unearned Revenues	36,494	215,061
TOTAL NONCURRENT LIABILITIES	25,508,819	26,912,907
TOTAL LIABILITIES	39,449,494	39,049,158
DEFERRED INFLOWS	30,981	41,308
NET POSITION		
Net Investment in Capital Assets	122,318,817	120,396,703
Restricted For		
Debt Service	1,501,927	1,482,405
Unrestricted	28,124,815	26,461,272
TOTAL NET POSITION	151,945,559	148,340,380
TOTAL LIABILITIES AND NET POSITION	$ 191,426,034	$ 187,430,846

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

FOR THE YEARS ENDED DECEMBER 31,

	2013	2012
OPERATING REVENUES		
Utility Sales	$ 52,884,479	$ 52,430,516
Other Operating Revenues	2,139,815	1,580,514
TOTAL OPERATING REVENUES	55,024,294	54,011,030
OPERATING EXPENSES		
Purchased Power	23,170,125	22,519,917
Purchased Water	278,447	245,869
Operations	14,866,399	13,724,643
Maintenance	2,967,656	2,780,405
Taxes	2,858,885	2,856,048
Depreciation	6,975,473	7,368,359
TOTAL OPERATING EXPENSES	51,116,985	49,495,241
NET OPERATING INCOME	3,907,309	4,515,789
NONOPERATING REVENUES AND (EXPENSES)		
Interest Income	61,737	97,572
Interest Expense	(926,700)	(975,759)
Miscellaneous Nonoperating Income	414,188	360,809
Miscellaneous Nonoperating Expenses	(320,495)	(475,839)
Amortization of Debt Premium	74,073	74,073
Loss on Disposal of Plant	(361,486)	-
TOTAL NONOPERATING REVENUES AND (EXPENSES)	(1,058,683)	(919,144)
CONTRIBUTIONS	756,553	993,807
CHANGE IN NET POSITION	3,605,179	4,590,452
Net Position as restated, January 1	148,340,380	143,749,928
NET POSITION, December 31	$ 151,945,559	$ 148,340,380

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

FOR THE YEARS ENDED DECEMBER 31,

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received from Customers	$ 54,890,904	$ 54,357,712
Cash Paid to Suppliers	(29,203,297)	(26,899,934)
Cash Paid to Employees	(10,948,979)	(10,368,297)
Taxes Paid	(2,820,511)	(2,856,743)
Other Cash Receipts	417,473	379,930
Other Cash Payments	(39,401)	(165,394)
Net Cash Provided From Operating Activities	12,296,189	14,447,274
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and Construction of Utility Plant	(11,720,000)	(12,855,440)
Proceeds from Sale of Utility Plant	86,818	50,759
Capital Contributions	915,625	790,724
Proceeds from Revenue Bond/Drinking Water Loan	700,457	-
Principal paid on Revenue Bonds and Leases	(1,721,293)	(1,677,761)
Interest Paid on Revenue Bonds and Leases	(931,965)	(985,074)
Net Cash Used by Capital and Related Financing Activities	(12,670,358)	(14,676,792)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest Income	63,121	96,924
Net Cash Provided by Investing Activities	63,121	96,924
NET INCREASE (DECREASE) IN CASH	(311,048)	(132,594)
Cash and Cash Equivalents, Including Restricted Cash - Beginning of the Year	34,902,004	35,034,598
Less Restricted Cash	(4,048,645)	(7,527,803)
Cash and Cash Equivalents - End of the Year	$ 30,542,311	$ 27,374,201

FOR THE YEARS ENDED DECEMBER 31,

	2013	2012
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating Income (Loss)	$ 3,907,308	$ 4,515,789
Adjustments to Reconcile Operating Income To Net Cash Provided by Operating Activities		
Add:		
Depreciation	6,975,473	7,368,359
Other Non-Operating (Receipts) Payments	374,787	283,091
Change in Accounts Receivable	133,491	48,624
Change in Other Receivables	(115,663)	179,617
Change in Materials	(43,511)	427,673
Change in Prepayments	90,092	(24,485)
Change in Deferred Charges	(470,303)	(85,121)
Change in Accounts Payable	1,711,915	1,360,745
Change in Customer Deposits	30,634	149,522
Change in Accrued Taxes	42,622	(1,868)
Change in Accrued Liabilities	23,817	74,056
Change in Other Post Employment Benefits Obligation	(185,906)	163,230
Change in Unearned Revenues	(178,567)	(11,957)
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 12,296,189	$ 14,447,275
Schedule of Noncash Investing, Capital and Financing Activities		
Assets acquired by capital lease	$ 9,139	

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

Public Utility District No. 1 of Clallam County, Washington ("District") is a municipal corporation with financial activities in the areas of electric, water, and sewer utilities. The District was voted into existence on November 5, 1940. In July 1944 the District acquired electric facilities and began providing service. In the following year the District began providing water service and in 1990 began providing sewer utility service.

The District is governed by an elected three-member board of commissioners and is comprised of an electric system, nine water systems, and four sewer systems. The accompanying financial statements include the financial position of the electric, water and sewer systems and the results of their operations. These statements include all inter-department transactions and report the obligations owing at year end.

The Electric System provides certain services to the Water and Sewer Systems, which are recorded as inter-departmental charges. The financing arrangements provide for the maintenance of specific funds and the District is required to follow accounting procedures prescribed by the State of Washington, under the authority of Chapter 43.09 RCW.

Basis of Accounting Procedures

The accounting policies of the District conform to generally accepted accounting principles as applicable to proprietary funds of governments. The District adheres to the accounting standards and pronouncements of the Governmental Accounting Standards Board (GASB) which is the accepted standard-setting body for governmental entities. Accounts are maintained in accordance with the Uniform System of Accounts for Public Utilities and Licenses as published by the Federal Energy Regulatory Commission (FERC). The District uses the full accrual basis of accounting where revenues are recognized when earned and expenses are recognized when incurred. Operating revenues and expenses are distinguished from non-operating items. Operating revenues and expenses generally result from providing services and delivering goods in connection with principal ongoing operations. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Cash and Cash Equivalents

The District considers cash equivalents as short-term, highly liquid investments that are both readily convertible to known amounts of cash and so near their maturity that they present insignificant risk of changes in value because of changes in interest rates. See Note 2 for more information on investments.

Utility Plant

Utility Plant Assets are recorded at cost and include both direct and indirect costs of construction or acquisition. The provision for depreciation is determined by the straight-line method over the estimated useful life. The District has a capitalization policy for purchases over $1,000 with a useful life of greater than one year. The cost of maintenance and repairs is expensed as incurred; renewals, replacements and betterments are capitalized.

Composite rates are used for groups of assets and, accordingly, no gain or loss is recorded on the retirement of an asset unless it represents a major retirement. Property, plant and equipment are depreciated using the straight-line method over estimated useful lives summarized in the table below. Disposal recordings are booked to accumulated depreciation. A gain or loss is recorded for any significant disposals. In 2013, the Sequim office and Coastal View Structures were removed from Electric General Plant. Loss on Disposal of Plant of $339,388 was reported in Electric and $22,099 was reported in Water. The loss on Disposal of Plant in Water was due to the removal of the Fairview Water Treatment Plant which was recorded to plant in 1974. There were no significant disposals in 2012. For additional information on plant assets see Note 3.

Electric Plant – Transmission	25 – 40 years
Electric Plant – Distribution	15 – 40 years
Electric General Plant	3 – 40 years
Water Plant – Distribution	20 – 50 years
Water General Plant	20 – 50 years
Sewer General Plant	20 – 50 years

Restricted Assets

In accordance with Bond and other resolutions, separate funds have been established for restricted use funds. The assets held in these funds are limited and classified to their use including debt service, capital additions, and economic development.

Accounts Receivable and Provision for Doubtful Accounts

Management reviews accounts receivable and provides for estimated uncollectible accounts. Accounts deemed uncollectible are transferred to the provision for uncollectible accounts on a monthly basis. Customer accounts receivable is presented in the Statement of Net Position assets net of uncollectible balance. The District's provision for doubtful accounts was $59,904 and $63,327 as of December 31, 2013 and 2012, respectively.

The customers accounts receivable contain credit balances as a result of advance payments from the Average Payment Plan residential customers. The total dollar amount of the credit balances were approximately $438,338 and $393,102 at December 31, 2013, and 2012, respectively. All customer meters are read and billed monthly.

Inventories

Materials and supplies inventories are valued at weighted average cost.

Compensated Absences (Paid Time Off)

Employees earn Paid Time Off (PTO) in accordance with District policies. The District accrues unpaid PTO as it is earned. PTO may accumulate to a maximum of 1,000 hours and is payable upon separation of service. As of December 31, 2013, and 2012, the District's liability for PTO was $1,199,268 and $1,131,416.

Allowance for Funds Used During Construction

An allowance for funds used during construction is capitalized as a component of cost of construction projects and is credited to interest charges. This allowance represents the cost to finance construction. The allowance totaled $157,240 and $155,501 for 2013 and 2012, respectively.

Revenue Recognition

Revenues are based on monthly cyclical billings to customers. This system of billing results in earned but unbilled revenues at year-end which are not included in the financial statements. Estimated earned but unbilled revenues were $2,223,344, $2,133,435, and $2,095,457 at December 31, 2013, 2012, and 2011 respectively. The net cumulative effect on revenues was $89,909 and $37,978 at December 31, 2013 and 2012, respectively.

Preliminary Survey Charges

Costs incurred for proposed projects are recorded as Preliminary Surveys pending construction of the facility. Charges relating to projects ultimately constructed are transferred to utility plant; charges relating to projects abandoned are charged to expense. The Preliminary Surveys are presented in noncurrent assets in the statement of net position.

Contributed Capital

Non-exchange transactions are those in which the government either gives value (benefit) to another party without directly receiving equal value in exchange or receives value (benefit) without directly giving equal value. Non-exchange transactions are recorded as revenue. The District reported Contributed Capital of $756,553 and $993,807 for the year ended December 31, 2013 and 2012, respectively. In 2013 contributions reported by the Electric System were $617,560, Water Systems were $124,138 and Sewer Systems were $14,855. In 2012 contributions reported by the Electric System were $787,962, Water Systems were $199,980, and Sewer Systems were $5,865.

Reclassifications

Certain financial statement amounts have been reclassified from the previous year with no effect on the change in net position.

Implementation of New Accounting Standards

The District implemented Governmental Accounting Standards Board (GASB) statement 65 and in so doing restated beginning net position and the statement of revenues, expenses and changes in net position for the years ended December 31, 2012. Implementation of this statement resulted in the decrease of beginning net position by $303,337 in 2012 and the increase in the change in net position of $24,149.

NOTE 2 - DEPOSITS AND INVESTMENTS

As required by state law, all monies of the District are invested in obligations of the U. S. Government or government agencies, deposits with Washington state banks and savings and loan institutions, the Washington State Local Government Investment Pool (LGIP), or other investments allowed by RCW 39.59. However, the District's Investment Policy prohibits investments in banker's acceptances and repurchase agreements.

District deposits and certificates of deposit are entirely covered by federal depository insurance or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (PDPC).

The District records all investments at book value which approximates fair value. As of December 31, the District had the following investments.

Investment	2013	2012
Certificates of Deposit	$3,013,813	$5,016,961
Washington State LGIP	3,051,855	3,047,068
Total	$6,065,668	$8,064,029

For statement of net position purposes, the LGIP and certificates of deposit were considered a cash equivalent, as are investments that are both readily convertible to known amounts of cash and so near to their maturity that they present insignificant risk of changes in value because of changes in interest rates.

Interest Rate Risk

The District's investment policy requires matching investment maturities with the anticipated cash flow requirements. The policy limits the average "time to maturity" to two years, excluding bond reserve funds

Concentration Risk

The District's investment policy requires diversification of investments by institution with the exception of US Treasury and the District's warrant account.

Credit Risk

The District's investment policy conforms with state law which restricts investments of public funds to: debt securities and obligations of the US Treasury; US government agencies and certain other US government sponsored corporations; certificates of deposit and other evidences of deposit at financial institutions qualified by the Washington Public Deposit Protection Commission (PDPC); investment-grade general obligation debt of state and local governments and public authorities; and Washington State Treasurer's Local Government Investment Pool (LGIP).

NOTE 3 –UTILITY PLANT AND DEPRECIATION

Utility Plant activity for the year ended December 31, 2012, was as follows:

Electric Plant Assets	2011 Balance	Increases	Decreases	2012 Balance
Utility Plant-Non Depreciable				
Land & Land Rights	$ 2,896,582	$ 343,134	$ --	$ 3,239,716
Construction Work In Progress	6,979,201	10,648,100	10,394,251	7,233,050
Total Non-Depreciable	9,875,783	10,991,234	10,394,251	10,472,766
Utility Plant-Depreciable				
Transmission	16,168,769	3,684,581	242,963	19,610,387
Distribution	133,748,125	6,726,892	750,988	139,724,029
General Plant	33,097,146	1,410,607	246,482	34,261,271
Other	19,794	--	--	19,794
Total Depreciable	183,033,834	11,822,080	1,240,433	$193,615,481
Less Accumulated Depreciation	74,296,879	7,311,532	1,292,819	80,315,591
Net Electric Plant	$118,612,738	$15,501,782	$10,341,865	$123,772,656

Water Plant Assets	2011 Balance	Increases	Decreases	2012 Balance
Utility Plant-Non Depreciable				
Land & Land Rights	$ 389,692	$ 51,855	$ --	$ 441,547
Construction Work in Progress	1,380,559	740,450	557,559	1,563,450
Total Non-Depreciable	1,770,251	$792,305	$557,559	2,004,997
Utility Plant-Depreciable				
Transmission & Distribution	21,934,960	606,752	33,278	22,508,434
General	748,550	58,076	4,500	802,126
Total Depreciable	22,683,510	664,828	37,778	23,310,560
Less Accumulated Depreciation	6,580,169	594,448	36,843	7,137,774
Net Water Plant	$17,873,592	$862,685	$558,494	$18,177,783

Sewer Plant Assets				
Utility Plant-Non Depreciable				
Land & Land Rights	$ 31,105	$ --	$ --	$ 31,105
Construction Work in Progress	380	6,982	7,362	--
Total Non-Depreciable	31,485	6,982	7,362	31,105
Utility Plant-Depreciable				
General	820,645	7,362	--	828,007
Less Accumulated Depreciation	271,969	25,629	--	297,598
Net Sewer Plant	$ 580,161	($11,285)	$ 7,362	$ 561,514

Combined Plant Assets	2011 Balance	Increases	Decreases	2012 Balance
Utility Plant-Non Depreciable				
Land & Land Rights	$ 3,317,379	$ 394,989	$ --	$ 3,712,368
Construction Work In Progress	8,360,140	11,395,532	10,959,172	8,796,500
Total Non-Depreciable	1,677,519	11,790,521	10,959,172	12,508,868
Utility Plant-Depreciable				
Transmission	16,168,770	3,684,581	242,963	19,610,388
Distribution	155,683,084	7,333,644	784,266	162,232,462
General Plant	34,666,341	1,476,045	250,982	35,891,404
Other	19,794	--	--	19,794
Total Depreciable	206,537,989	12,494,270	1,278,211	217,754,048
Less Accumulated Depreciation	81,149,017	7,931,609	1,329,662	87,750,964
Net Combined Plant	$137,066,491	$16,353,182	$10,907,721	$142,511,952

Utility Plant activity for the year ended December 31, 2013, was as follows:

Electric Plant Assets	Balance 2012	Additions	Retirements	Balance 2013
Utility Plant-Non Depreciable				
Construction Work In Progress	$ 7,233,050	$9,434,322	$8,827,888	$ 7,839,484
Land & Land Rights	3,239,716	119,176	--	3,358,892
Total Non-Depreciable	10,472,766	9,553,498	8,827,888	11,198,376
Utility Plant-Depreciable				
Transmission	19,610,387	206,939	250,986	19,566,340
Distribution	139,724,029	8,682,508	679,487	147,727,050
General Plant	34,261,271	1,856,569	906,769	35,211,071
Other	19,794	--	--	19,794
Total Depreciable	193,615,481	10,746,016	1,837,242	202,524,255
Less Accumulated Depreciation	80,315,591	6,949,355	1,497,377	85,767,569
Net Electric Plant	$123,772,656	$13,350,159	$9,167,753	$127,955,062

Water Plant Assets				
Utility Plant-Non Depreciable				
Construction Work In Progress	$ 1,563,450	$1,385,261	$983,013	$ 1,965,698
Land & Land Rights	441,547	-	-	441,547
Total Non-Depreciable	2,004,997	1,385,261	983,013	2,407,245
Utility Plant-Depreciable				
Transmission& Distribution	22,508,434	342,325	346,738	22,504,021
General Plant	802,126	16,788	10,395	808,519
Other	-	-	-	-
Total Depreciable	23,310,560	359,113	357,133	23,312,540
Less Accumulated Depreciation	7,137,774	634,495	361,718	7,410,551
Net Water Plant	$18,177,783	$1,109,879	$978,428	$18,309,234

Sewer Plant Assets	Balance 2012	Additions	Retirements	Balance 2013
Utility Plant-Non Depreciable				
Construction Work In Progress	$ -	$ 8,294	$8,294	$ -
Land & Land Rights	31,105	-	-	31,105
Total Non-Depreciable	31,105	8,294	8,294	31,105
Utility Plant-Depreciable				
General Plant	828,007	8,294	-	836,301
Total Depreciable	828,007	8,294	-	836,301
Less Accumulated Depreciation	297,598	25,927	-	323,525
Net Sewer Plant	$561,514	$(9,339)	$8,294	$543,881

Combined Plant Assets				
Utility Plant-Non Depreciable				
Construction Work In Progress	$8,796,500	$10,827,877	$9,819,195	$9,805,182
Land & Land Rights	3,712,368	119,176	-	3,831,544
Total Non-Depreciable	12,508,868	10,947,053	9,819,195	13,636,726
Utility Plant-Depreciable				
Transmission	$ 19,610,387	$ 206,939	$ 250,986	$ 19,566,340
Distribution	162,232,463	9,024,833	1,026,225	170,231,071
General Plant	35,891,404	1,881,651	917,164	36,855,891
Other	19,794	-	-	19,794
Total Depreciable	217,754,048	11,113,423	2,194,375	226,673,096
Less Accumulated Depreciation	87,750,963	7,609,777	1,859,095	93,501,645
Total Combined Plant	$142,511,953	$14,450,699	$10,154,475	$146,808,177

NOTE 4 – CONSTRUCTION IN PROGRESS

The District had active construction projects as of December 31, 2013 and 2012. The projects include new substations and upgrading existing facilities. At year-end the District's construction in progress is as follows:

Description	Expended as of 12/31/13	Expended as of 12/31/12
New Work Order Software	$ 1,189,060	$ 889,443
Relocate Poles Hwy 101 Shore Rd to Kitchen Dick Rd	--	658,409
Upgrade 14 spans OH Joyce Piedmont to Silverado	--	257,990
Upgrade 1 PH to V PH Eden Valley	--	419,450
New Feeder Prairie Sub to Hemlock	--	198,793
Replace Get-aways Laird Substation	414,943	408,132
Replace Reservoir at Gales Addition	--	476,965
Replace Bluffs Well-Design & Construction	1,592,964	954,470
Mill 2 Substation	1,051,420	--
3 Phase Reconductor	233,657	--
Rebuild Lairds Corner Substation	--	1,901,819
Replace Transmission Poles Lk Pleasant E-Munson Ln	240,166	--
Transmission/Distribution rebuild Deer Park to O'Brien	869,531	--
Various Electric Capital Work Order Under $200,000	3,840,707	2,499,013
Various Water Capital Work Orders Under $100,000	372,733	132,015
Various Sewer Capital Work Orders Under $1,000	--	--
Total Construction Work in Progress Balance	$9,805,181	$8,796,499

NOTE 5 – LEASE COMMITMENTS

Operating Leases

The District is committed under various leases for rent. These leases are considered operating leases for accounting purposes. The District recorded lease expense of $89,227 and $41,888 for the year ended December 31, 2013 and 2012, respectively. Future minimum rental commitments for leases are as follows:

For the Year Ended December 31:	
2014	$ 87,874
2015	$ 63,422

Capital Leases

The District has entered into lease agreements for financing the acquisition of office equipment totaling $251,054. These lease agreements qualify as capital leases for accounting purposes and are recorded as assets and as long-term liabilities at the present value of the future minimum lease payments as of the date of their inception. The District records lease payments as reductions of the long-term liability and as interest expense over the life of the lease. The future minimum lease payments under these lease agreements are as follows:

Fiscal Year Ending December 31:	
2014	$ 16,435
2015	2,226
2016	2,226
2017	371
Total minimum lease payments	21,258
Less amount representing interest	848
Present Value of Future Minimum Lease Payments	$ 20,410

Depreciation policy for capitalized assets is described in (Capital Assets Note No. 1).

NOTE 6 - LONG-TERM DEBT AND NONCURRENT LIABILITIES

The following changes occurred in the District are long-term debt:

	Original Issue Amount	Beginning Balance 12/31/11	Additions	Reductions	Ending Balance 12/31/12	Due Within One Year
Electric System						
2008 Electric Revenue Bonds						
3.9% - 5.0% 2018-2028	$ 8,750,000	$ 8,570,000	$ --	$ --	$ 8,570,000	$ --
2010 Electric Revenue Bonds						
5.25% due 2011-2030	11,230,000	10,755,000	--	410,000	10,345,000	425,000
2010 Electric Refunding Bonds						
2.0% - 4.0% due 2012-2017	6,150,000	6,150,000	--	960,000	5,190,000	980,000
Water System						
2003 Water Revenue Bond						
4.36% due 2018	1,075,000	587,734	--	73,714	514,020	76,730
2005 Drinking Water Loan						
1% due 2025	3,535,000	2,540,041	--	181,432	2,358,609	181,431
2010 Drinking Water Loan						
1% due 2034	2,047,525	210,966	--	20,475	190,491	--
Total Long-Term Debt	32,787,525	28,813,741	--	1,645,621	27,168,120	1,663,161
Other Noncurrent Liabilities						
Unamortized Premium on Bonds, restated		400,937	--	63,746	337,191	
Customer Advances for Construction		253,860	477,902	415,999	315,763	
Capital Leases		70,495	9,139	59,224	20,410	
Accrued Other Post-Employment Benefits		356,293	163,230	--	519,523	
Unearned Revenues		227,018	101,267	113,224	215,061	
Total Other Noncurrent Liabilities		1,308,603	751,538	652,193	1,407,948	
Total Long-Term Debt and Noncurrent Liabilities		$30,122,344	$751,538	$2,297,814	$28,576,068	

	Original Issue Amount	Beginning Balance 12/31/12	Additions	Reductions	Ending Balance 12/31/13	Due Within One Year
Electric System						
2008 Electric Revenue Bonds						
3.9% - 5.0% due 2018-2028	$ 8,570,000	$ 8,570,000	$ --	$ --	$ 8,570,000	$ --
2010 Electric Revenue Bonds						
5.25% due 2011-2030	11,230,000	10,345,000	--	425,000	9,920,000	440,000
2010 Electric Refunding Bonds						
2.0%-4.0% due 2012-2017	6,150,000	5,190,000	--	980,000	4,210,000	1,005,000
Water System						
2003 Water Revenue Bond						
4.36% due 2018	1,075,000	514,020	--	76,730	437,290	80,112
2005 Drinking Water Loan						
1% due 2025	3,535,000	2,358,609	--	181,431	2,177,178	181,431
2010 Drinking Water Loan						
1% due 2034	2,047,525	190,491	700,457	--	890,948	--
Total Long-Term Debt	32,787,525	27,168,120	700,457	1,663,161	26,205,416	1,706,543
Other Noncurrent Liabilities						
Unamortized Premium on Bonds		337,191	--	63,746	273,445	
Customer Advances for Construction		315,763	$395,621	349,952	361,432	
Capital Leases		20,410	--	15,452	4,958	
Accrued Other Post-Employment Benefits		519,523	--	185,906	333,617	
Other Unearned Revenues		215,061	118,448	297,015	36,494	
Total Other Noncurrent Liabilities		1,407,948	514,069	912,071	1,009,946	
Total Long-Term Debt and Noncurrent Liabilities		$28 576 068	$1,214,526	$2,575,232	$27,215,362	

The annual requirement to amortize all debts outstanding as of December 31, 2013, including interest, are as follows:

Years Ending December 31	Electric System Principal	Electric System Interest	Water System Principal	Water System Interest	Total
2014	$ 1,445,000	$990,120	$ 313,952	$ 48,889	$ 2,797,961
2015	1,490,000	936,276	317,483	43,020	2,786,779
2016	1,535,000	875,170	321,169	36,995	2,768,334
2017	1,590,000	806,701	325,018	30,808	2,752,527
2018	1,130,000	1,042,995	328,869	24,450	2,526,314
2019-2023	6,365,000	2,868,382	1,169,201	71,562	10,474,145
2024-2028	7,660,000	1,281,320	624,907	18,545	9,584,772
2029-2030	1,485,000	78,619	104,817	1,572	1,670,008
TOTALS	$22,700,000	$8,879,583	$3,505,416	$275,841	$35,360,840

The District has $3,511,838 in restricted assets held for payment of the District's long-term obligations as required by the Bond Resolution. One requirement of the Bond Resolution is for the District to maintain a minimum of 1.25 ratio of operating revenues to debt service. As of year-end, the District was in compliance with all requirements of the bond covenants.

Electric Debt

On December 17, 2010, the District issued $6,150,000 of Electric Refunding bonds with interest rates ranging from 2% to 4% and maturing over the next six years. These bonds were used to refund the outstanding 2001 bonds. Also on December 17, 2010, the District issued $11,230,000 of Electric Taxable Build America Bonds with an interest rate of 5.25% maturing over the next 20 years. This money was borrowed to finance capital additions.

Debt Service on the refunded bonds is met by cash and investments held by the refunding trustee. As of December 31, 2013, the balance held by the trustee was expected to fully fund debt service.

At December 31, 2013, there were $2,009,911 in restricted assets related to the debt of the District. This represents the reserve fund required by the bond resolutions.

Water Debt

In March 2011 the District entered into a loan agreement with Washington State Public Works Board. The amount of the Drinking Water State Revolving Fund loan was $2,068,000 at 1% interest. The loan amount was amended to $2,047,525 in January, 2013. Upon completion of the project, 50% of the principal will be "forgiven" and the remaining balance is due in annual installments through 2034. The money is for construction of wells in the lower portion of the District's Fairview water system. During 2011, the District used $190,491 of the proceeds. No additional proceeds were used in 2012. In 2013, the District used an additional $700,457 of the proceeds.

During 2011 the District was awarded a second Drinking Water State Revolving Loan from the Washington State Public Works Board. The loan amount was $2,673,267 with an interest rate of 1.5%. Upon completion of the project, 30% of this loan's principal will be forgiven. The District executed this loan agreement in January, 2013. The proceeds of this loan will be used for work on the wells in the lower portion of the Fairview water system. The District had not used any of the proceeds as of year end.

NOTE 7 - PENSION 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 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

The Legislature established PERS in 1947. Membership in the system includes: elected officials; state employees; employees of the Supreme, Appeals, and Superior courts; employees of legislative committees; higher education employees not participating in higher education retirement programs; employees of district and municipal courts; and employees of local governments. Membership also includes higher education employees not participating in higher education retirement programs. Approximately 49% of PERS salaries are accounted for by state employment. PERS retirement benefit provisions are established in Chapters 41.34 and 41.40 RCW and may be amended only by the State Legislature.

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.

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 exercised 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. Employees who fail to choose within 90 days default to PERS Plan 3.

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

PERS Plan 1 and Plan 2 retirement benefits are financed from a combination of investment earnings and employer and employee contributions. Employee contributions to the PERS Plan 1 and Plan 2 defined benefit plans accrue interest at a rate specified by the Director of DRS. During DRS' Fiscal Year 2013, the rate was five and one-half percent compounded quarterly. Members of PERS Plan 1 and Plan 2 can elect to withdraw total employee contributions and interest thereon, in lieu of any retirement benefit, upon separation from PERS-covered employment.

PERS Plan 1 members are vested after the completion of five years of eligible service.

PERS Plan 1 members are eligible for retirement from active status at any age with at least 30 years of service, at the age of 55 with 25 years of service, or at the age of 60 with five years of service. Plan 1 members retiring from inactive status prior to the age of 65 may receive actuarially reduced benefits.

The monthly benefit is 2% of the average final compensation (AFC) per year of service, but the benefit may not exceed 60% of the AFC. The AFC is the monthly average of the 24 consecutive highest-paid service credit months.

PERS Plan 1 retirement benefits are actuarially reduced to reflect the choice, if made, of a survivor option.

Plan 1 members may elect to receive an optional COLA that provides an automatic annual adjustment based on the Consumer Price Index. The adjustment is capped at 3% annually. To offset the cost of this annual adjustment, the benefit is reduced.

PERS Plan 1 provides duty and non-duty disability benefits. Duty disability retirement benefits for disablement prior to the age of 60 consist of a temporary life annuity. The benefit 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, at which time the benefit is converted to the member's service retirement amount.

A member with five years of covered employment is eligible for non-duty disability retirement. Prior to the age of 55, the benefit amount is two percent of the AFC for each year of service reduced by two 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. Plan 1 members may elect to receive an optional COLA amount (based on the Consumer Price Index), 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 are eligible for normal retirement at the age of 65 with five years of service. The monthly benefit is 2% of the AFC per year of service. AFC is the monthly average of the 60 consecutive highest-paid service months. 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% annually.

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, if hired prior to May 1, 2013:

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

PERS Plan 2 members hired on or after May 1, 2013 have the option to retire early by accepting a reduction of 5% for each year of retirement before age 65. This option is available only to those who are age 55 or older and have at least 30 years of service.

PERS Plan 2 retirement benefits are also actuarially reduced to reflect the choice, if made, of a survivor option.

PERS Plan 3 has a dual benefit structure. Employer contributions finance a defined benefit component and member contributions finance a defined contribution component. As established by chapter 41.34 RCW, employee contribution rates to the defined contribution component range from 5% to 15% of salaries, based on member choice. Members who do not choose a contribution default to a 5% rate. There are currently no requirements for employer contributions to the defined contribution component of PERS Plan 3.

PERS Plan 3 defined contribution retirement benefits are dependent upon the results of investment activities. Members may elect to self-direct the investment of their contributions. Any expenses incurred in conjunction with self-directed investments are paid by members. Absent a member's self-direction, PERS Plan 3 contributions are invested in the Retirement Strategy Fund that assumes the member will retire at age 65..

For DRS fiscal Year 2013, PERS Plan 3 employee contributions were $99.0 million, and plan refunds paid out were $69.4 million.

The defined benefit portion of PERS Plan 3 provides members a monthly benefit that is 1% of the AFC per year of service. The AFC is the monthly average of the 60 consecutive highest-paid service months. There is no cap on years of service credit, and Plan 3 provides the same cost-of-living allowance as Plan 2.

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, and were hired before May 1, 2013, they have the choice of a benefit that is reduced by 3% 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.
- If they have 30 service credit years, are at least 55 years old, and were hired after May 1, 2013, they have the option to retire early by accepting a reduction of 5% for each year before 65.

PERS Plan 3 benefits are actuarially reduced to reflect the choice, if made, of a survivor option.

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 two percent of the AFC per year of service. For Plan 3, the monthly benefit amount is one 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 three percent annually.

PERS members meeting specific eligibility requirements have options available to enhance their retirement benefits. Some of these options are available to their survivors.

A one-time duty-related death benefit is provided to the beneficiary or the estate of a PERS member who dies 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 the member's covered employment, if found eligible by the Department of Labor and Industries.

There are 1,176 participating employers in PERS. Membership in PERS consisted of the following as of the latest actuarial valuation date for the plans of June 30, 2012:

Retirees and Beneficiaries Receiving Benefits	82,242
Terminated Plan Members Entitled to But Not Yet Receiving Benefits	30,515
Active Plan Members Vested	106,317
Active Plan Members Non-vested	44,273
Total	**263,347**

<u>Funding Policy</u>

Each biennium, the state Pension Funding Council adopts PERS Plan 1 employer contribution rates, PERS Plan 2 employer and employee contribution rates, and PERS 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. Under PERS Plan 3, employer contributions finance the defined benefit portion of the plan, and member contributions finance the defined contribution portion. The Plan 3 employee contribution rates range from 5 to 15 percent.

The methods used to determine the contribution requirements are established under state statute in accordance with chapters 41.40 and 41.45 RCW.

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

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

* The employer rates include the employer administrative expense fee currently set at 0.18%.
**The employer rate for state elected officials is 13.73% for Plan 1 and 9.21% for Plan 2 and Plan 3.
*** Plan 3 defined benefit portion only.
****The employee rate for state elected officials is 7.5% for Plan 1 and 4.92% for Plan 2.
***** Variable from 5.0% minimum to 15.0% maximum based on rate selected by the PERS 3 member.

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

	PERS Plan 1	**PERS Plan 2**	**PERS Plan 3**
2013	$43,291	$708,665	$132,790
2012	$27,079	$600,676	$109,526
2011	$26,504	$513,894	$ 88,340

The District maintains a 457 deferred compensation plan for its employees. Contributions to the plan are fully funded by District employees.

NOTE 8 - OTHER POST EMPLOYMENT BENEFITS

Plan Description

Eligibility

PUD members are eligible for retiree medical benefits after becoming eligible for service retirement pension benefits (either reduced or full pension benefits) under Plan 2 of the PERS.

- Age 65 with 5 years of service
- Age 55 with 20 years of service

Former members who are entitled to a deferred vested pension benefit are not eligible to receive medical benefits after pension benefit commencement.

Survivors of members who die are not eligible for medical benefits.

Medical and Dental Benefits

Upon retirement, members are permitted to receive medical benefits. Retirees pay the following for Medical and Dental coverage (no aging factors were applied to contributions):

Coverage	2013 Monthly Medical, Vision & Dental Coverage Rate	2012 Monthly Medical, Vision & Dental Coverage Rate
Retiree < 65 Only	$ 652.24	$ 652.24
Retiree & Spouse <65	1,319.66	1,319.66
Medicare Eligible Individual	510.52	510.52

Funding Policy

The funding policy is based upon the pay-as-you-go financing requirements.

Annual OPEB Cost and Net OPEB Obligation

The PUD's annual other postemployment benefit (OPEB) cost is calculated based upon the annual required contribution (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities over a period of thirty years as of January 1, 2008. The following table shows the components of the PUD's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the PUD's net OPEB.

Determination of Annual Required Contribution	**2013**	**2012**
Normal Cost at year end	$154,429	$154,429
Amortization of UAAL	119,417	119,417
Annual Required Contribution (ARC)	273,846	273,846
Determination of Net OPEB Obligation		
Annual Required Contribution	273,846	273,846
Interest on prior year Net OPEB Obligation	25,976	17,814
Adjustment to ARC	18,543	12,717
Annual OPEB Cost	318,365	304,377
Contribution made	504,272	141,146
Increase in Net OPEB Obligation	(185,907)	163,231
Net OPEB Obligation – beginning of year	519,525	356,294
Net OPEB Obligation – end of year	$333,618	$519,525

The PUD's annual OPEB cost, the percentage of OPEB cost contributed to the plan, and the net OPEB obligation for 2013 were as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of OPEB Cost Contributed	Net OPEB Obligation
12/31/2013	$316,365	158.4%	$333,618

Funded Status and Funding Progress

As of January 1, 2012, the most recent actuarial valuation date, the plan was 0% funded. The accrued liability for benefits was $3.1 million, and the actuarial value of assets was $0, resulting in a UAAL of $3.1 million.

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities, consistent with the long-term perspective of the calculations. In the January 1, 2011, actuarial valuation, the Entry Age Normal actuarial cost method was used. The actuarial assumptions used included a 4.00% discount rate, which is based upon the long-term investment yield on the investments that are expected to be used to finance the payment of benefits.

The UAAL is being amortized on a closed basis at the assumed discount rate. The remaining amortization period at January 1, 2012, was 26 years.

NOTE 9 - SELF INSURANCE

The District is a member of the Public Utility Risk Management Services (PURMS) Self-Insurance fund. PURMS is a public entity risk pool organized December 30, 1976, pursuant to the provisions of the Revised Code of Washington, Chapter 54.16.200, and interlocal government agreements. The program's general objectives are to formulate, develop, and administer, on behalf of the member public utilities, a program of insurance, to obtain lower costs for that coverage, and to develop a comprehensive loss control program.

PURMS consists of 20 members. The risks shared by the members are defined in the Self Insurance Agreement. PURMS consists of three pools for liability, property and health and welfare coverage. The pools operate independently of one another and all members do not participate in all pools. The District participates in the liability, property and health and welfare pools.

The pools are governed by a Board of Directors comprised of one designated representative from each participating member. The administrator and elected Administrative Committee conduct the business of the pools.

The pools are fully funded by its current and former members. Members that withdraw from the fund are still responsible for their share of the assessments for occurrences while they were members. Likewise terminated members continue to receive coverage for the time they were members.

Each of PURMS Risk Pools is audited annually by the State Auditor's Office. In addition, as required by State regulations, PURMS provides quarterly financial reports to the State Risk Manager reflecting the claims and administrative expenses of the Risk Pools, and bi-annually, the State Risk Manager performs its own audit of PURMS' Risk Pools. Finally, on an annual basis, PURMS engages the services of the accounting firm of Moss Adams to perform a claims audit for each of the Risk Pools.

Settled claims for these risks have not exceeded coverage in any of the past three years.

Liability Risk Pool

The liability risk pool has a $1 million liability coverage limit per occurrence. In addition, the fund maintains $35 million of excess general liability insurance and $35 million of professional liability insurance over the $1 million retention. A second layer of excess general liability insurance of $25 million is also maintained over the first layer of $35 million. The fund maintains $35 million in directors and officers liability coverage with a retention of $500,000. The deductible is $250.

Liability assessments are levied at the beginning of each calendar year to replenish the reserves to the designated level or at any time during the year that the actual reserves drop to $500,000 less than the designated level. The District paid no assessments in 2012 or 2013. The current designated reserve level is $3 million.

Property Risk Pool

The majority of the property in the property pool has a self-insured retention of $250,000 per property loss. Certain classes of property have higher retention requirements up to $750,000. In addition, the fund purchases $150 million of excess insurance over the $250,000 (or higher) retention level. The deductible varies but for most classes of property it is $250.

The designated property pool reserve balance is $750,000. Property assessments are levied at the beginning of each calendar year to replenish the reserves to the designated level and at any time during the year that the actual reserves drop below $500,000.

Health & Welfare Risk Pool

The District participates in the PURMS Health and Welfare Risk Pool. PURMS provides health and welfare insurance coverage for the Employees of each of its Members participating in the Health & Welfare Risk Pool ("H&W Pool") in accordance with the terms of the Health & Welfare Coverage of the SIA ("H&W Coverage") and the terms of each Member's respective Coverage Booklet provided to its Employees.

The H&W Pool's operations are financed by assessments of its participants. Each month, each Participant of the H&W Pool is assessed for: (a) the cost the H&W Pool incurred during the preceding month for the H&W Claims for such Member's Employees ("H&W Claims Costs"); and (b) for such Member's share of Shared H&W Costs. "Shared H&W Costs" consist of administrative expenses incurred by the H&W Pool, premiums for Stop-Loss Insurance, PPO Charges and Shared H&W Claims.

The exposure of each Participant is limited by two different pairs of stop-loss points. For 2013, the Individual Stop Loss Point was $225,000 per Employee and the Aggregate Stop Loss Point was $15,643,814 for the combined Claims Costs of the Employees of all Participants of the H&W Pool.

Unemployment

The District is self insured for unemployment insurance and reimburses the State of Washington for any claims paid. There were $19,596 and $22,084 in unemployment claims paid in 2013 and 2012, respectively.

NOTE 10 - CONSERVATION PROGRAMS

The District is a large utility in Washington State, as defined by the Energy Independence Act (EIA) and hence is subject to the Act. As of 2010 the EIA requires qualifying utilities to conduct a Conservation Potential Assessment (CPA), evaluating all the technically and economically feasible energy savings potential within the Utility's service territory over a ten year period. The utility then has to establish an energy savings target equal to one-fifth (1/5) of the ten-year potential, and achieve energy savings greater than or equal to the target over the following two-year period. If the target is not achieved the utility would be subject to fines, as well as the savings shortfall will roll over to the following biennium and would have to be made up the following biennium, in addition to the new energy savings target that will be established. This process is then repeated every even numbered year.

The District's conservation target for the 2012/2013 Energy Independence Act biennium was 18,151 MWh, which the District met by acquiring 19,061 MWh through local and regional conservation programs and efforts during the biennium. A conservation target of 12,054 MWh for the 2014/2015 biennium was adopted by the District Board in 2013.

Expenditures related to the energy savings program totaled $1,516,050 for 2013. Revenue related to conservation-related activities totaled $750,180 in 2013. Revenue comes from Bonneville Power Administration's Energy Efficiency Incentive (EEI). The EEI associated with the District is $1,276,275 for BPA FY2014 through FY2015 (October 1, 2013 through September 30, 2015). As of March 31, 2014, the District has been reimbursed $625,150 of that $1,276,275 and plans on claiming the remainder of the EEI funding during calendar year 2015.

NOTE 11 - PURCHASED POWER AND WATER CONTRACTS

Bonneville Power Administration (Bonneville)

In 2009, the District executed a Load Following Regional Dialog Power Sales Agreement with BPA for the period beginning October 1, 2011 and expiring September 30, 2028. This contract will work within BPA's new Tiered Rate Methodology providing firm power necessary to meet the District's loads less generating resources.

Under the new contract the District will have a contract-defined right to purchase an amount of power at "Tier 1" cost-based rates. That amount of power is called the High Water Mark (HWM). The District will still have the right to have BPA meet their net requirement load (the District's load minus its own resources), but BPA will meet net requirement load above the HWM at "Tier 2" market-based rates.

The District notified BPA of its election to have all the above HWM load for FY's 2012-2014 and FY's 2015-2019 served with power purchased from BPA at the Tier 2 Short Term and Vintage Rates respectively. The District intends to serve its HWM load for FY 2012-2019 with a combination of its share and acquired shares of Packwood Hydro and BPA Tier 2 power purchases. The District committed to purchase Tier 2 Vintage Rate 1-2014 power for FY 2015-2019 at a quantity of 1 aMW for $41.56 per MWh. A Vintage Rate 1-2016 power commitment is also in place for FY 2017-2018 for 1 aMW and FY 2019 for 2 aMW. The price is to be decided during the BP-16 BPA Rate Case. The District also notified BPA of their desire to purchase Resource Support Services (RSS) for the FY 2012-2014 and FY 2015-2019 periods to facilitate the integration of its Packwood Hydro generating resource.

Bonneville is required by federal law to recover all of its costs through the rates it charges its customers. Bonneville makes various filings with FERC to confirm that rates are sufficient to cover costs. Under Bonneville's adopted power and transmission rate provisions, its rates are subject to revision in order to enable Bonneville to recover its actual costs of service. The rate provisions for the Load-Following Service Product include a cost recovery adjustment clause (CRAC) and a dividend distribution clause (DDC).

The Bonneville Power Administration responded to three 2007 Ninth Circuit court rulings regarding the 2000 Residential Exchange Program Settlement Agreements and their treatment in the 2002 wholesale power rates. BPA's decision was to return past overcharges to the region's consumer-owned utilities and re-establish Residential Exchange Program benefits to most of the region's investor-owned utilities. The District received power bill credits of $944,412 and $940,785 in 2012 and 2013, respectively.

The District also entered into contract with BPA for network transmission service effective May 31, 1997, which provides adequate transmission capacity to meet the District's annual system peak load. The transmission contract expires on September 30, 2031.

Water

The District is a party to a "Wholesale Water Contract" with the City of Port Angeles through August 16, 2036. The rates are tied to the City's Residential Rate Structure. Gales Addition Reservoir is 89% of the cost per 100 cubic feet under the City's residential rate and the Baker Street Intertie is 85% of the cost per 100 cubic feet under the City's residential rate. Water rates for 2012 and 2013 were as follows:

Gales Addition Reservoir (High Zone)	
Jan 2012 – Dec 2012 billing cycle	$1.8512/100 cubic feet/month
Jan 2013 – Dec 2013 billing cycle	$1.8512/100 cubic feet/month
Baker Street Intertie (Low Zone)	
Jan 2012 – Dec 2012 billing cycle	$1.768/100 cubic feet/month
Jan 2013 – Dec 2013 billing cycle	$1.768/100 cubic feet/month

The District's purchased water expense under this contract was $278,447 and $245,869 in 2013 and 2012, respectively.

NOTE 12 - ASSOCIATION WITH ENERGY NORTHWEST

Energy Northwest (formerly Washington Public Power Supply System [WPPSS]) is a Washington municipal corporation which has acted as a joint operating agency for various power supply initiatives in the Northwest. The District was a member until August 1984 when it withdrew as a member. The District rejoined Energy Northwest and became a member in May 2008.

The District has remained contractually interested in the following projects:

Energy Northwest Nuclear Projects Nos. 1, 2, and 3

The District has entered into "net billing agreements" with Energy Northwest and BPA. Under terms of these agreements, the District has purchased a maximum of 1.157%, 1.769%, and 1.001% of the capability of Energy Northwest's Nuclear Projects Nos. 1 and 2 and Energy Northwest's 70% 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 the debt service on revenue bonds issued to finance the project whether the projects are completed, operable or operating and notwithstanding the suspension, reduction, or curtailment of the projects' output. The District's respective shares may be increased by not more than 25% upon default of other public agency participants.

Packwood Lake Hydroelectric Project

The District is a 7 percent participant in Energy Northwest's 27.5 MW Packwood Project, located in the Cascade Mountains south of Mount Rainier. In 2011 the District signed agreements with Kittitas, Ferry, Skamania, and Wahkiakum PUD's acquiring their share of the project output to 10.25 percent. The District will bring its share of output to load. The District's cost for its share of the output of Packwood was $226,876 for 2013.

The Project's 50-year license has expired and the Project has satisfied all of the requirements for relicensing with the Federal Energy Regulatory Commission and is waiting for final issuance. The Packwood Agreement with Energy Northwest obligates participants to pay annual costs and receive actual project output.

NOTE 13 – PARTICIPATION IN NORTHWEST OPEN ACCESS NETWORK, INC. (NoaNet)

The District, along with other Washington State public entities, is a member of Northwest Open Access Network, Inc. (DBA NoaNet), a Washington nonprofit mutual corporation. NoaNet was incorporated in February 2000 to provide a broadband communications backbone over public benefit fibers leased from BPA throughout Washington. 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 become due beginning in December 2003 through December 2016 with interest due semi-annually at rates ranging from 5.05% to 7.09%. Each member of NoaNet has entered into a Repayment Agreement to guarantee the debt of NoaNet. The District's guarantee is limited to its 7.23% interest or $1,935,900. A 25% step-up provision in the agreement allows for a maximum exposure of $2,419,900.

The District recorded as expense member assessment of $35,850 in 2011. There were no membership assessments for the year 2012 or 2013. As a member of NoaNet, the District has guaranteed certain portions of NoaNet debt based on its proportionate share.

NoaNet recorded a change in net assets (excluding member assessments) of $25,346,159 (unaudited) for 2013. In accordance with Accounting Principles Board Opinion No. 18 The Equity Method of Accounting for Investments in Common Stock, as well as a position statement issued by the Washington State Auditor concerning the appropriate accounting treatment for NoaNet, a proportionate share of these losses has not been recorded by the District since NoaNet had net assets of $99,474,750 (unaudited) as of December 31, 2013.

Financial statements for NoaNet may be obtained by writing to: Northwest Open Access Network, 21507 42nd Avenue, SeaTac, WA 98198.

NOTE 14 – TELECOMMUNICATION SERVICES

The District has installed a fiber optic system in its service area for use by the electric utility. The District has connected its fiber optic system with NoaNet's fiber optic communications network and intends to make excess capacity available to retail service providers. In 2003 the District implemented a pilot project to test service provider and customer interest in utilizing excess capacity in the District's telecommunications network. A fiber distribution network was constructed connecting approximately 400 District electric customers to the network via direct fiber or wireless connections. The District recorded broadband revenues of $387,554 and $364,262 for the years ended December 31, 2012 and 2013, respectively. The District recorded operations and maintenance expenses for broadband of $247,546 and $161,871 in 2012 and 2013, respectively. The District has a total capital investment of $4,756,302 as of December 31, 2013, including $19,059 invested during 2013.

NOTE 15 - COMMITMENTS AND CONTINGENCIES

NoaNet has outstanding notes payable with a commercial lender totaling $5,246,728 as of December 31, 2013. The contingencies are a 2012 line or credit for $5,000,000 and two new trucks for $80,061. The District approved repayment agreements for each note, where NoaNet may assess its members for their percentage share of the principle and interest to the extent NoaNet does not have sufficient funds to pay.

NOTE 16 – SUBSEQUENT EVENTS

The Board of Commissioners passed a resolution in May, 2014 for a 3½% increase of electric rates effective for all bills rendered on or after July 1, 2014. The District has also entered into a contract with an architect for the remodel of its Operations Center to include a new Engineering wing and for the construction of a new administration building adjacent to its Carlsborg Central Warehouse facility.

NOTE 17 – SEGMENT INFORMATION

The following condensed financial information is provided by electric, water, and sewer operating segments for the years ended December 31, 2013 and 2012:

Condensed Statement of Net Position by Segment

Assets	**Electric System**	**Water System**	**Sewer System**	**2012**
Current assets	$ 34,476,949	$ 3,919,639	$ 146,138	$ 38,542,726
Capital assets, net	123,772,656	18,177,783	561,514	142,511,953
Other assets	6,074,419	20,654	281,094	6,376,167
Total Assets	$164,324,024	$22,118,076	$988,746	$187,430,846
Liabilities				
Current liabilities	11,521,786	612,252	2,213	12,136,251
Noncurrent liabilities	23,985,783	2,927,124	-	26,912,907
Total Liabilities	35,507,569	3,539,376	2,213	39,049,158
Deferred Inflows	41,308			41,308
Net Position				
Net investment in capital assets	104,720,526	15,114,663	561,514	120,396,703
Restricted for debt service	1,405,401	77,004	-	1,482,405
Unrestricted	22,649,220	3,387,033	425,019	26,461,272
Total Net Position	128,775,147	18,578,700	986,533	148,340,380
Total Liabilities and Net Position	$164,324,024	$22,118,076	$ 988,746	$187,430,846

Condensed Statement of Revenue, Expenses and Changes in Net Position by Segment

	Electric System	Water System	Sewer System	2012
Operating revenues	$ 51,017,054	$ 2,952,360	$ 41,616	$ 54,011,030
Operating expenses				
Purchased resources	22,519,917	245,869	-	22,765,786
Operating and maintenance	15,076,072	1,388,132	40,844	16,505,048
Taxes	2,705,137	150,911	-	2,856,048
Depreciation	6,749,481	593,249	25,629	7,368,359
Operating expenses	47,050,607	2,378,161	66,473	49,495,241
Net Operating Income	3,966,447	574,199	(24,857)	4,515,789
Nonoperating Revenue and Expenses				
Other nonoperating income (expense)	$ 358,369	$ 9,112	$ (310,866)	$ 56,615
Interest expense	(924,887)	(50,872)	-	(975,759)
Total Nonoperating Income (Expense)	(566,518)	(41,760)	(310,866)	(919,144)
Contributions	787,962	199,980	5,865	993,807
Change in Net Position	4,187,891	732,419	(329,858)	4,590,452
Net Position as restated, January 1	124,587,256	17,846,281	1,316,391	143,749,928
NET POSITION, December 31	$128,775,147	$18,578,700	$ 986,533	$148,340,380

Condensed Statement of Cash Flows by Segment

	Electric System	Water System	Sewer System	2012
Cash Flows from Operating Activities	$ 13,203,681	$ 1,231,353	$ 12,240	$ 14,447,274
Cash Flows from Financing Activities	(13,665,352)	(1,009,664)	(1,776)	(14,676,792)
Cash Flows from Investing Activities	87,451	9,111	362	96,924
Net Increase (Decrease) in Cash	(374,220)	230,800	10,826	(132,594)
Cash and Cash Equivalents, Begin of the Year	31,839,952	3,063,087	131,559	35,034,598
Less Restricted Cash	(7,450,799)	(77,004)	-	(7,527,803)
Cash and cash equivalents, End of the Year	$ 24,014,933	$ 3,216,883	$ 142,385	$ 27,374,201

Condensed Statement of Net Position by Segment

Assets	Electric System	Water System	Sewer System	2013
Current assets	$ 36,953,684	$ 4,443,453	$ 154,024	$ 41,551,161
Capital assets, net	127,955,062	18,309,234	543,881	146,808,177
Other assets	2,570,719	495,977	-	3,066,696
Total Assets	$ 167,479,465	$ 23,248,664	$ 697,905	$ 191,426,034
Liabilities				
Current liabilities	13,269,480	669,793	1,402	13,940,675
Noncurrent liabilities	22,211,785	3,296,454	580	25,508,819
Total Liabilities	35,481,265	3,966,247	1,982	39,449,494
Deferred Inflows	30,981			30,981
Net Position				
Net investment in capital assets	106,971,118	14,803,818	543,881	122,318,817
Restricted for debt service	1,424,923	77,004	-	1,501,927
Unrestricted	23,571,178	4,401,594	152,043	28,124,815
Total Net Position	131,967,219	19,282,416	695,924	151,945,559
Total Liabilities and Net Position	$ 167,479,465	$ 23,248,663	$ 697,906	$ 191,426,034

Condensed Statement of Revenue, Expenses and Changes in Net Position by Segment

	Electric System	Water System	Sewer System	2013
Operating revenues	$ 51,889,062	$ 3,093,348	$ 41,884	$ 55,024,294
Operating expenses				
Purchased resources	23,170,125	278,447	-	23,448,572
Operating and maintenance	16,178,059	1,615,426	40,570	17,834,055
Taxes	2,702,421	156,347	117	2,858,885
Depreciation	6,347,747	601,799	25,927	6,975,473
Operating expenses	48,398,352	2,652,019	66,614	51,116,985
Net Operating Income	3,490,710	441,329	(24,730)	3,907,309
Nonoperating Revenue and Expenses				
Other nonoperating income (expense)	$ (33,379)	$ 182,130	$ (280,734)	$ (131,983)
Interest expense	(882,819)	(43,881)	-	(926,700)
Total Nonoperating Income (Expense)	(916,198)	138,249	(280,734)	(1,058,683)
Contributions	617,560	124,138	14,855	756,553
Change in Net Position	3,192,072	703,716	(290,609)	3,605,179
Net Position as restated, January 1	128,775,147	18,578,700	986,533	148,340,380
NET POSITION, December 31	$ 131,967,219	$ 19,282,416	$ 695,924	$ 151,945,559

Condensed Statement of Cash Flows by Segment

	Electric System	Water System	Sewer System	2013
Cash Flows from Operating Activities	$ 11,560,766	$ 734,804	$ 619	$ 12,296,189
Cash Flows from Financing Activities	(12,452,839)	(224,660)	7,141	(12,670,358)
Cash Flows from Investing Activities	53,709	9,052	360	63,121
Net Increase (Decrease) in Cash	(838,364)	519,196	8,120	(311,048)
Cash and Cash Equivalents, Begin of the Year	31,465,732	3,293,887	142,385	34,902,004
Less Restricted Cash	(3,971,641)	(77,004)	-	(4,048,645)
Cash and cash equivalents, End of the Year	$ 26,655,727	$ 3,736,079	$ 150,505	$ 30,542,311

OPEB Retiree Medical Benefits
Schedule of Funding Progress

Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded Actuarial Accrued Liabilities (UAAL)	Funded Ratio	Covered Payroll	UAAL As A Percentage of Covered Payroll
01/01/2008	$ -	$2,277,212	$2,277,212	0	$8,155,518	27.9%
01/01/2011	$ -	$3,100,235	$3,100,235	0	$9,697,422	32.0%

For the Year Ended December 31, 2013

Federal Agency/Pass Through Agency	**Program Name**	**CFDA#**	**Current Year Expenditures**
US Environmental Protection Agency			
Public Works Board	Safe Drinking Water Revolving Fund	66.468	$570,541

The accompanying notes are an integral part of this schedule.

Notes to Schedule of Expenditures of Federal Awards

Note 1 - Basis of Accounting

This schedule is prepared on the same basis as the District's financial statements, namely the accrual basis.

Note 2 - Program Costs

The amounts shown as current year expenditures represent only the federal grant/loan portion of the program costs.

Note 3 - Summary of Bluffs Well Replacement Project Costs

	2010	2011	2012	2013	Total
Preliminary Survey Work Order Transfer 9/30/10	$ 28,065	$ -	$ -	$ -	$ 28,065
Contractual Services	64,595	237,997	194,470	559,655	1,056,717
Miscellaneous Expense		526	1,116	10,415	12,057
Miscellaneous Supplies		325	2,175	471	2,971
Total Reimbursable Project Costs	**92,660**	**238,848**	**197,761**	**570,541**	**1,099,810**
Preliminary Survey Work Order Transfer 9/30/10	330,051				330,051
Payroll Related Expenses (Salaries, insurance, equipment)	8,530	36,116	21,111	39,011	104,768
Allocated Costs (Warehouse rent, tools, overhead, interest)	3,649	16,499	9,244	28,942	58,334
Total Non-reimbursable Project Costs	**342,230**	**52,615**	**30,355**	**67,953**	**493,153**
Total Project Cost for Bluffs Well Replacement	**$434,890**	**$291,463**	**$228,116**	**$638,494**	**$1,592,963**
Total Award Funds Requested and Received by Year	**-**	**$190,491**	**-**	**$700,457**	**$ 890,948**
Previously reported on SEFA for CFDA 66.468	**-**	**$210,966**	**-**		
Corrected amount	**$92,660**	**$238,848**	**$197,761**		

Corrective Action Plan for Findings Reported Under OMB Circular A-133

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

This schedule presents the corrective action planned by the auditee for findings reported in this report in accordance with OMB Circular A-133. The information in this schedule is the representation of Public Utility District No. 1 of Clallam County. The State Auditor's Office has reviewed the information as presented by the District.

<table>
<tr><td>Finding ref number:
1</td><td>Finding caption:
The District does not have adequate internal controls to ensure compliance with federal suspension and debarment requirements.</td></tr>
<tr><td colspan="2">Name, address, and telephone of auditee contact person:
David Papandrew
Public Utility District No. 1
P.O. Box 1090
Port Angeles, WA 98362-0207
360-565-3436</td></tr>
<tr><td colspan="2">Corrective action the auditee plans to take in response to the finding:
The District has traditionally had a decentralized approach to grant management. It is, however, in the process of developing a centralized oversight plan to monitor all grant compliance requirements including federal suspension and debarment requirements.</td></tr>
<tr><td colspan="2">Anticipated date to complete the corrective action: October 31, 2014</td></tr>
</table>

ABOUT THE STATE AUDITOR'S OFFICE

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

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

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

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

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

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

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

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